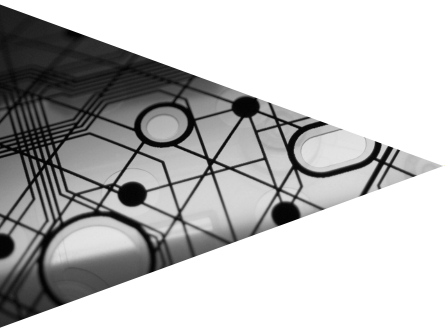

Product line integration disconnect may obstruct technology deals' full potential

There is an irony at the heart of many technology deals — a disconnect that frequently prevents technology companies from fully realizing the potential deal synergies, revenue growth and long-term strategic impact they originally envisioned for their key transactions. Simply stated: too often, the chief development officer (CDO) or corporate development team responsible for the success of the deal are left out of the all-important product line integration (PLI) process.

The issue is particularly acute and increasingly problematic for technology companies at this stage of the industry's evolution. Today, global technology M&A deal valuations are rising, as is the speed of change as the five transformational megatrends (smart mobility, social networking, cloud computing, big data analytics and accelerated technology adaptation) drive startlingly fast strategy evolution for technology companies. Both factors (valuations and megatrends) are raising the stakes on successful deal outcomes.

"At technology companies, product line integration is primarily the domain of engineers and technologists, so the CDO is not always invited to the table," explains Iddo Hadar, Technology Transaction Integration Advisor, Transaction Advisory Services at EY. "But that can put product line integration synergies and revenue opportunities at risk, slow the realization of synergies in other areas dependent on the product line integration, and prevent institutional learning that can make the next deal integration more effective and efficient."

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Iddo has more than 25 years of executive and advisory experience in corporate strategy, transaction planning and management, product portfolio, marketing and restructuring across many industries, including semiconductors, electronics, internet and software. His many engagements have taken him across the globe from Asia, Europe, South America and to the Middle East. Some integration-specific engagements led by Iddo include: providing lead advisory and support to the integration management office for the acquisition of a global software provider; setting up a JV as a channel for marketing a software product and services portfolio into a new market segment; leading the integration of a service business acquisition, revising market strategy, and consolidating product lines and a global footprint; leading a multibillion-dollar acquisition of an OEM; and conducting due diligence and acquisition integration for a cross-border project for the electronics industry. Iddo has an MBA from Stanford University and also serves on the Stanford faculty teaching valuation and financial modeling. He also holds a BS in Economics and Management from Tel Aviv University.

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Why PLI is critical for success of technology deals

Hadar notes that PLI tends to play a more central role in technology deals than in other industries, for two main reasons:

- Revenue synergies typically represent a larger portion of the acquisition opportunity in technology deals – and PLI is the primary driver of revenue synergies.
- Because of technology's extraordinarily fast pace of change, any delay in PLI is more expensive in terms of lost opportunity.

The barrier between CDOs and PLI

At the same time, Hadar notes that, "Because of the technical nature of product strategy and architecture, PLI issues become more compartmentalized in technology companies. Questions about whether to prune certain products, how to align different products, what architectures to choose – tend to be addressed as purely technological discussions, with limited cross functional input on financial, commercial or operational considerations," Hadar says.

The challenging nature of PLI in technology companies leads to the erection of a higher barrier to collaboration between CDOs and business unit heads than exists in other industries. "Involvement of the corporate function in product integration decisions is much higher in other industries because it's more straightforward for CDOs to participate in the conversation," Hadar says.

Consequences of non-collaboration ...

PLI efforts that include only business unit heads or their technical teams are less inclusive, by definition. Consequently, they are less transparent – which leads to delays in realizing deal synergies and opportunities in other areas that likely have PLI-related dependencies, including manufacturing, supply chain and marketing.

Another consequence of non-collaboration is that product integrations end up being treated as one-off special cases, with little or no benefit from previous integration efforts. This is because a given business unit is not necessarily involved in every acquisition. If it also is not collaborating with corporate developers – who have experience from many deals – then it is not benefiting from the lessons learned from previous integrations, nor the corporate developers' deep knowledge of integration methodology, tools and practices.
These factors usually result in less discipline around decision-making and incomplete documentation, which prolong the PLI process for technology companies. "Slowing the PLI process is dangerous in such a fast-moving industry. Competitors make moves, supply chains change, market dynamics shift. So many things can happen that obviate your original deal rationale," notes Hadar.

... and the benefits of close collaboration

The "honeycomb" of activities shown in Figure 1, opposite, separates the PLI process into seven discrete elements. Conceptually, the figure conveys the tight-knit relationships and multiple interdependencies among the seven elements, with product strategy and value drivers at the center, galvanizing all others. These relationships and interdependencies can be significantly enhanced through effective methodologies and tools for making PLI decisions rapidly, documenting them properly and communicating them effectively.

For example, to properly integrate the product portfolio and pipeline, companies must often launch several joint product development programs. However, joint product development cannot effectively progress without first aligning practices and methodologies between the buyer company and its target, or agreeing on standard engineering tools and resources. Failure to do the former likely leads to time wasted in semantic disagreements between buyer and target members of the joint development team; failure to do the latter obstructs common product specifications and designs that can be forwarded to manufacturers in your supply chain.

Governance and alignment

Further, the large number of PLI interdependencies, including those with other departments of the company, compels the need for the governance element shown in Figure 1. "A sound PLI process absolutely requires a PMO [project management office] that is looking at all the issues, and identifying all the interdependencies, both within the PLI process and between product integration and the go-to-market team, the operations team, the supply chain and the back-office team," Hadar says.

Benefits of standardized, repeatable processes

Bringing business unit leaders, engineers and technologists together with CDOs to collaborate on PLI using proven methodologies and toolkits improves the odds of realizing deal value — and also creates important long-term benefits. It fosters fact-based decisions, increases information transparency and leads to standardized, repeatable practices that transfer lessons learned in one transaction integration effort to benefit future integrations.

"By having a 'mega' project management aspect to product integration, companies can better coordinate and align all facets of the transaction integration process. They obtain broader participation, which drives increased inclusiveness and transparency, and they create a focal point for learning and sharing best practices," says Hadar. "Done this way, product integration leads to greater value creation and positively impacts other deal drivers, such as cost efficiency, key talent retention and the go-to-market plan."

Finally, it's important to note that whether your business unit involves your own corporate development team, or transaction advisors such as Hadar, these specialists are not making any actual PLI decisions. Instead, they provide the standardized, repeatable processes, tools and methodologies that help your company's technologists and engineers make difficult PLI decisions faster and more productively, while coordinating more effectively with the rest of the organization.

Bottom line

The bottom line is that many technology companies can do a better job with product integration by coordinating and aligning it with the rest of their transaction integration processes and priorities. That ties PLI to the deal's value drivers and schedule in a way that's transparent and allows for broader participation, inclusiveness and proactive oversight. It creates a focal point for learning that promotes sharing of leading practices within the company and across multiple integration efforts. Most critically, it enables important value creation and positively impacts other drivers, such as cost efficiencies, key talent retention and go-to-market plans.

These are lessons technology companies have already learned with regard to integration of shared services and back-office functions. In these areas, determined, focused efforts and the application of leading-practice methodologies and tools consistently yield good results. So it should be with product line integration. "You can't assume that integrating the product line of another technology company will simply happen, naturally. That kind of *magical thinking* will end with disappointing results," says Hadar.

By participating in product line integration, the CDO and his or her team can contribute more effectively to the success of deals by proactive versus retrospective tracking of product line synergies and decision-making. This will help companies realize better ROI on current and future deals.

Figure 1: Key product line integration levers

Source: EY analysis, 2014.

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