



# The elephant in the room

Integrating the product innovation and commercialization organization

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Integrating product and technology is often at the heart of technology deals today – together they can create more value than they could apart. Successful integration of the product innovation and commercialization (PIC) organizations – typically including product research and development, engineering, process development, and product management<sup>1</sup> – is key to realizing both revenue upside and operational cost savings built into the deal model. Further, it is highly visible externally and can drive perceptions about a deal's success or failure.

It is also incredibly complex, cross-functional in nature and challenging to get right. Product and technology integration requires a balance of technological, commercial and organizational criteria across an interrelated pipeline with high levels of uncertainty. Success hinges on comprehending this complex setting, focusing the product and technology integration strategy on capturing the right type of value, and avoiding common land mines in executing the change agenda.

An integration management office (IMO) generally coordinates cross-functional activities to achieve the desired level of integration. However, in an attempt to avoid disturbing engineering talent, executive and integration leadership may guide the IMO to treat the product and technology areas as a “black box” and outside the direct scope of the overall integration program. This often results in suboptimal integration practices, misalignment with other functional work streams and ultimately negative impact to deal value. To avoid these serious risks, integration leads should tackle head-on the “elephant in the room.”

<sup>1</sup> Each subsector and company is different, so PIC organizations in a particular company's context can include functions from units like core engineering, product management, quality, test, operations and manufacturing, services, and others.

## Start with the end in mind

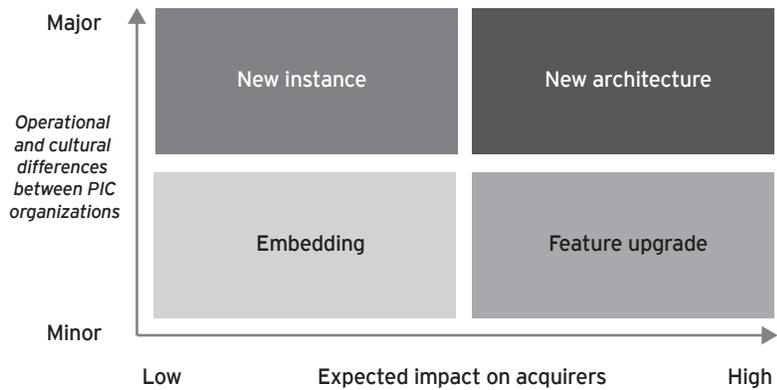
As soon as acquirers clarify the priorities for product and technology integration and engage all the appropriate stakeholders, they should launch the critical and challenging effort to map the desired setup, or operating model, for the PIC functions in the combined organization. In our experience, acquirers should start with two critical considerations:

First, consider the degree to which the operations and cultures of the PIC functions differ between buyer and target. For example: Do engineers report into BUs or into engineering? How are they measured? How mature are their development systems and processes?

Second, consider the degree to which the buyer's products and technology need to change to capture deal value. For example: Will some of the buyer's products be discontinued? Will development teams combine? Will investments in legacy products decline?

- ▶ **Embedding:** When the PIC operational differences are minor and the required change for the buyer's organization is low, generally the acquired organization will snap to the buyer's organization systems and processes. In a traditional tuck-in deal, the buyer could operate the acquired business at a lower cost, and revenue synergy potential may be found in applying the buyer's brand or go-to-market strength to the target's product portfolio.
- ▶ **Feature upgrade:** It is all too common for buyers to erroneously execute a tuck-in ("embedding") only to realize that a more dramatic transition is necessary. When the organizations are similar but

Figure 1: Drivers of product innovation and commercialization operating model



significant technological change is coming to the buyer, both organizations will need to change. The combined organization should select the "best of breed" systems, processes and technologies that will deliver the best products.

- ▶ **New instance:** When buyer and target organizations are incompatible, there may be less incentive to fully integrate the PIC functions. Maintaining separate operating models for the product and technology functions will minimize disruption to engineering talent and motivation, and enable focus on key initiatives. Cost efficiencies should be pursued selectively and cautiously, as they could undermine key elements of deal value.
- ▶ **New architecture:** When operational differences are profound and a shift in the buyer's products and technology is inherent in the deal value, both organizations might require an

organizational transformation. In these deals, the future-state operating model for the PIC organizations should start with a blank page, and be designed based on the ultimate strategic product and technology goals of the deal.

While this framework may appear straightforward, we see acquirers avoiding the difficult decisions related to the PIC operating model, underestimating the future impact to the legacy groups or misjudging the operational differences between the two companies. Buyers often assume that all transactions should be "embedded," even when operational differences are significant, thereby undermining the deal rationale; or alternatively they pursue a "new instance" only to discover belatedly that no synergies were realized. And, more often than not, acquirers are reluctant to change their own PIC organization, thereby missing some of the greatest opportunities for purposeful disruption.

## Avoid the common land mines

Whichever long-term operating model a tech acquirer is targeting, it must be prepared to manage the “here and now,” and mitigate risks that have delayed or eroded value on many deals.

- ▶ **Attrition of key talent:** Deals can create uncertainty for employees and losing key engineering talent is one of the fastest and surest ways to destroy value. Integrating PIC functions should facilitate retention by demonstrating the upside for those employees due to expanded opportunities and resources within the combined entity.
- ▶ **Disruption of in-flight initiatives:** There is a finite amount of capital, hours and executive attention that the organization can expend on various initiatives at any given time. In-flight product and technology programs at the buyer and target must be managed in parallel with the acquisition – and will inherently require trade-offs in cost, speed and value realized for each. Executives must look at the whole portfolio and decide on the road map of changes that will best enable the company strategy.
- ▶ **Ecosystem disruption:** Internal relationships are also critical. Products are developed and commercialized within an ecosystem: relationships with suppliers, technology providers, customers and partners are key to success. Careful stakeholder analysis and change management procedures can help to minimize disruption to those relationships that could erode value.

## In summary

As the pace of technological change continues its steep trajectory, the stakes for successful product integration will continue to rise. Technology firms would be well-served to apply the same program management rigor and visibility to product innovation and commercialization that they do to other integration work streams. They need to tackle tough organizational challenges head-on, and maintain maniacal focus on creating value.

## Additional insights

Integrating product technologies and the organizations that develop and commercialize them is increasingly central to the success of many M&A transactions. EY has developed a series of publications that addresses elements key to the success of capturing deal value through such transformation: understanding the baseline, defining the strategy, clarifying the operating model, building the organization and managing change:

### Engineering the engineering org: How can companies design their engineering functions to strike the right balance between market responsiveness and operational efficiency?



### Purposeful disruption: how can you focus priorities for product development transformation?



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