

The New Definition of **'Essential'** in Essential Business

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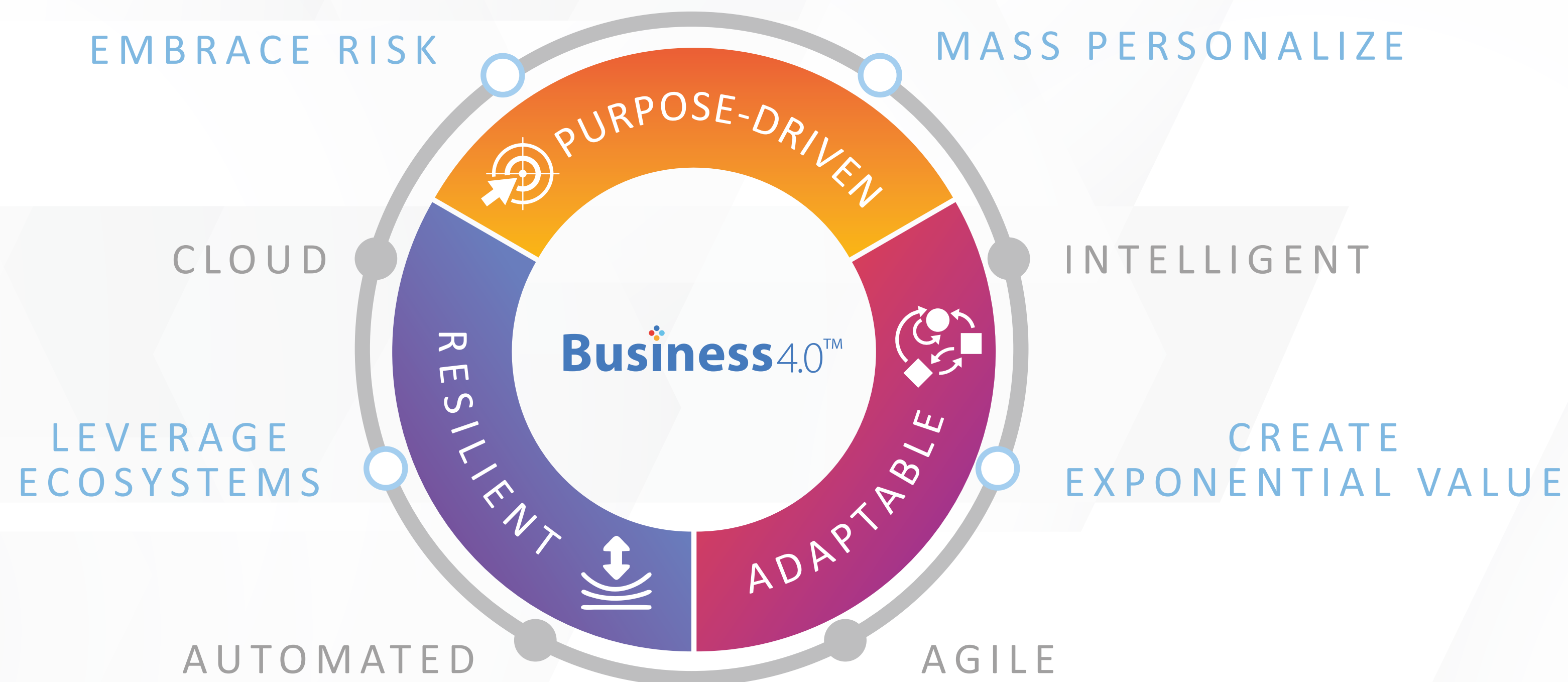
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Executive Summary

COVID-19 reminded us the world is forever changing, and what remains an enduring or resilient enterprise requires a new focus from the C-suite. Economic ecosystems have always existed. What's different today is some businesses are intentionally curating and orchestrating networks of partners or agents in the service of consumers' essential needs or purposes like wellness and mobility.

A commitment to adaptation through value-exchanging collaboration with other entities, corporate or otherwise, is the new normal for today's executives.

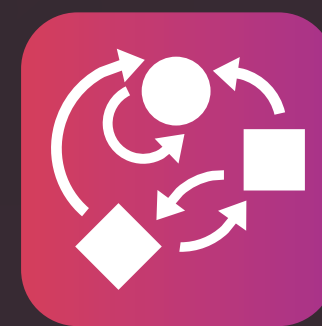
Competitive sustainability requires active investigation of existing economic ecosystems and emerging digital platforms for new opportunities. Either as an anchor or a participant in one or more 'Essential Enterprises' bringing needed or better capabilities in customer intimacy, product innovation, or operational excellence. Mergers and acquisitions, as well as divestitures, are fast-forward mechanisms by which businesses can ready themselves to become an essential business.



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The Essential Quotient

The disruption wrought by the pandemic has increased the urgency to question market relevance and economic viability. Though some industries have been negatively impacted more than others, all businesses have to increase their 'essential quotient' to truly become indispensable to their consumers not only in the bad times but in the good.

What makes a business ultimately indispensable or resilient is its ability to adapt to the changing needs and constraints of its customers and partners alike – delivering the right solution, at the right time, at the right price, in the right way -- every time. And what is considered right by customers in the digital age is often influenced by the last great experience they had, no matter what the industry. No business is immune from being compared to the best of Amazon, Apple, Google, Uber, and so on.



The New Competitive Paradigm



Over the past few years, much has been written about ecosystem thinking. While economic ecosystems have always existed, the economic agents involved did not necessarily knowingly collaborate or exchange value with one another in the service of the consumers' ultimate purpose, for example, wellness or mobility.⁽¹⁾

In addition to intentionally curating a network of economic agents, what is different today are the technology-driven innovations that have been enabling enterprises to better overcome time, distance, and human error, at ever nearing marginally zero costs. Efficiently and effectively participating in digital ecosystems has become key to sustaining advantage.

Purpose-driven ecosystems are driven by resilient enterprises both now and moving forward. These resilient enterprises are not encumbered by traditional corporate or industry boundaries, and thrive on a culture of collaboration and innovation for the benefit of all stakeholders.⁽²⁾



The Economic Agents

In the pursuit of becoming or remaining enduringly essential, CXOs must evaluate their businesses' capabilities for their relevance to any or all of these purpose-driven ecosystems. They should consider how their businesses become or remain an essential economic agent by providing differentiated value in the role they play. A business can be one of three types of economic agents: an anchor, a partner, or a financial contributor.⁽²⁾

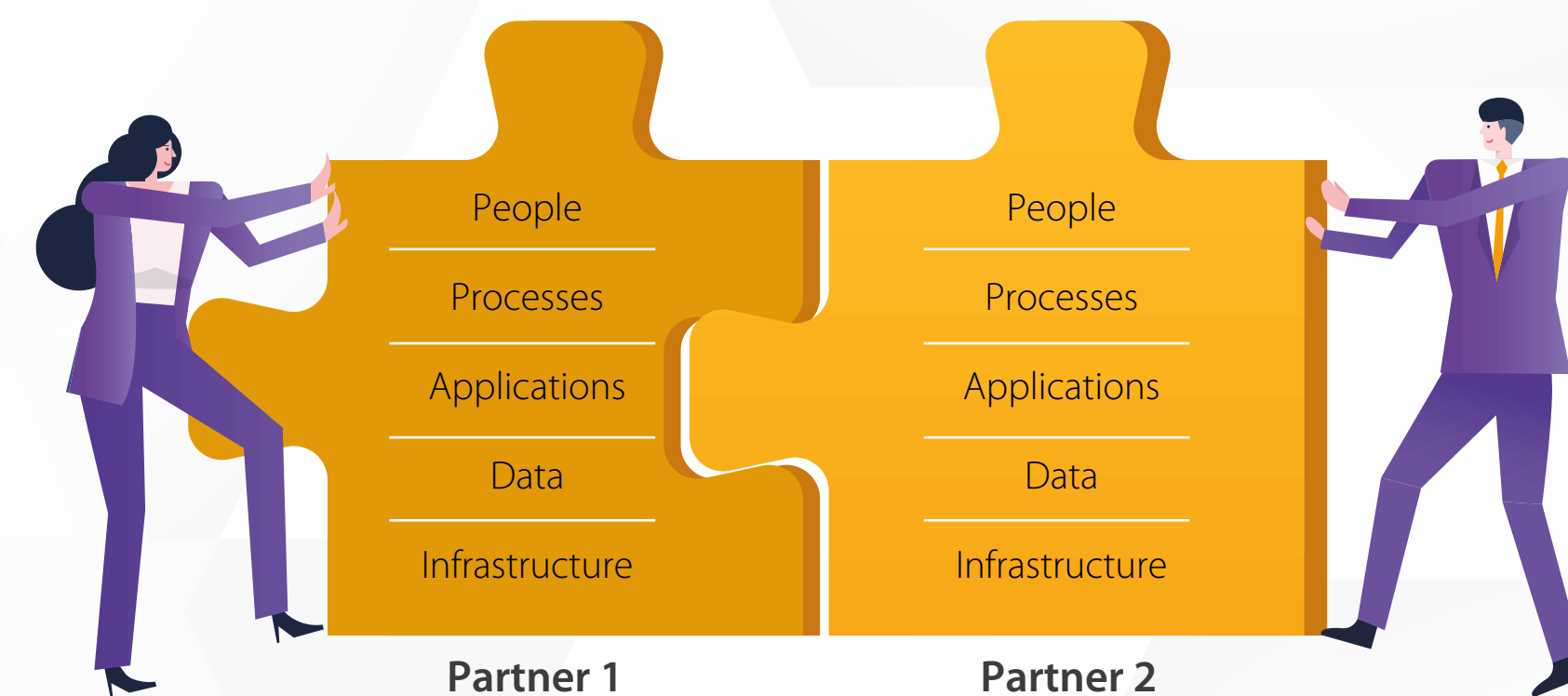
The anchor is responsible for 'orchestrating' the ecosystem, typically by providing the infrastructure or 'platform' on which the ecosystem operates. The infrastructure can include the company's own technology investments such as enterprise applications, or more often cloud-based services that offer the scale, flexibility, speed and innovation demanded by the ecosystem.⁽²⁾

A partner, broadly speaking, can play one or more of these three roles which build upon the Value Disciplines framework of Treacy and Wiersema in the early 1990s⁽³⁾:

- Customer Intimate – creates, maintains, and mines 'consumer intimate' relationships
- Product Innovator – strives to develop a continuous stream of new or novel products/services that deliver differentiated value
- Optimal Enabler – performs best-in-class operational functions at lowest cost with the least friction, for example, product/service support, information management, or finance and accounting

To participate in a resilient enterprise and become an essential business, a company must have these three things:

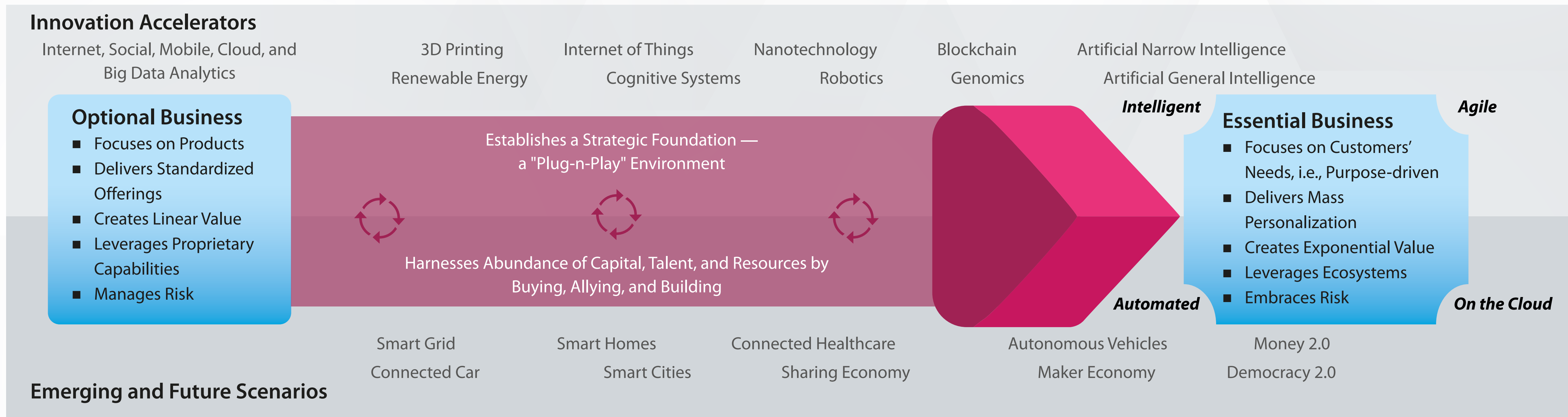
- (1) A differentiated product, service, or capability suited to the purpose of the ecosystem
- (2) A Lego-like infrastructure that allows the snapping and unsnapping of various economic agents' products, services, and 'componentized capabilities'⁽⁴⁾ as needed to allow for rapid adaptation to competitive opportunities and threats, whether small or great like COVID-19
- (3) Agile-based values and practices



Ecosystem Thinking in Action

- Nestlé patented the capsules and delivery mechanisms for its Nespresso coffee makers. But it selected partners to build them, licensing its proprietary IP.⁽²⁾
- Apple, which owns the iPhone IP, opened up its ecosystem by allowing thousands of app developers to flourish by serving its huge customer base, while Apple takes a share of the revenue.⁽²⁾
- Toyota became a partner in the ecosystem of Singapore-based technology company Grab, whose business includes ride-hailing, food delivery and payment apps. Being part of Grab's ecosystem will give Toyota unique insights into vehicle usage patterns – and contribute to the company's growth plan.⁽²⁾

Accelerating Essentiality Through M&A



The journey to becoming an essential business requires the C-Suite to understand and continually evaluate what is emerging around them for leverage, both technologically in terms of innovation accelerators and economically in terms of ecosystem scenarios. Furthermore, the CEO and their team must seek out opportunities to harness that abundance around them in terms of the products, services, and capabilities of others that can be employed to drive growth and profitability as well as to establish and maintain a strategic foundation that allows rapid or "plug-n-play" integration with acquisitions, joint ventures, and partners.

In today's digital era, speed is often considered the new currency. Mergers, acquisitions and divestitures are fast-forward mechanisms by which businesses can ready themselves to become an essential business by integrating value-creating assets and carving out value-consuming burdens.

Anchors will look to buy leading-edge technology companies to develop or assemble the infrastructure it needs to orchestrate their purpose-driven ecosystems and extract the 'rents' it needs to sustain the platform and themselves.

For example, while Amazon has made four sizeable acquisitions since 2009 to achieve economies of scale and scope (that is, Zappos.com, Whole Foods Market, Ring, and Yankees Entertainment and Sports Network), it has also acquired over 30 companies since 2000, mostly venture capital-backed, in the application software, information services, and other technology-driven areas.⁽⁵⁾

Partners will look to those businesses that can enhance their customer intimacy, product innovation, and/or

operational excellence. For example, Walmart has acquired six internet retailers, one media and information services company, and one wireless services company since 2000. And CVS Health has purchased or merged with over 30 companies since 2000 in the beverages, biotechnology, clinics/outpatient services, department stores, healthcare distributors, elder and disabled care, enterprise systems, life and health insurance, managed care, healthcare services, insurance, personal products, pharmaceuticals, and specialty retail industries.⁽⁵⁾

Re-ignited by the challenges of COVID-19, 'Essential enterprises' will form the foundation of a world order that emerges out of these new beginnings. In their growth and success, a new trajectory for not only corporations but humanity as a whole will be set.

Sources:

- (1) <https://frankdiana.net/2016/10/31/revolution-and-the-innovation-wheel/>
- (2) <https://sites.tcs.com/bts/cio-three-keys-successful-digital-ecosystems-blog/>
- (3) <https://hbr.org/1993/01/customer-intimacy-and-other-value-disciplines>
- (4) "The Digital Operating Model: Building a Componentized Organization," MIT CISR, June 2020
- (5) TCS analysis using PitchBook as data source on May 7, 2020

About the Authors

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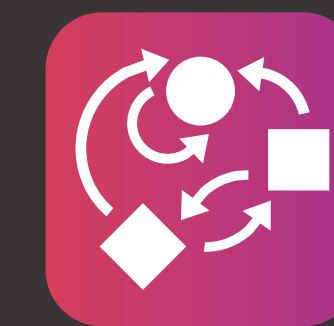
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