



A CHIEF EXECUTIVE WHITEPAPER

STRATEGIC M&A IN AN ERA OF ECOSYSTEM-DRIVEN COLLABORATION

To thrive in a future of horizontal ecosystems, companies need to figure out where they fit and then determine which course of action—build, buy or partner—will get them there the fastest.

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irtually every industry has begun entering the early innings of a major, technology-fueled revolution. As companies attempt to anticipate and counter inevitable disruption, CEOs must try to predict, as accurately as possible, what the world will look like over the next five to 10 years, where the company will fit into new and emerging ecosystems, and how it will get to where it needs to be to stay relevant and profitable.

Given the difficulty of delivering such seismic change organically, more and more companies are recognizing strategic acquisition as a key tool in the “build, buy or ally” arsenal. A recent survey* by Tata Consultancy Services and Chief Executive Group of 300 companies across multiple industries found that 58 percent recognized that innovation was a key growth driver, and the same percentage said that was why they were going to market for acquisition.

When done for the right reasons, strategic acquisition can help a company leapfrog forward, and it can eliminate competition. “But M&A as an enabler is going to create risk as well as opportunity,” Frank Diana, managing partner at Tata Consultancy Services (TCS), told CEOs gathered for a roundtable discussion at the Nasdaq MarketSite in New York. The desire to move forward can quickly lead acquirers to overlook where cultural barriers might undo integration or lead them to acquire when collaboration would have sufficed.

KNOW YOUR ECOSYSTEM

Understanding the larger ecosystem[s] in which you operate will help you determine where you can add real value and, ultimately, the best path to take. “That analysis requires using a wider lens,” said Audrey Brady, vice president of Commercial Systems and Services at Sikorsky. “You have to look at the whole infrastructure.” For Sikorsky, which is assessing where helicopter travel fits in the future of urban mobility, that means engaging multiple players to make travel by helicopter work. Otis Elevator will be one such collaborator. “You need the elevator; you need the specific technology so that you have the specific password on your cell phone that gets you to the top floor and to the secure area where you need to go,” she explained. “You really need to start thinking about the adjacent markets you need to work with in order to introduce these things.”

“Collaboration is a huge word, especially for the new generation,” agreed Tom Harrison, chairman emeritus at Diversified Agency Services. “It’s probably the most important word for the next 25 years, in any industry.” Going beyond the four walls of your company and its existing product line to explore a vision of the future is a perfect example of “ecosystem thinking,” said Dave Jordan, managing partner and global head of TCS’ Consulting & Services Integration. Then you can look at, “What other aspects or capabilities do we need in our portfolio to make this work?”

Select Interior Concepts will likely be collaborating with virtual reality players for its residential design business, said CEO Tyrone Johnson. “Younger people don’t want to drive 50 miles to a designing center, and particularly not multiple times,” he said. “They also want to know right now what it’s going to look like. That’s where technology is really going to shape how we sell and how we work with consumers going forward. So we’re spending a lot of time working with tech companies on visualization tools.”

One thing you can’t do, Johnson added, is change consumers’ minds about how and where they want to shop. “I think many businesses feel like they can force their will on the consumer,” he said. “That strategy is doomed to fail. You have to adapt.”

That will take different shapes across different companies and industries, of course, but the uniting theme is that technology is taking the friction out of every buying experience. “That’s expected now,” said Diana. “No matter what your experience is, the friction is gone.” That is partly what’s driving the kind of far-reaching competition happening right now. “There is no regard for industry boundaries because it takes multiple stakeholders to create those experiences.”

CEO attendees agreed that, today, no one company is an island when it comes to meeting customer expectation. As CEO of Omnicom, Harrison oversaw 200-plus acquisitions in an effort to become a one-stop shop. “Would I do that all over again today? I’m not sure, because my mindset today is, ‘Why does one [company] have to have all the client’s money?’” he said. “If we believe in this model, which is collaborating with tangential businesses, it’s appreciating that we don’t have to get all of the money, and each of our businesses can still be profitable.”



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So instead of “acquiring” being the operative word, “aligning” is going to be the new word, where we convince other tangential businesses to align with us because we’ve got this crystal ball and can see 10 or 15 years into the future.”

The new horizontal ecosystem model works as well in insurance as it does in consumer packaged goods, noted Mark Galante, president of field operations at PURE Group of Insurance Companies. For example, aggregated data obtained from a connected car, along with predictive analytics, will enable an insurance firm to better assess risk. “And we invest a ton in helping people prevent losses before they happen in the first place,” he said. “So if you can get real-time information from things that they’re interacting with regularly, we can be much more effective at doing that.”

Mark Trudeau, president and CEO of Mallinckrodt Pharmaceuticals, pointed to Salim Ismail’s concept of the “exponential organization,” a company that experiences outsized growth relative to peers because of digitization and the adoption of accelerating technologies. That has seemed a goal out of reach for legacy industries such as healthcare, but that may be changing. “For the first time, I think healthcare is starting to wrestle with, can we actually do this in a way that enables us to drive change and innovation at almost zero market cost?” That’s been a significant challenge for the industry, he acknowledged, “but the opportunities then become incredible.”

For example, said Trudeau, if healthcare companies started looking at diabetes prevention, rather than focusing only on treatment, they might observe that the disease skews heavily toward lower socioeconomic classes and that underlying that is a lack of access to good, nutritious food. “So you can see a world where, if you’re thinking horizontally, you’re a broad healthcare company that might be partnering with grocery stores to provide better food to lower socioeconomic classes to reduce the high cost of healthcare.”

Horizontal movement within ecosystems can solve multiple problems with one solution. Jordan noted that a health entity in Singapore seized one such opportunity by collaborating with a toy company to develop a fully automated stuffed animal. The toy simulates a pet for elderly patients, who often experience loneliness. “But its real function is to monitor the health of the patient, continuously communicating with the providers for early alerts,” he said. “So it was a fascinating example of this horizontal thinking applied to a pretty big societal problem with the government, health providers and commercial manufacturers joining forces.”

As other countries around the globe innovate, the pressure rises for U.S. companies to delineate their unique path forward, said Diana. “So the traditional way you did things changes— how do you address that? Do you have the capabilities to do it, or do you have to acquire to become part of ecosystems that are starting to deliver that capability?”

BankMobile, a fully digital bank incubated by parent company Customers Bank, recently partnered with T-Mobile to launch T-Mobile Money. “We allow them to use our charter, our technology, our compliance, etc.,” said BankMobile President Luvleen Sidhu. The partnership has effectively made the telecom company a player in the financial services space while giving the bank a way to acquire new customers it could not previously reach.

VISUALIZATION IS KEY

To arrive at the right solution for the company, the CEO has to be able to see the path clearly; modeling has become a critical tool for visualizing a company’s value in an emerging ecosystem and identifying both potential partners and M&A targets, where appropriate. “If something is not part of your core and you want it to be, you can acquire,” said Diana. “If you have something that the ecosystem does better and you don’t want to do it anymore, you can divest into the ecosystem.”

Diana pointed to an airline company that is currently mulling those options, based on an analysis of how multiple factors are impacting the travel and mobility ecosystems, including autonomous vehicles and ride-sharing, virtual reality and local 3D printing. “The CEO gets this,” he said. “But the challenge becomes, what role does the company now play? Do I provide traditional capabilities or strive for new capabilities? Do I have them in house or do I acquire them? This is not easy because boards are saying, ‘You’re an airline, right? Why are you thinking about doing this?’”

Playing within an ecosystem also means getting along with a host of different providers, each of which has its own agenda. For CEOs who are used to holding things close and owning everything, it will be difficult to adjust, said Scott Shaw, president and CEO, Lincoln Educational Services. “It’s



Audrey Brady, Vice President, Sikorsky Commercial Systems and Services

about becoming more open-minded about how you partner compared to how you did it in the past," he said. "Owning something and holding onto it five years later, that's gonna be gone, outdated. You just have to be more flexible."

"That is the biggest challenge for leaders today," added Diana. "How do you operate in a world where you don't have full control?"

For those comfortable with partnering, finding the optimal place within an ecosystem means looking at potential value creation from entirely new angles, said Douglas Boothe, president and CEO of the niche pharmaceutical company Akorn. "It's not always a classic value-chain discussion now. It's, what's the nugget that you actually do the best and is going to generate the most return? If you can rent the platform or the infrastructure [rather than buy], awesome."

To be sure, in some cases, it won't make sense to buy. Dave Jordan recalled a study TCS did for a client several years back that revealed that less than 30 percent of what the company made created any differentiating value. "So why in the world, in this context, wouldn't you rent or partner or collaborate with others?" said Jordan. "If that holds true throughout businesses, our whole concept of M&A is outdated."

The unprecedented pace of change is, in part, necessitating partnering and collaboration because either buying or building will sometimes take too much time, said Max Mitchell, president and CEO of Crane Co., an industrial manufacturer. "You better understand what you need, get it fast and march towards that solution."

Mitchell noted that his team excels at incremental change. "But true breakthrough and breakout ideation isn't [always] going to happen—so then how as a leader do you facilitate that? You're not going to be the smartest person to come up with all the answers and visions, so what do you do?" Mitchell recently took his team to the Consumer Electronics Show to observe and compare notes. "Partnering and collaboration came through loud and clear. No one was trying to do all things," he said.

Getting out to see innovation in other seemingly unrelated industries also offers important visuals into the future, said Neal Keating, president and CEO of Kaman, who recalled that years ago, when working at Rockwell, a colleague attended CES and learned that the answer to the company's graphics capability challenges lay in, of all things, kids' video games. "It's having the ability for people to go across and see what different capabilities will enable them to more quickly put together a system that can take that next leap in capability in a cost-effective manner."

Of course, vision without execution won't lead to profitability, said Randy Mabie, global managing partner for TCS' M&A services. "There is a vision; there is a strategy, but you do need to bring it to life. You need to have a plan, and you need to measure that plan. What's the impact to the margins? What's the impact to the customer? How do you measure that?"

Then you have to be nimble enough to change course quickly when things don't go according to plan, or when shifts in the ecosystem necessitate change, said Diana. "As these shifts happen, those that survive will be those that can shift with it."



In some cases, renting, partnering, or collaborating may make more sense than buying, noted Tata Consultancy Services' Dave Jordan.

Chief Executive

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