Acquisition Route to Digital Success

Digital Deals: Short-cut to Digital Nirvana?

Digitalization impacts all businesses but not everyone is equipped with the in-house talent and cultural capabilities needed to respond to it. Buying and integrating digital capabilities to rapidly digitalize the business seems like a more effective approach compared to building those capabilities in-house. As a result, many organizations plan to use an M&A strategy to buy rather than build digital capabilities over the next few years.

Developing the right capabilities in-house may take time and cause the organization to miss out on emerging opportunities in the marketplace. Moreover, tech-acquisitions offer financial and operational synergies, and help fast-track the digital transformation of the business.

Industry-leading companies understand the value that such deals can bring to them – so much so that they shell out billions of dollars – often in cash – to buy the firms they find attractive. Walmart purchased the e-commerce start-up Jet.com, while General Electric agreed to buy ServiceMax, whose software provides information about off-site workers and equipment repairs. Roper Technologies, another century-old industrial conglomerate, signed a deal with Deltek, an enterprise-software provider. Automakers such as General Motors and Daimler have taken large stakes in ride-sharing applications, including Lyft and Hailo.

To realize the synergies from such deals and make the most of their investment, organizations need to understand the challenges that arise in the process of integrating the acquisition into the wider organization.

Challenges Involved in Tech-acquisitions

The strategic rationale for a tech-acquisition is driven by the intent to acquire skills or technologies quickly or at a lower cost. Doing this isn't easy because technology isn't a standalone product – it is supported by the people who develop, manage, and scale it up. Multiple challenges arise in the process of integrating the acquisition into the wider organization:

- **Integration Agility**

Leveraging newly acquired digital capabilities in a traditional business is tough. Issues with legacy systems and technology, intellectual properties, and regulatory requirements slow down integrations. To deal with this and make post-acquisition integrations smoother, organizations should build a standalone integration strategy for digital transactions.

- **Valuations and Due Diligence**

Assessing the value of digital assets is a complicated process. New innovations often lack data relating to revenue, customers, and profits which make it difficult to determine their true value. Due diligence challenges are driven by the specificity and nature of the digital business. Intellectual property (IP), cyber security, social media, and analytics all add dimensions to due diligence that require companies to use enhanced techniques to identify, screen, and select the most optimal opportunities.

- **Talent Management**

The success of digital acquisition is strongly hinged on the participation and continued involvement of the innovators and talent pool of the digital targets. Orientation, engagement, and the retention of talent is crucial and can be a major challenge for traditional acquirers. To ensure seamless absorption of the acquired talent, expectations of the new talent must be met by involving them in conversations concerning their digital strategy.

- **Cultural Alignment and Diversity Management**

Alignment and integration of new entrepreneurial cultures into traditional company models is a long drawn, sensitive process and often very challenging. The degrees of freedom and experimental autonomy at a new generation digital technology company will usually be very different from traditional established processes. Managing the diversity and creating a healthy mix of approaches to balance the needs of the integrated organization is a critical pursuit for the acquirer.

- **Cyber Security**

Cyber security challenges are prominent when traditional organizations make tech-acquisitions. Larger organizations using industrial computers, machines, and automation systems, face specific cyber security challenges. If not dealt with, there may be an interruption in automated production processes or damage to machines or industrial accidents among other issues.

Making it a Success

When done right, a tech-acquisition can provide significant benefits. A successful digital acquisition cycle involves three core steps to ensure that the strategic value is captured.

Step 1: Determine Value

Acquisitions in the digital space are driven by the need to tap emerging technology-led growth opportunities, or to access talent or IP to gain a competitive edge. Depending on how firmly the organization's digital vision is established, the acquisition could be exploratory in nature, driven by the need to place strategic bets for future, or part of a broader strategy. The first step towards ensuring success is to clearly determine which specific capabilities drive the unique potential value for the acquisition candidate, and how it fits into the enterprise's overall digital vision. This is what should drive the initial due diligence and the final deal structure.

Step 2: Preserve Value

The failure to preserve the unique capabilities of acquired start-ups is one of the most common pitfalls when large organizations apply a traditional approach to post-acquisition integrations. In the bargain, talent, culture, and disruptive business practices that drive their value potential may be lost. Organizations adopting an acquisition-driven digital strategy need to establish effective executive talent plans to ensure critical leadership and technology talent is identified and retained.

A post-acquisition operating model should be developed to establish the required level of autonomy, support, and accountability that will preserve strategic focus and prevent flight of talent. Doing so will help retain the acquired unit's unique culture and maximize its market potential.

Another key action is to understand and engage with the broader customer and community ecosystem associated with the acquired company's technology space. The acquirer needs to connect with the user community through relevant channels and social platforms to earn support and retain engagement.

Step 3: Sustain and Harvest Value

Harvest the digital innovation potential of the acquired company towards transforming the acquirer's own organization.

The success of this step depends on two key factors:
The clarity of the digital vision to combine specific acquired capabilities with existing strengths of the parent organization; and the organization's ability to pick specific technology innovations, business practices, leadership talent, and cultural elements from the acquired unit and apply them across its business.

To succeed at harvesting digital value on a sustainable basis while minimizing transformation risk, companies need a phased, objective-driven approach. Identifying and defining the success criteria to drive the integration helps sustain and harvest value.

Thriving in a Digital Economy

Tech-acquisitions can be a smart and elegant strategy to drive the digital transformation of traditional, well-established, and successful companies. Such a strategy helps adapt to new market realities while using the existing portfolio of capabilities, customers, established brands, and the in-house depth of institutional knowledge. The organization and its leaders need to approach the acquisition process with a strong understanding of tech-acquisitions and overcome the specific challenges involved. This is how the business will be able to harvest the benefits of blending capabilities to thrive in a digital economy and ensure long-term success.

Organizations should keep the following pointers in mind:

- Judge a potential acquisition target by its ability to enable fundamental innovation and disruption
- Assess the various aspects of the existing business and prepare to remodel and launch new business models
- Budget for auxiliary investments in security measures to fortify the new digital business model
- Establish models to support a hybrid workforce that suits existing and incoming talent
- Prepare for cultural transformation to balance the traditional and modern practices and manage expectations appropriately
- Define new metrics to measure and evaluate the organization’s digital strategy and look for ways to implement it

By following these principles an acquirer can improve its chances of success when acquiring tech capability.

References

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