Product Lifecycle Management (PLM)

A key enabler of M&A success

When one of the world's largest oil-field services company incorporated in the US, with operations in over 80 countries, announced its decision to acquire a competitor, regulators came down with a heavy hand. They were concerned that the merger would create an unhealthy monopoly. It is clear that if the acquiring company wants to go ahead with its plans, it needs to divest itself of certain parts of the business and avoid the regulatory logjam.

A task like this is unimaginable without powerful Product Lifecycle Management (PLM) systems in place. Apart from identifying processes and products, which may have to be hived off, there are three critical stumbling blocks that must be thought through using a PLM strategy for a successful Merger and Acquisition (M&A).

Most often, large enterprises have established PLM systems that act as the backbone of product information, integrated within its enterprise IT landscape. The data consolidation across these two independent PLM systems is the first major challenge. The consolidation calls for moving data from one system to what is, most likely, a mismatched system. Securely moving the data into a common system can be tricky. Sometimes, it can be a problem large enough to delay and derail an M&A.

The second challenge is in product portfolio rationalization, which tends to be problematic. This crops up when both organizations have major investments in strategic R&D. In addition to securing data, PLM must cover R&D locations, prototypes, outsourced elements, partners, patents, licenses and risk management. An improper understanding of the R&D initiatives and product portfolios can result in inadvertently sunsetting perfectly legitimate and valuable research work.

Finally, the third challenge is often encountered in organizations that have a history of M&As. These organizations have, at some point, opted for heavy customization of PLM systems, which may not always have been in line with best practices. The resulting confusion places hurdles before future M&As for a unified product development platform.

Divestitures reflect an interesting business situation and many businesses would gain from the broader problem it represents. While divestitures aren't a part of all M&A initiatives, the additional problem it presents is worth examining. In addition to resolving the above problems, the acquiring company has to make its way through massive amounts of product data and processes to decide what to hive off, with one worried eye on preventing a spill of valuable IP.

The question organizations must ask themselves is: "Is my PLM going to sink or swim with the next M&A?"

PLM processes and technology are increasingly helping companies with their merger and acquisition dynamics. If you are heading for an M&A, its time to unlock the value.

PLM to determine M&A success

Today, PLM has a proven track record of lowering production costs, accelerating innovation and new product design, reducing engineering cycle times and helping meet release schedules. This is why the practice has seen adoption across numerous industries such as manufacturing, healthcare, pharmaceuticals, oil & gas, telecom, food & beverages, financial products and even education. With consistent recovery in the economy over the last five years, but a sluggish movement of revenues, each of these industries is a candidate for M&A as a path to growth. Globally, businesses are estimated to have accumulated over US$6 trillion in cash reserves, a fact that is expected to trigger one of the largest series of M&A activities.

The post-merger integration and consolidation from poorly planned M&As can be a painfully slow and an inordinately difficult activity. It can also be prohibitively expensive. We've seen a large number of major M&As in the recent past – across manufacturing, healthcare, telecom, energy & utilities, medical devices – that

have become candidates to brew the perfect storm around portfolio rationalization, unified engineering, streamlined workflows, consistent processes for product development and standardization of components and suppliers.

This is where PLM plays a vital role. It has a downstream impact on Enterprise Resource Planning (ERP), Manufacturing Execution Systems (MES), Customer Relationship Management (CRM), etc., and upstream impact on MCAD tools, and prototyping platforms, configuration management systems, BOM tools, etc. Without a single source of truth like a PLM, the result can be chaos.

How clear is your PLM vision? Does the organization have a PLM strategy that drives efficiencies in an M&A? A good PLM strategy will give you access and control over processes, systems, people and data for products from design to retirement. It will allow you to optimize your portfolio confidently based on organizational capabilities and business priorities. Furthermore, it will ensure transparency and traceability.

What are the options?

If your organization is in line for an M&A, it must consider the options before it:

- Should it try to wed two PLM systems with integration points and hope that the sum of the two will be greater than its parts?

- Selectively re-use components of the two systems to create a 'best of breed' system?

- Should it opt to undertake a complete PLM refresh, incorporating industry best practices and 'best of breed' solutions?

Opportunity for transformation

Once your organization has decided on the options with the highest ROI and lowest operational risk, it must narrow down on the frameworks and solutions for reliable data integration and management. These frameworks and solutions must address:

People: Expect resistance to the change in processes brought about by an M&A. There will be users who will want to retain the comfort of existing practices. One way to overcome this challenge is to incorporate robust organization-wide change management built as a critical component of the overall initiative.

Systems: The challenge in most M&As is to unify or rationalize multiple PLM systems of which some may have been highly customized. Setting up a consistent governance system led by authoritative stewardship is the key to bringing the systems anarchy under control.

Processes: Frameworks for process harmonization across divisions/ product lines, complex product mix (ETO, CTO) and product configurations while meeting EHS and other reporting and regulatory requirements (Basel III, SOX, etc.) must be adopted. The framework must be designed to assist the organization absorb change as well as sustain business capabilities in the new environment.

Data: In a typical M&A, both organizations will have unique product structures, supplier data and the number of years for which legacy data is available. The merged entity may need to meet completely fresh audit and compliance requirements, requiring appropriate solutions to deal with data harmonization.

It is evident that a successful M&A has a major dependency on flawless rationalization and integration of processes, systems, people and data. Challenging as it sounds, this can be executed with clarity, and in perfect alignment with the strategic goals of the M&A, using a robust PLM strategy.

About the authors

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