Maintaining Innovation Through Mergers and Acquisitions

by Devin Bedwell and Brad Romney

Maintaining innovation and a competitive edge is difficult, and it is even harder when combining organizations through mergers or acquisitions. Companies often fail to deliver on the dual promises of cost reduction and revenue growth. Capturing the full merger value of the two organizations requires alignment of product and project portfolios, innovation strategies and product development execution processes. What should companies do during a merger or acquisition, especially when there are challenges from different organizations within the company tackling innovation in different ways?

Here are some key topics to consider that will help maintain an innovative edge during a merger.

- **Portfolio Rationalization.** Take a hard look at product portfolios to determine which product lines are complementary and which ones overlap. Difficult decisions need to be made when there are competing products that cannibalize sales within the organization. Portfolio and Pipeline Management (P&PM) strategies, processes and tools can help prioritize projects and align product development and portfolio decisions to company strategy.

- **Strategic System Integration.** Enterprise tools, including enterprise resource planning (ERP), product lifecycle management (PLM), and customer relationship management (CRM) need to be integrated across both organizations. For each category, one system needs to be selected, and key functionality from the other system needs to be integrated.

- **Product Development Optimization.** Some companies have very autonomous product development structures where each business unit has full control of their product development resources and roadmap. Others have a more centralized process where product development resources are controlled centrally by corporate groups. Companies also handle data sharing between partners, suppliers, and subcontractors very differently. The newly merged entity should analyze the product development structures of both organizations and engineer optimized processes that incorporate the best from both.

- **R&D Resource Development.** Cost savings are typically realized by eliminating administrative redundancy and exploiting synergy. How will the merger of administrative functions and consolidation of sites affect R&D processes and resources? How can the new company secure and further develop one of its most valuable assets – the combined R&D personnel?

- **Merger Financial Structure.** The financial structure of the merger deal can affect R&D and product development resources. “All cash” deals can limit liquidity and available resources for product development investment, and interest payments on debt used to finance the transaction can negatively impact R&D investments in future years. Executives need to fully analyze these limitations and be able to compensate for them through cost reductions or additional revenues.

- **Market Expectations.** During merger talks, executives carefully consider their ability to meet market expectations by achieving financial and strategic goals. Even after cost savings and operational synergies are realized, there may be more to accomplish. Company leaders should prepare for the next level after taking advantage of low-hanging fruit.

These are some of most critical areas that companies should thoughtfully address as they strive to maintain innovation during a merger or acquisition.

What’s your view?

What additional topics do you think are important?

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