

Acquisition Strategies to Support the Era of PLM as an Enterprise Business Platform

CIMdata Commentary

Key takeaways:

- *The PLM industry is entering an accelerating era of end-to-end business platform enablement*
- *The shift towards enabling robust and resilient business platforms, as opposed to deploying and integrating best-in-class business suite solutions, requires a fundamental change for both industrial users as well as PLM solution providers*
- *PLM solution providers who wish to compete at the enterprise business platform level now or in the future must rethink their solution set strategy, and how they identify, assess, and assimilate third-party partners*

The global product lifecycle management (PLM) market, which traces its historical roots to the computer-aided design (CAD) and product data management (PDM) software industries of the 1980s, is rapidly evolving away from a labyrinth of best-in-class point solutions, that are often individually integrated during costly deployments, to holistic business platforms that enable integrated end-to-end business processes. For many of the leading PLM solution providers, it is increasingly difficult, if not now impossible, to organically build their own complete set of applications and associated business process enabling platforms. As the PLM footprint expands, PLM solution providers must partner with or acquire companies with essential capabilities so they can differentiate, grow, and enhance the business platforms being delivered to the market.

For years CIMdata has tracked the PLM industry, which includes more than 700 solution providers, and all of the acquisitions made by software and service providers. For the most part, the roughly 70 acquisitions announced during 2013 that CIMdata examined appear to be part of consistent and well-defined strategies executed by the acquiring firms. Acquisitions in 2013, as in previous years, originated from many of the PLM-related market segments including CAE, CAM, NC, ALM, SLM, technical publications, visualization, various Internet platform technologies, value-added resellers, and specialized integration firms. Noteworthy this past year was an increase in M&A activity of not just product companies, but also in acquiring talent through the acquisition of consulting services firms who offer deep specialized expertise.

According to a 2010 McKinsey & Company article entitled "*The Five Types of Successful Acquisitions*,"¹ there are five main types of acquisition strategies. Those that:

- Improve the target company's performance
- Consolidate to remove excess capacity from industry
- Accelerate market access for the target's (or buyer's) products
- Get skills or technologies faster or at lower cost than they can be built
- Pick winners early and help them develop their businesses

¹ http://www.mckinsey.com/insights/corporate_finance/the_five_types_of_successful_acquisitions

Looking back over the past ten years in the PLM market there are many examples from each category, and yet some that just don't seem to fit any specific strategy definition. Certainly all of these strategies have and will continue to play important roles in the PLM industry. Sometimes it takes a few years for the market to recognize and appreciate the strategies being pursued and other times it just never seems to make much sense even after the advantage of time.

Will these acquisition strategies by themselves help the PLM solution providers survive and thrive into the future, or weigh them down with legacy solutions they can no longer support? Will it help them deliver a business platform that is comprised of an open architecture that allows a set of process-enabling capabilities to be packaged and configured to establish and support standardized end-to-end business processes?

The era when industrial companies and software providers believed that they could develop, install, and maintain a single monolithic enterprise information technology application that was sustainable and robust enough to serve all business functions is gone. Many argue that the complexity of extended enterprise processes, organizational requirements, and information constructs cannot be addressed by any single solution provider no matter how large. The new business platform paradigm is one in which solutions from multiple providers must be seamlessly deployed using a service oriented architecture (SOA) that is resilient and can withstand rapid changes in individual business functions or delivery modalities. This is possible to do today and some, in fact, are already being delivered. This of course requires a sound adherence to standards and the openness of application programming interfaces (APIs) and other integration mechanisms. Furthermore, the Cloud offers a rather universal delivery mechanism, providing on-demand compute power and almost ubiquitous connectivity. For the most part, the technological side of developing, delivering, and maintaining business platforms is available today. So what's missing?

CIMdata believes that the most important element is an appropriate vision for what the business platforms of the future should enable, a definition of which capabilities they should support, the processes they should provision, and the scope of data they should manage. This isn't about departmental process enablement, or even enterprise enablement, but rather extended enterprise process enablement—enablement that crosses traditional organizational **and** system boundaries. As a result, this will impact solution providers in multiple business enterprise system domains, not just PLM providers.

As we have witnessed in many industries, global competition requires constant adaptation. As a result, industrial companies must continually innovate their products and processes, and those software and service providers who are looking to support them must also innovate. They must move away from developing and delivering applications and narrowly focused solutions that only support a limited set of enterprise users. They must define and ultimately deliver holistic business platforms where end-to-end business processes are enabled for all extended enterprise participants. For most PLM solution providers this will require a change in the manner in which they imagine their solution offering, define the application spaces that plug into their platform, and above all, how they identify and support or acquire third parties and their technologies to enable this vision. For most solution providers this will require changes to both external market strategies as well as internal cultures. In some cases, this will even require a totally new, much more strategically driven mindset that requires far more collaborative strategies with partners who complete the platform solution offering.

This shift in thinking is clearly underway, and some recent examples include:

- Accenture acquiring regionally and technologically focused PLM consulting firms—PRION Group and PCO Innovation.
- Autodesk and their acquisitions, among others, of Tinkercad and Delcam that extended their CAD and CAM solution offerings respectively.
- Dassault Systèmes' acquisitions of Apriso in support of manufacturing and Realtime Technology (RTT) who specialize in professional high-end 3D visualization software, and computer generated imagery services.
- PTC's acquisitions of NetIDEAS (software hosting and technical consulting services firm) and ThingWorx (platform for building and running applications for the Internet of Things).
- Siemens PLM Software's acquisition of TESIS PLMware, a specialized PLM integration technology and services firm.

To compete in this new, complex, and evolving era of business platforms requires a sound vision and highly elastic execution strategy. PLM solution providers wishing to compete on the big business platform stage in the future must define a well thought out platform vision. This vision must address where they wish to be with their platform offering years into the future. The vision must be future oriented, but achievable, and it must paint a desirable future state; one that people will rally around, understand, and buy into. It has to address the big picture and go beyond the traditional system and organizational boundaries. Additionally, the vision must be backed up by strategies that allow the company to execute in the long-term as well as in the short-term—taking incremental steps towards the defined future state. Progress towards the future state will not always occur in a straight line, so guidance must be provided to ensure that early steps will not impede future progress. This means that the company needs to understand what type of business platform it is looking to build and the key criteria that must be defined so that appropriate decisions (e.g., what solutions and skills to develop and which ones to acquire) can be made along the route in the most efficient and effective manner possible.

The trend towards global business platforms will have a significant impact on the type and rate at which acquisitions and mergers take place moving forward as the PLM industry continues to build out its strategies and capabilities to meet the rapidly evolving business needs of current and future clients. The providers that strive and thrive will be those that define an appropriate long-term vision and who execute their strategy in the most efficient and effective manner possible.

About CIMdata

CIMdata, an independent worldwide firm, provides strategic management consulting to maximize an enterprise's ability to design and deliver innovative products and services through the application of Product Lifecycle Management (PLM). CIMdata provides world-class knowledge, expertise, and best-practice methods on PLM. CIMdata also offers research, subscription services, publications, and education through international conferences. To learn more about CIMdata's services, visit our website at <http://www.CIMdata.com> or contact CIMdata at: 3909 Research Park Drive, Ann Arbor, MI 48108, USA. Tel: +1 734.668.9922. Fax: +1 734.668.1957; or at Oogststraat 20, 6004 CV Weert, The Netherlands. Tel: +31 (0) 495.533.666.