IDC PERSPECTIVE

Broadcom's Digital Transformation Journey Through M&A Excellence and Partners

Reid Paquin

EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: Digital Transformation, Mergers and Acquisitions, and Strategic Partnerships

Customer and market expectations for more personalized products, deliveries, and services — as well as unanticipated events and sudden demand shocks such as COVID-19 — are driving change and creating opportunities for a company to transform how its operation stays aligned with its markets. This IDC Perspective provides a view into how manufacturers are rethinking their business models and how Broadcom uses M&As and strategic partnerships to help accelerate this transformation.

Key Takeaways

- Less then 20% of manufacturers believe their business model is future proof, with over half of the industry planning to make changes within the next 12 months.
- A key component to staying competitive and ensuring long-term business viability is going to be the customer experience and combining products and services.
- M&A interest has doubled compared with previous years, which can be directly linked to the impact of COVID-19 on manufacturing.
- Integrating acquisitions can be a challenge but, if approached properly, accelerates transformation.

Recommended Actions

Broadcom's chief technology officer and head of Software Business Operations sums up three actions any manufacturer should consider when transforming:

- Make sure your company's culture and goals align with your partners. It is not a you and me; it is us — we win together, fail together, and learn together.
- Do not debate and point fingers when things go wrong, solve the problem, and take ownership/responsibility.
- Share the risk, but also share the savings/benefits.

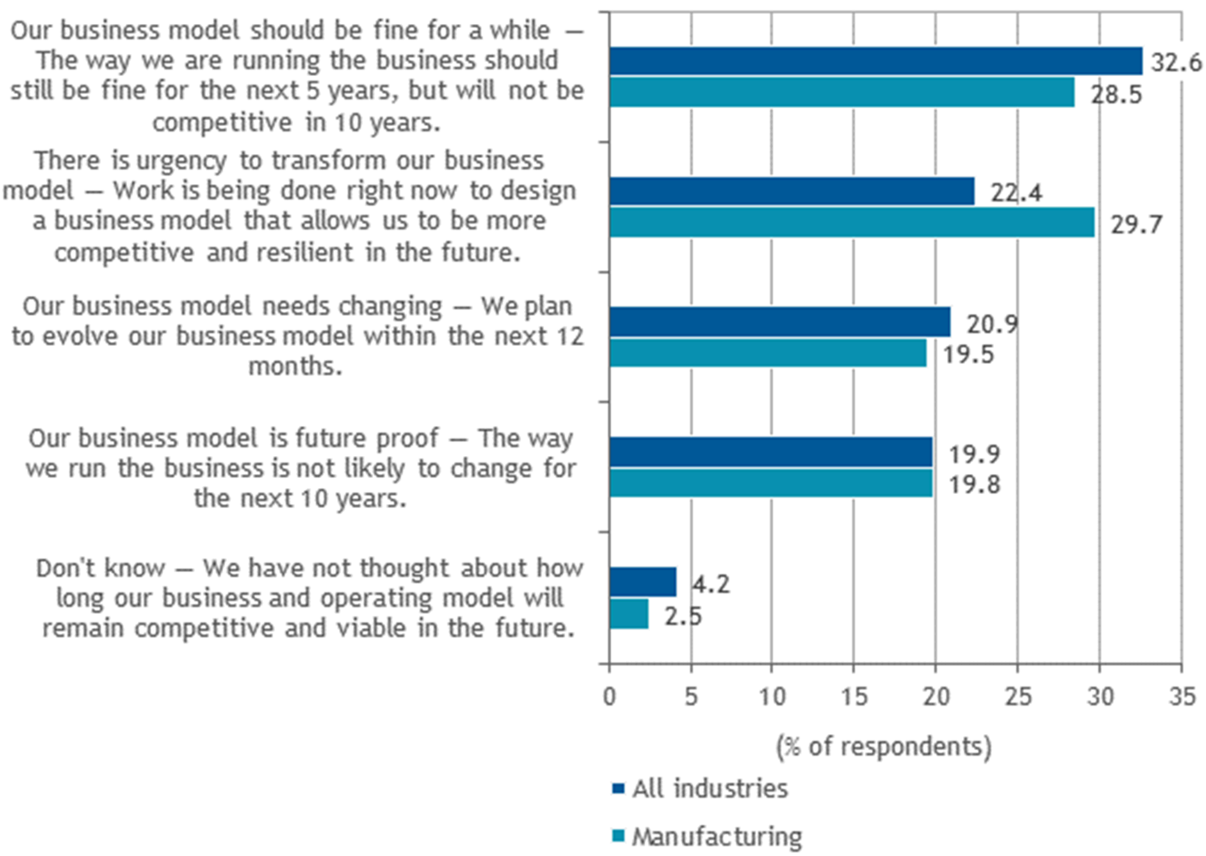
Source: IDC, 2021

SITUATION OVERVIEW

Customer and market expectations for more personalized products, deliveries, and services — as well as unanticipated events and sudden demand shocks such as COVID-19 — are driving change and creating opportunities for a company to transform how its operation stays aligned with its markets. While disruption has impacted all industries, manufacturing has been among the hardest hit. This has served as a wake-up call for most in the industry to realize that change needs to occur, with less than 20% of manufacturers believing their business model is future proof (see Figure 2).

FIGURE 2

Manufacturing Business Models Need to Transform



n = 129

Source: IDC's *COVID-19 Impact Study*, October 2020

Manufacturers, more so than other industries, realize that transformation needs to occur to future proof their business model. The key to success moving forward will be to become more market driven and customer focused. Competition has never been higher in manufacturing, there are more companies competing for the same customer base and this makes differentiation a challenge. The commoditization of products impacts manufacturers' ability to grow revenue or move into new markets.

A key component to staying competitive and ensuring long-term business viability is going to be the customer experience. Finding new ways to attract, engage, and satisfy consumers will be the hallmark of successful organizations and, as a result, many manufacturers are looking to expand into services.

As we enter 2021, manufacturers will need to continue to think of services as a key driver for differentiation and not an after-sales activity required because of a product sale. This mindset shift will require service-specific investments and digital initiatives that connect service history and customer data with other enterprise applications. High-tech manufacturing is a segment that perfectly highlights the commoditization that has occurred and the shift into software to drive differentiation. Evolving from an equipment manufacturer business model into a software company is typically a multiphase process, which begins with integrating solution-specific software alongside the current solution-specific hardware and then offering value-added software packages in addition to the traditional hardware-based offering. To accelerate this shift into software services, a practice that is often employed by organizations is mergers and acquisitions (M&A) activity, this is especially true for high-tech manufacturing when looking at their driver behind investment increases (see Figure 3).

FIGURE 3

Drivers Behind Increased Investments

n = 612

Source: IDC's *Industry IT & Communications Survey,* December 2020

While modernizing outdated technology remains the top driver for manufacturing as a whole and an important one for all manufacturing segments — a positive outlook and increased focus on M&A activity stand out in high tech in particular. The increased focus on M&A activity is an interesting one when compared with past years surveys as well, with between 20–25% of manufacturers citing it as a driver behind IT spend usually. M&A interest doubling over the previous year can be directly linked to the impact of COVID-19 on manufacturing. In fact, IDC's *Worldwide ICT Spending Guide* has shown that roughly $1.3 trillion has been lost because of COVID-19, with the manufacturing industry bearing the greatest portion of this loss. Many manufacturers are still struggling with supply chain disruption, evolving government/regulatory requirements, and shifting production capabilities to meet public demand for their goods and services.

However, there were manufacturers that were better prepared to respond to disruption. There is a "digital divide" that has formed between these two types of companies, with digitally enabled manufacturers feeling less of an impact and further along in their recovery efforts. These manufacturers are now focused on innovating and trying to capture market share, while nondigital manufacturers are still focused on cost cutting and selling off high-risk projects. It will be these digitally enabled companies that will lead the charge in making targeted investments, using M&A to further their transformation efforts.

Best Practices — Broadcom's Shift into Software Services

Broadcom Inc. is a designer, developer, manufacturer, and global supplier of a wide range of semiconductor and infrastructure software products. The company is headquartered in San Jose, California, with operations across the globe and over $23 billion in revenue for 2020. Broadcom started primarily in the semiconductor space, but over the years, the organization has been focused on diversification and expanding into new markets through software services. Andy Nallappan, chief technology officer and head of software business operations at Broadcom, has seen his company undergo incredible growth and transformation over the years; however, while the acquisitions Broadcom has made over the last decade present the opportunity to transform the business, they also present integration challenges with each new organization the company brings on. Broadcom chose Infosys to help with these integration efforts as well as enhance Broadcom's continuous testing solution for SAP S/4HANA and other SAP SaaS products. IDC spoke with Nallappan and Infosys to discuss Broadcom's ongoing work in these areas and what has led to the success that has been seen.

Seamless Acquisition of Symantec

To meet Broadcom's diversification and expansion goals, acquisitions have been an important part of the company's strategy. Two acquisitions made to grow Broadcom's software business were CA Technologies in 2018 and Symantec in 2019. Broadcom's acquisition strategy is built on seamless integration of the business and strategizing to extract maximum value. To accomplish this, Nallappan highlighted that it is important to be good at targeting high-value assets and identifying the pitfalls that peers encountered. Broadcom prepares itself so if things do go wrong there is a plan in place for what should be done. One area where Broadcom identified as a potential hurdle during the acquisition process is managing contracts and fulfilling customer orders.

A seamless integration of quote-to-cash (Q2C) business processes was one of the top priorities of Broadcom, as orders that drop lead to revenue losses, customer dissatisfaction, and tarnishing of the brand image. In addition to preplanning and learning from the mistakes of peers, a three-pronged approach was used to streamline the Symantec acquisition and Q2C processes:

- **Utilizing Infosys' experience/background working with Symantec:** This allowed for resources to be provided that were familiar with the company. These employees possessed domain knowledge and were selected to lead the team and drive the integration initiative.
- **Deploying a transition period:** This was a staggered approach to bring people on board when they were ready to contribute to the integration efforts. This staggered approach enabled the

first batch of resources to help train the second group that came in and so forth. This made it a very collaborative approach between Broadcom and Infosys, by time rollout happened the entire team was ready.

- **Manually catching orders after the acquisition went live:** To ensure that no orders were dropped early in the integration process, a team was put in place to monitor order that came in.

Setting up the teams to support this process took six weeks and zero orders were dropped throughout the acquisition process. For the last 12 months, Broadcom has done extremely well on invoicing and contracts and as a result has reported record high cash flow recently. In addition to achieving the goal around orders, as the initial need for integration went away the discussion became how additional value could be delivered. Collections and POs were the area targeted next, with $415 million of outstanding CA Technologies invoices being triggered and $340 million worth of outstanding POs secured. The opportunity to drive additional value is an important component, and this points to another key aspect of the Broadcom engagement, taking a partnership approach.

From Provider to Partner

Broadcom's acquisition of CA Technologies in 2018 brought the company's continuous testing solution into the portfolio, however the market penetration into SAP ERP packages was minimal at the time. Broadcom identified this as a market to be tapped into as more organizations consider moving to S/4HANA. While the push into software services is a critical channel of Broadcom's growth plan, the company realizes that application outsources are needed to help sell to end-user customers. Finding a partner with strong SAP implementation and testing capabilities became a top priority, as Broadcom wanted to codevelop testing tools. In addition to SAP experience, Broadcom wanted a partner that was willing to have skin in the game. This resulted in an agreement between Broadcom and Infosys to not only codevelop and market these testing solutions to the industry but also sell these products directly into the Infosys customer base.

This type of engagement is outside the usual deal that manufacturers and providers typically enter into, moving more toward a true partnership engagement. This partnership approach will help Broadcom secure committed revenue and enable future growth by driving market penetration into new client bases. In addition, in preparation for Broadcom's next wave of business transformation, Broadcom and Infosys are collaborating in other areas such as:

- Scalable managed security operations center (SOC) services leveraging Infosys Cyber Watch platform and Cyber Defense Centers for resilient operations
- Building an M&A integration platform leveraging Infosys Contracts Analysis solution for digitizing Broadcom's customer contracts saving hundreds of thousands of hours of manual effort and associated costs, ensuring contractual compliance, and reducing legal risks

The partner ecosystems will continue to play a critical role in leading innovation efforts for manufacturers expanding into services. Providing

What Are the Future Plans?

"Our operating model is to establish the platform, process, and partnerships, then to scale and leverage. On the software side, we have been doing this; we recently announced a separate president for the software business. ISG is a big focus for us; we want to grow this business, want to continue leveraging Infosys here. Then, of course, whenever the next M&A happens, we want it to be as seamless as the rest."

— Andy Nallappan, chief technology officer and head of Software Business Operations, Broadcom

insight into best practices from adjacent industry verticals establishes a vision into what is possible for innovation, which can spark transformation. Often, manufacturers fall into the trap of incremental change in line with their industry peers as opposed to making transformative change within an enterprise strategy. Partners can share a broader view of digital innovation and provide the road map for this journey.

ADVICE FOR THE MANUFACTURER

Disruption brings challenges but also opportunity. Manufacturers that are focused on resiliency and using data to make decisions will be best positioned to succeed. The digital divide has only widened as a result of COVID-19, this has resulted in many forward-thinking manufacturers to explore potential M&A activity that can accelerate their transformation journey. There will be many undervalued assets available for companies that are able to spend. As high-tech manufacturers like Broadcom continue to look for ways to expand into new markets and get closer to customers, the shift to offering products and services will be key. While integrating new acquisitions can be a challenging endeavor for many, the type of approach Broadcom takes leads to the smoothest process, as highlighted by its record high cash flow even during COVID-19.

"The increased cash flow and the software M&A integration success we have experienced will help Broadcom accelerate the acquisition opportunities."

— Andy Nallappan

As has been highlighted throughout the document, working with partners like Infosys that can help your company drive rapid improvements today while pushing you toward long-term transformation is essential to success. In addition to the points highlighted throughout, Nallappan provided three summary pieces of advice he would suggest to any manufacturer starting out:

- Make sure your company's culture and goals align with your partners. It is not a you and me; it is us – we win together, fail together, and learn together.
- Do not debate and point fingers when things go wrong, solve the problem, and take ownership/responsibility.
- Share the risk, but also share the savings/benefits.

LEARN MORE

Related Research

- *Asset-Oriented Manufacturing Value Chain 2021 Investment Guide* (IDC #US47583821, April 2021)
- *Brand-Oriented Manufacturing Value Chain 2021 Investment Guide* (IDC #US47583921, April 2021)
- *Engineering-Oriented Manufacturing Value Chain 2021 Investment Guide* (IDC #US47584021, April 2021)
- *Technology-Oriented Manufacturing Value Chain 2021 Investment Guide* (IDC #US47584121, April 2021)
- *Collaboration in Manufacturing: Enabling Remote Employees During COVID-19 and in the Future* (IDC #US46178920, April 2020)
- *Making the Case for Machine Learning in Manufacturing* (IDC #US46179220, April 2020)

- *Addressing the Industrial Skills Gap* (IDC #US45552019, October 2019)

Synopsis

This IDC Perspective provides a view into how manufacturers are rethinking their business models and how Broadcom uses M&As and strategic partnerships to help accelerate this transformation.

"While we expect to see manufacturing spend increase in 2021 across the board, there are companies better positioned to take advantage now. Digitally enabled manufacturers like Broadcom have felt less of an impact from COVID-19 and as a result will lead the charge in making targeted investments, using M&As to further their transformation efforts. While nondigital manufacturers that are still struggling will continue to fall further behind." — Reid Paquin, research director, Manufacturing IT Priorities and Strategies at IDC

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Global Headquarters

5 Speen Street
Framingham, MA 01701
USA
508.872.8200
Twitter: @IDC
idc-community.com
www.idc.com