MARKETING CLINIC

The keys to winning in M&A integrations

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Article by Mika Rytkönen & Charlotta Välimäki

M&As provide plenty of opportunities for growth. Companies that successfully create long-term value pay special attention to leveraging commercial assets throughout the whole M&A process, from the initial scan to the post-deal integration.

Continue

Executive summary

The hallmark of a masterful M&A is the identification of synergistic capabilities and assets. Yet, impulsive decisions and excessive valuations of target companies prevent sound deals from being made.

By Day 1, the fate of the new company is often already determined, so proper preparations are essential. Executives responsible for M&As must make calculated decisions that accurately identify potential mergers according to a number of factors, including (1) the fit of the target company, (2) the ability of the deal to capture and create value, (3) appropriate assessments of brand value, (4) customer assets and (5) the ultimate commercial operating model of the post-merger company.

M&As can be a strong source of growth when top management excels at each of these elements. However, outside expertise and external objectivity can overcome shortcomings in these areas and assist in communicating the merger's strengths to all stakeholders.

About the writers

Mika Rytkönen
Managing Director, Marketing Clinic Finland

Mika has 20+ years of experience in strategic consulting and change management. *"I am passionate about the possibilities the new reality offers for those who have an inspiring purpose, strong strategy and sharp commercial capabilities. I love helping people and businesses focus on the right things at the right time, allowing them to lead globally and leave a meaningful mark on many levels."*

Charlotta Välimäki
Senior Associate

Charlotta has a background in financial management and management consulting with a focus on strategy, operations and working capital optimization. *"I am eager to develop my competencies in strategy and commercial excellence through value creation for our clients — I want to help companies create strategies that respond to constantly changing market environments."*

Continue to the article ▶

The keys to winning in M&A integrations

Leveraging the value of commercial assets requires that the acquisition target fits the acquirer's transformational strategy. This demands that attention is paid to not only value capture and synergies, but also to growth and value creation. A deal that achieves these goals should start with calm-headed, fact-based decisions about the merging brands and their transition strategies. This necessitates leveraging opportunities and mitigating risks in the merging companies' customer bases. And most importantly, it calls for a high-performing commercial operating model that is engaged and ready to roll on Day 1 of the new company.

In many cases, M&A integration processes neglect these growth opportunities and are instead geared towards finding synergies and tangible short-term cost savings. While capturing value through synergies is essential in mergers, we argue that playing to win calls for a more aggressive approach to value creation and utilization of brands and customer assets.

We have five checkpoints for winning in M&A integrations:

- #1 Always fit the larger purpose
- #2 Capture and create commercial value
- #3 Base brand decisions on facts
- #4 Leverage customer assets
- #5 Implement a high-performance commercial operating model

Continue ▶

#1

Always fit the larger purpose

Many M&As seem to happen on an ad hoc basis, without a clear link to the company's purpose and strategy. Numerous sources show that as many as 70–90%* of mergers fail and most of the created shareholder value is likely to go to the seller in the form of premiums on the share price.

There are two main reasons for acquisitions: (1) to boost the company's current performance and position in the value chain or (2) to reinvent the business model and reach new growth trajectories. In the first case, deal prices tend to be overestimated, as the deal rationale is often anticipated by investors and is reflected by share price development expectations. The integration strategy is often straightforward, focusing mainly on synergies and value capture. In the second case, it is much harder to estimate the right price and to find examples of integration strategies that provide the best results. Furthermore, many companies lack the competencies for true value creation.

A solid transformational strategy is key for success in M&As, as it presents the inspiring purpose and bigger meaning of the company.

We argue that a solid transformational strategy is key for success in M&As, as it presents the inspiring purpose and bigger meaning of the company. It explains how the purpose is achieved by outlining what competitive advantages and capabilities are required in the business model. A transformational strategy explains the company's growth logic, thus guiding investments, capability acquisitions and decisions. It also outlines the company's DNA and the heritage upon which the future is built.

Additionally, a solid transformational strategy helps identify the kinds of capabilities that should be built through M&As and how these capabilities should be evaluated in the scan and due diligence phases. It explains the deal rationale to different stakeholders and sets the ambition level and targets for value creation in the integration process. Finally, it engages people. Without customer, employee and external stakeholder engagement, value creation is a lost battle.

* Source: McKinsey, Deloitte, KPMG

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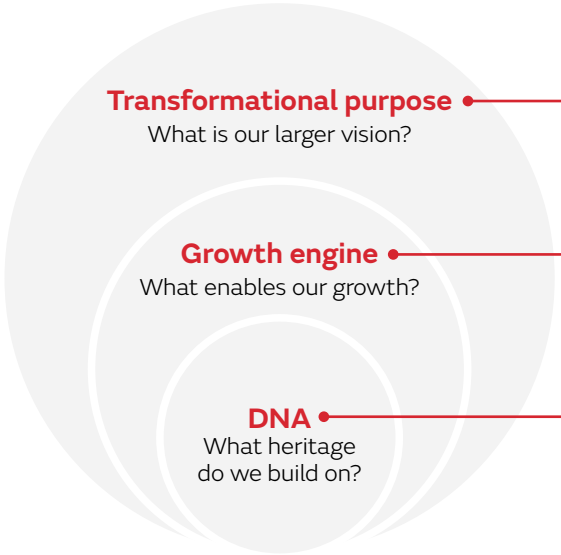

Transformational strategy	Role in M&As
The **transformational purpose** is the company's inspiring reason for existing.	In M&As, the purpose crystallizes the deal rationale for stakeholders, sets the ambition level and creates engagement for different stakeholders.
The **growth engine** explains the company's growth logic and outlines which capabilities need to be developed or acquired to ensure future competitiveness.	In M&As, the growth logic guides investments, capability acquisitions and decision making.
The **DNA** is defined by understanding where the company comes from and what heritage its future is built on.	Successful M&As acknowledge both merging companies' heritage and understand how to combine these successfully.

Graphic: Transformational Strategy guides successful M&A processes

#2

Capture and create commercial value

M&As offer plenty of commercial value capture and value creation opportunities through, e.g., increased market presence and wider distribution networks, a value-adding brand and offering portfolio and an expanded customer base with cross-sell opportunities. When done right, M&As provide critical growth capabilities while boosting business model innovation and the execution of the transformational strategy.

The merging companies need to identify how to best combine their commercial assets in order to drive value. This means, e.g., fact-based evaluation of the target company's brand and customer base, identifying ways to

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capitalize on the acquired company's brand value in relevant markets and customer segments, systematic planning to achieve synergies through optimal commercial organization design and the design of effective sales, marketing, customer insight and concept creation processes.

In our experience, M&A integration processes focus heavily on short term synergies and cost savings, while neglecting the creation of long-term value. This lack of long-term focus can lead to acquiring companies paying too great a premium for target companies. Simply put, the target company's market position, brand strength, customer relationships and commercial capabilities are often overvalued. Hence, the new company's momentum for winning in the marketplace is lost. Too frequently, value propositions for customers or stakeholders are irrelevant, commercial processes like sales and marketing are not aligned and the customer experience is not systematic.

Finally, significant synergy opportunities can be destroyed if the commercial operating model is designed on a "business as usual" basis. This promotes a focus on the removal of obvious organizational overlaps, without questioning the current approaches to streamlining processes or organization.

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There are three critical commercial value-related questions in M&As: (1) What is the true value of the acquisition target's commercial assets? (2) How can a winning commercial operating model be designed? (3) How are superior value propositions delivered? The graphic on the next page helps to identify commercial value creation and value capture possibilities throughout the merger process.

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Value creation

Value capture

M&A scan | Prospect | Due diligence | Tender | Integration planning | Day 1 | Integration execution

	Where to play Assessing the true value of the acquisition target's commercial assets	How to play Designing a winning commercial operating model	How to win Delivering superior value propositions
BRAND ASSETS	How does the target's brand fit the purpose and value proposition? How does it stretch to new categories?	How can a clear and strong brand strategy be defined for the new company? What are the new value propositions and competitive positioning?	How can employee, customer and shareholder value be created through a strong execution of the new brand strategy?
	What are the target's brand image and reputation? What are the brand strength and customer loyalty? How healthy is the target's brand/ product/service portfolio?	What is the optimal transition path to the new brand strategy and hierarchy, taking into account the importance of the merging brands in different business segments and offering categories?	How can the acquired company's brand value be capitalized on within the relevant customer and business segments? How can customer preference and loyalty be ensured throughout the transition period?
CUSTOMER ASSETS	What new markets and customer segments does the target open up? How can the share of wallet of existing customers increase through the target's relationships and offerings?	Who are the most important customers and decision makers for the merging companies? What is the story of the merger benefits for them?	What is the desired customer experience for the merging companies, and how can it be implemented seamlessly across different customer segments?
	What is the quality of the target's customer base? What risks and opportunities are related to it? How strong are the customer relationships?	How can the risks customers see in the merger be mitigated? Further, which customer segments are likely to decrease their purchases or leave altogether? What retention programs should be implemented immediately?	How can the agreed service levels be ensured and the existing revenue be preserved in those accounts that overlap between the two merging companies?
COMMERCIAL OPERATING MODEL	What new commercial capabilities can the target provide (e.g., customer insight, digital sales and marketing, CRM)?	How can business continuity and functionality of critical commercial processes (e.g., pricing and tendering, product management) be ensured on Day 1?	How can a focus on markets and customers be ensured through outside-in metrics (e.g., number of key accounts impacted by the new value proposition, revenue and margin increases from new combined offerings)?
	What capability gaps does the target company have in its commercial processes (e.g., quality of customer data, people dependency of customer relationships)?	How can the effectiveness of commercial operations be ensured through common infrastructure and tools (e.g., marketing automation, CRM)?	How can capability platforms for critical resources (e.g., centers of excellence) be created?

Graphic: Value creation and value capture in M&A processes

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#3

Base brand decisions on facts

Brands are the most powerful commercial assets, as they have a huge impact on the success of each M&A. Yet, in many cases, the brand value is underestimated and brand decisions are emotional, not fact-based. Brands are too often seen as equivalent to the visual identity. In integration processes, this promotes a strong focus on short-term fixes and out-of-pocket costs related to changing visual identities. Although these costs can be significant, long-term value increases are achieved through fact-based brand strategies and careful brand transition planning.

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Maximizing brand value in acquisitions means defining a strong brand strategy and a transition path for its execution through consideration of the business importance of the merging brands. Regarding corporate brands, in general, about 10% of the merging companies end up with a new name and identity, 60% choose to reorganize under the stronger brand, 10% merge the brands into one and 20% continue business as usual without making major changes to the brands.

Fact-based brand evaluation and brand strategy creation are critical in M&As, as demonstrated by these examples:

Case 1

A pharmaceutical company assessed risk related to the transition of an acquired brand. The risk assessment implied that an immediate brand transition would create a 4M EUR business risk, while a gradual transition over a few years carried a 65% lower risk. The latter option reduced the business risk to 1.4M EUR, despite investment requirements being the same for both transition strategies.

Case 2

A Nordic beverage manufacturer was looking into acquiring a portfolio of brands to strengthen its position in a market that had earlier been solely an export market.

The brands were leaders in their respective categories. Thus, the seller was aggressive with the initial asking price. The beverage manufacturer carried out a thorough brand due diligence to establish the value of the brands' businesses.

The analysis revealed that the current owner had milked the business and due to systematic underinvestment, both the category and brand health of the brands had deteriorated.

The analysis showed that the brands' user base was significantly older than the category average. Hence, a cohort effect estimation implied that the brands would lose major share of business within the upcoming 10 years – unless significant marketing & NPD investments were in place.

The acquisition had a good strategic fit for the beverage manufacturer which lead the company to bid. Yet, the offered price was adjusted to take into account the required investment in excess of 20m€ for the business turnaround.

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#4

Leverage customer assets

Understanding the risks and opportunities in the target company's customer base and how to leverage and mitigate these should be essential parts of the commercial due diligence and integration planning phases.

There are several key questions to ask: How strong are the target company's customer relationships? Which customer segments are likely to decrease their purchases or leave? What retention programs should be implemented immediately? Who are the most important customers and decision makers, and how do we best convey the merger benefits for them? What is the desired customer experience for the merging companies, and how can it be implemented seamlessly across different customer segments?

Communicating the merger implications and benefits to the customers is vital since customers do not necessarily perceive the merger to be as value adding as the merging companies do. Customers can be concerned about the merging companies' ability to maintain service levels, their ability to coordinate sales activities or their increased negotiation power. Competitors, naturally, take advantage of the customers' concerns and empathize with them.

Proactive management of customer assets in M&As provides significant value, as observed across these examples:

Case 3

A healthcare company was planning a quick consolidation of an acquired brand. Yet, from industry look-a-like benchmarks, the acquiring company found that losing customer preference carried significant risks — a 1 percentage point loss in consumer preference could decrease market share by 0.7–1.3 percentage points, which could have undermined merger benefits. Understanding that more insight was required, the company analyzed the combined customer base and identified potential risk segments, e.g., segments that were attached to the acquired brand's service offering but not the acquirer's brand. To mitigate this risk, communication of merger benefits through tailored, consistent messages and clear value propositions to the risk groups were undertaken successfully, increasing online reservations by 26% for both brands during the M&A transition period.

Case 4

A global machinery company acquired a brand with a complementary portfolio. The acquired company was strong in niche markets and especially well-known for good customer service. The acquiring company needed to ensure the acceptance of customers and mitigate the short-term risks of a brand transition. It profiled itself as a total solution provider for all customer groups while addressing the specific technical concerns of the target company's key customers. For the main product groups, a 3-year brand transition period was devised to mitigate the risk of increased customer churn. Other, less important product groups were incorporated into the common brand overnight.

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#5

Implement a high-performance commercial operating model

Mergers and acquisitions provide unique opportunities to challenge existing ways of organizing commercial functions and to create long-term value, not just short-term efficiency.

Creating long-term value through a strong commercial operating model calls for an ambitious approach rather than merely securing business-critical functionalities. The aim should be to create a common process architecture supported by effective tools. To achieve this, a thorough analysis of both parties' brands as well as marketing, sales and account management, customer insight, customer service processes and capabilities should be conducted — and best practices should be identified for both parties. Based on this assessment, planning and implementation of common sales and marketing processes and account management practices should be top priority well before Day 1.

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M&A integration often starts with a strong process focus and elimination of inefficiencies. Companies should also ensure that key internal and external stakeholders are on-board and engaged with the merger. The transformational strategy provides a good starting point for storification and visualization of the merger benefits and the bigger purpose. Effective engagement addresses emotions and is backed with clear, consistent, relevant messages and solid proof points of the merger benefits for different stakeholder groups.

Finally, market- and customer-driven KPIs should be defined to secure a focus on external rather than internal issues. Metrics that focus on the merger's commercial benefits include brand preference among target customers, number of key accounts impacted by the new value proposition, revenue and margin increase from the newly combined offerings and value of cross-sales opportunities.

Creating a high-performing commercial operating model enables long-term value creation and capturing merger benefits well beyond Day 1. This should be more than establishing tactical efficiency parameters or a reduction of overlaps. The commercial operating model needs to fit with the transformational purpose while clearly communicating merger benefits for the customers as well as for the internal stakeholders to create long-term value. Finally, the execution of the commercial operating model needs to be measurable to ensure its success.

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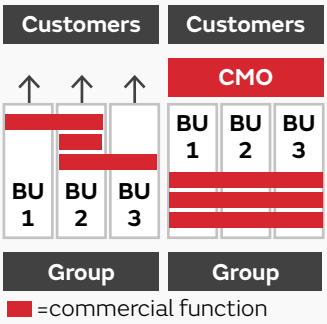
The graphic below shows critical phases in the commercial operating model design:

Organization

Design of a commercial organization that best fits the purpose and strategy

- Setting the design principles, e.g., clarity of P/L responsibility, customer-centricity, resource scalability and international reach
- Mapping the required commercial capabilities
- Making decisions about the degree of centralization vs. localization of commercial functions
- Designing the detailed commercial organization model



Processes

Design of main commercial processes and capability platforms

- Securing business-critical commercial functions for Day 1, e.g., tendering, pricing, aligned customer interface
- Designing commercial processes that incorporate best practices from both organizations
- Ensuring effectiveness of operations through common infrastructure and tools, e.g., marketing automation, CRM
- Creating capability platforms for critical resources, e.g., centers of excellence

People

Engagement programs

- Creating internal and external engagement with the purpose, brand and value proposition
- Building an attractive employer identity that supports the purpose and strategy
- Designing retention and attraction programs during the transition period

KPIs

Integration scorecard with a focus on commercial value capture and value creation

Examples of metrics:

- Brand preference among target customers
- Customer and employee retention rate
- Number of Key Accounts impacted by the new value proposition
- Revenue and margin increase from new combined offerings
- Value of cross-sales

Graphic: Commercial operating model design in M&As

Closing words

Making successful M&As a reality

There is much to learn from past M&A successes (and failures), and the right M&A opportunities can be found by companies able and willing to do the necessary work. There are several key elements that acquiring companies must fully consider and act upon before Day 1 in order to achieve meaningful growth through M&As.

First, the target company must suit the transformational purpose, growth engine and fundamental DNA of the acquiring company. Without a proper fit, M&As are unlikely to benefit either original company — never mind their customers. Acquiring companies must fully consider how a particular M&A fits with their broader agenda.

Second, prospective M&As should capture and/or create long-term value. Too often, companies overpay for a quick fix, using M&As to rehabilitate a tarnished brand or cash in on a trend, perhaps while slashing overhead in an attempt to maximize short-term profits. Rather, acquiring companies should focus on how the target company delivers value and can continue to deliver value in the long-term context of the newly merged entity.

Third, brand decisions should be based on cold, hard facts — not emotions, gut instinct or image. While positive reputations are important in business, it is maximizing brand value through a strong overall brand strategy and transition plan that delivers long-term growth through increased business.

Fourth, fully assess the importance of and impacts on customer assets — and plan accordingly. As companies merge, proactive management of customer assets can deliver value while maintaining (and pleasing) the combined customer base.

Fifth, a high-performing commercial operating model for the merged company must be the ultimate Day 1 goal.
A winning commercial operating model does more than remove overlapping portions of the two original companies — it identifies synergies that better meet customer needs and generate new business.

M&A success rests upon the effective and creative utilization of the combined assets and capabilities of the merged companies. The merged entity can only be greater than the sum of its parts through proper assessment, planning and implementation.

MARKETING CLINIC

Making Growth Happen

Marketing Clinic provides expertise in all phases of the M&A process: M&A scan, due diligence, pre- and post-deal integration planning and execution. Our offering includes all the necessary elements:

- Transformational growth strategies
- Brand and differentiation strategies
- Commercial due diligence, including brand, market, sales, marketing and customer base audits
- Playbook development for evaluating and integrating commercial assets
- Commercial operating model design and implementation
- M&A communication and customer, employee and stakeholder engagement

Marketing Clinic is a leading Nordic strategy and marketing consultancy — we make growth happen. We help people and businesses focus on the right things at the right time, enabling them to leave a meaningful mark on many levels. By engaging our customers' top management in reinventing growth, we create strong strategies that get implemented. With our group companies Kopla, Okimo Clinic and P+SBD, we combine strategy, technology, human insight and creativity to make new growth possible.