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Integrating marketing and brand in M&A: The way to superior growth

Focusing on six core aspects of marketing integration can help companies get the most out of their integration efforts and the new organization.

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When you think about the key factors in acquisition success, what functions spring to mind? Probably sales, operations, HR, and finance. But marketing?

Yet, our experience and interviews with leading M&A executives indicate that marketing plays a vital role in integration and deal success and should not be an afterthought. Rather, marketing should lead the organization in developing fresh, compelling value propositions and setting the new organization's brand strategy. Marketers should then lead the delivery of the value proposition and its narrative to generate above-market growth.

Because the integration role of marketing is so broad—ranging from strategy to tactical brand execution—we sought to understand the real issues that CEOs and chief marketing officers should address to achieve impact. In our research, executives emphasized the importance of getting six things right—"the six Ss."

The six Ss are:

— **Story.** Define the new organization's value proposition

— **Segments.** Refresh your view of the market

— **Service.** Delight your most valuable customers

— **Share.** Deliver consistent value over time

— **Science.** Take an objective, fact-based approach to setting brand strategy

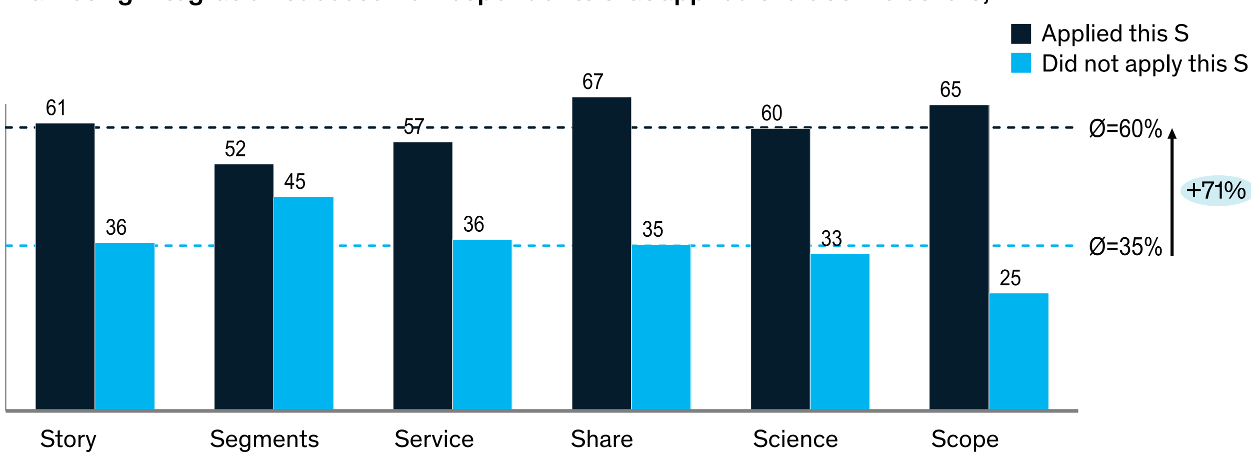
— **Scope.** Tackle less, not more, on and after Day 1.

Applying these six Ss can boost the success of marketing integration, measured by revenue synergies captured, as much as 1.5 to 2.0 times (exhibit).

Exhibit

Impact of the 6Ss on capturing revenue synergies

Marketing integration success[1] for respondents that applied the 6Ss[2] vs others, %



[1]Revenue synergy target in place and achieved >80% of that target
[2]Including all participants who replied 3, 4, or 5 on a scale of 1 (Did not apply at all), 3 (somewhat applied), 5 (fully adhered to this)

Sidebar

Calculating the impact

We surveyed 50 leaders who have the combined experience of more than 100 integrations, each valued at over $1 billion, that closed more than two years ago. We asked these leaders to rate the success of their integration efforts in reaching their revenue synergy targets and indicate to what degree, if any, they applied the six Ss. They reported that the application of every S correlates with capturing more revenue synergies (on average, 71 percent), as well as more marketing cost synergies, but at a more modest level (on average, 14 percent).

Story: Define the new organization's value proposition.
Why are we doing this deal, and how will our customers benefit? These questions are often asked in board rooms and during due diligence. Yet, what's surprising is the degree to which these questions are, and are not, answered. Often, the new organization's value proposition stays too broad. To have real impact, even a well-articulated value proposition must be translated into detailed execution actions. As one experienced M&A executive said: "The NewCo value proposition sets the direction for everything and focuses everyone on an aligned vision. Your customers have to understand that the new organization will benefit them in the long run."

The new organization's value proposition provides the north star for setting integration priorities and planning initiatives. Most successful integrations define the new value proposition before launching efforts, but our research also found that marketing was significantly involved pre-close in only 50 percent of cases.

The merger of two airlines demonstrates the power of a clear value proposition. The acquirer, an airline with a large footprint, purchased a regional carrier that brought complementarity, new routes, and broader coverage. The value proposition was straightforward: give customers access to an unparalleled network with daily flights connecting them anywhere.

This value proposition provided clear guidance across integration efforts. The reservations team focused on how customers could cross-book across the network. The customer experience team launched a refreshed strategy for investing in the customer experience, new planes, a new logo, and better front-line delivery. Thanks to consistent execution, NewCo achieved top-line growth and revitalized the organization.

Segments: Refresh your view of the market.
Integration offers a golden opportunity to revisit customer segmentation. With the combined customer base in mind, marketing should lead the conversation and recommend how the full complement of products, services, and solutions will better meet customer needs. Marketing should also evaluate how its operating model and organization should evolve to support the refreshed market perspective.

Consider how one mobile telecommunications merger tackled segmentation. One company brought a needs-based approach to segmentation (early adopter), while the other brought a functional approach (low cost, no frills). The approaches appealed to different aspects of the market; and the market was changing rapidly, as consumers demanded lifestyle solutions, not just simple, functional voice-to-voice or text-to-text communication.

The CMO revisited the customer segmentation methodically. The analysis weighed the pros and cons of the legacy segmentation approaches, explored how consumers would use technology in the future, and evaluated the difficulty of executing a new segmentation approach via existing channels.

Over several months, the new organization launched a refreshed segmentation focused on technology, not communication, and built the foundation for viewing new competitors (e.g., Google, smartphone manufacturers and other tech companies), defining value propositions, and pursuing partnerships and M&A opportunities. The segmentation and its support in executing value propositions enabled market-leading retention and revenue growth per customer.

Service: Delight your most valuable customers. Think about customer segments in terms of the 80/20 principle. In partnership with sales, marketing should develop a comprehensive, proactive plan for the most valuable customers that offers exciting new possibilities. Across B2C and B2B customers, the name of the game is retention and reassurance. Hearing of an integration, customers ask: What will be different? How will you protect my service? What new offers will be available?

Most customers expect a zero-disruption experience in the early days. This requires preparing comprehensive FAQ documents that answer their most pressing questions; planning and testing operational scenarios to guarantee a seamless experience after Day 1; and crafting and sharing compelling messages about new offerings. More than 85 percent of the companies we surveyed paid special attention to their top customer segment and were rewarded with almost 60 percent higher revenue synergies than peers who ignored that special segment.

In a recent healthcare merger, marketing managed the most valuable customers proactively. Marketing leaders worked with sales to answer those customers' critical questions like which account reps would serve key accounts, tested and rolled out communication about new service offerings available in the new organization's first 18 months, piloted new products, and coordinated direct outreach by the company's most senior leaders.

The team found that the integration benefited from making key customers fellow travelers. In the words of one integration executive: "You have to take your customers, particularly your largest and most important ones, with you on the integration and transformation journey. This ensures there are no surprises for them at the end of the process. They are fundamental to protecting your existing revenue and driving future growth."

Share: Deliver consistent value over time. Deliver what you say you will deliver as customers will look for evidence of what's truly different. The most successful M&A leaders start with a few tangible benefits that convey the new organization's value proposition, such as a promotion or new product bundle, and consistently reinforce the value proposition with more value-added offerings throughout the customer life cycle. As one executive put it: "We had a clear product road map from Day 1 through Year 2. We knew in six-month blocks exactly what we were launching for each segment and tried to anticipate how competitors would respond. You've got to demonstrate the value."

The Amazon–Whole Foods merger offers a strong example of sharing immediate post-close benefits of the merger and then following up on those initial benefits. In the days after close, Amazon announced price reductions on Whole Foods' popular grocery items, made Whole Foods' private-label products available on Amazon and PrimeNow, and began installing Amazon lockers in selected Whole Foods stores. Amazon has since integrated Whole Foods' point-of-sale system with Amazon Prime, enabling Prime members to enjoy special savings and other in-store benefits. And Amazon continues to innovate and offer increased value to their combined customer base—most recently, ordering through Alexa, fast delivery, and discounts on more products.

Science: Take an objective, fact-based approach to setting brand strategy.
In many integrations, branding is a top priority for executives. But we have observed that the process for making brand strategy decisions doesn't always reflect this importance. Most companies—80 percent—complete a brand transition within 18 months of deal close (65 percent within 12 months), but only 40 percent say that they take a fact-based approach to defining target brand positioning. Companies that combine the art and the science of branding report making the best decisions on brand strategy.

Post-merger corporate brands take one of five forms: brands kept independent, brands combined, an umbrella brand defined, a single brand selected, or an entirely new brand created. In almost half of mergers (approximately 40 percent), companies opt for a single brand based on one of the legacy brands.

Making that popular choice can be difficult. Emotions run high, given that one company could lose its identity. The decision process calls for a fact-based approach that understands the importance of brand in the purchase decision, objectively evaluates the equity of both brands for target segments, determines switching costs, and then defines the target brand positioning.

The story of Lenovo and ThinkPad offers an example of this process at work. In its acquisition of IBM's PC business, Lenovo transitioned from the IBM brand less than two years after the deal closed, despite its iconic nature and strong consumer recognition. To some, this move was a surprise given Lenovo's newer reputation in the US, a critical market. Lenovo was intentional in its approach, focusing on small and midsized companies and large corporate accounts and understanding the strength of the relative equity of IBM, ThinkPad, and Lenovo. Lenovo found that sentiment for the ThinkPad brand was also very strong and felt that the company could compete effectively with the combination of ThinkPad and Lenovo. Today, Lenovo is a global powerhouse in the PC market and continues to go to market with the combined Lenovo ThinkPad moniker.

Deciding when to transition to a new brand also requires clear thought. Most companies (75 percent) proceed gradually; far fewer (25 percent) take a "big-bang" approach. A gradual transition allows marketers to shift brand perceptions and give customers time to understand the new value proposition and transfer their brand loyalty. A big-bang transition gets the new brand identity

Sidebar

Four questions to help decide target brand positioning and the transition plan

1. Does brand matter in customers' purchasing decisions or for internal reasons?

2. Do the companies' target customer segments overlap?

3. How different are the brand equities of the acquirer and target brands in the overlapping customer segments?

4. How significant are switching costs?

to market sooner, taps the activation energy of a launch, and capitalizes on the efficiency of a one-step transition. A big-bang approach may be more appropriate in a situation where the brand is less critical to the purchase decision and the new organization can realize efficiencies from consolidating.

Scope: Tackle less, not more, on and after Day 1. No matter how short or long the timeline to close, Day 1 requires a laser-sharp focus, governed by clearly defined priorities. The temptation to make lots of changes is great, and many companies take on more than they need to.

Preparation for Day 1 should concentrate on a short list of key activities:

— Identifying and securing talent critical to delivering the new organization's value proposition (before Day 1)

— Developing and communicating to customers the Day 1 story, anchored in the new organization's value proposition

— Sharing a tangible benefit to delight customers on or shortly after Day 1 and defining the brand and product road maps

— Determining clearly what the marketing organization will look like on Day 1 and possibly the end state

— Building critical system interfaces (such as CRM) that require a workaround before full integration is feasible.

The most successful acquirers deprioritize attention to other possible efforts, such as merging well-performing product brands on or soon after Day 1, integrating CRM systems on Day 1, changing PR or design agencies in the middle of a campaign, or harmonizing customer satisfaction measures when the legacy measures work. These acquirers know that spreading their attention too thin, especially by investing effort in "nice-to-have" activities, risks missing or short-changing the more immediate, close-critical activities.

To ensure that the new organization could deliver all that it promised to deliver on Day 1, one technology company used a wargame approach to pressure test the promises before stating them internally or externally. The company asked: If we tell acquired customers that a certain service of the target company will still be available, how will we deliver? What will it cost? What else might they ask for? Whenever the teams were not sure that they would be able to deliver, they tabled the promise for reconsideration after Day 1.

Successful marketing and brand integration in M&A can have disproportionate impact on protecting and creating value from the entire integration. Considering all six Ss before embarking on integration creates a strong foundation for achieving that impact.

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