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Integrating sales operations in a merger:

A McKinsey perspective on four essential steps

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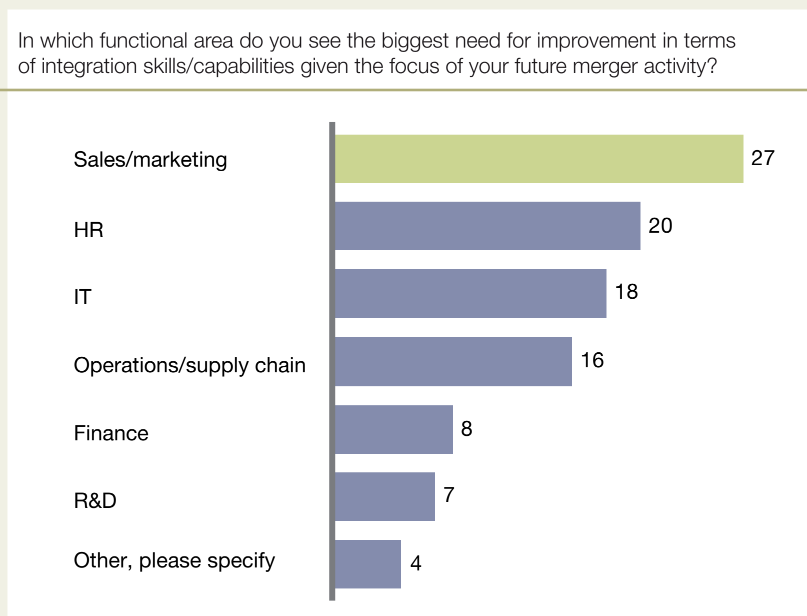
Make no mistake: mergers are challenging. But they can provide organizations with transformative possibilities. One of the biggest opportunities – integration of sales forces – is central to ensuring revenue growth and capturing the value that mergers promise but often fail to realize.

Yet integrating sales forces ranks among the hardest parts of a merger to execute – a fact not lost on senior executives.

Exhibit 1

Need to improve integration of sales capabilities
Percent of respondents (n = 89)



SOURCE: 2009 Post Merger Integration Conference Survey (New York and San Francisco combined)

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Mergers generate anxiety inside and outside the companies involved, and competitors happily exploit such fears to woo star salespeople and poach customers. Nonetheless, savvy companies embrace the opportunity to build a new sales organization that is more than the sum of its parts.

Four steps are essential to facilitating successful integration of sales operations:

- Understanding the importance of sharing information about the integration process with customers and the sales force tops the list. Many companies take the opposite approach and are surprised when postmerger revenue fails to meet expectations.
- The combined sales team must quickly win prominent accounts to build momentum and internal confidence in the merger.
- The executives running the integration effort must recognize the need to identify and retain essential support people, as well as sales reps.
- Senior managers should review the merged portfolio of customers and make tough calls about who warrants new investments and who might be shed or given less attention.

With careful planning and implementation, acquiring companies can revitalize not only their own organizations but also their relationships with customers.

Overcommunicate

Some companies try to shield their customers from messy merger-related activities, such as changes in organizational structures and roles, customer engagement rules, and customer support. But most customers are willing and even eager to help a merging organization reshape itself. They prefer to participate in – rather than learn after the fact – the coming changes.

Mergers therefore give companies a chance to improve relationships with customers and address their unfulfilled needs. Many organizations are loath to make new commitments during a time of transition – they believe that management has enough issues to resolve without involving customers in the merger process. Yet such discussions are critical in determining what a merger can and can't achieve and the role customers can play in shaping that outcome.

Leading companies therefore take an expansive view of their relationships with customers, discussing not only the details of the sales relationship – the nuts and bolts of what's bought and sold and at what prices – but also such issues as contracting, delivery, support, and even the frequency of meetings between executives from both sides. Communicating openly and involving customers make them feel that their needs and expectations are being addressed and make them a party to merger success.

Consider what happened at a networking equipment company that found its customers worried about its postmerger product road map – the schedule specifying product ranges, prices, release dates, and other such details. Competitors fed this anxiety by questioning which products the merged company would support after integration, implying that there was too much uncertainty to do business with the company. In response, the company developed an integrated product road map before the merger even closed, so it could work with customers and launch a campaign to publicize its revamped product lineup as soon as the deal was completed.

That experience conveys another valuable lesson: involve salespeople in the integration process. Because most of them need to maintain a laser-like focus on revenue targets and compensation in order to succeed, many companies seek to protect them at this point so they can concentrate on customers and continue to make sales.

The problem is that customers and salespeople react negatively to ambiguity. Uncertainty about the organization's structure, customer engagement rules, product road map, or operational details can all slow revenue generation as customers spend time discussing the issues and planning for the worst. Without firm direction, salespeople trying to quiet these concerns may give answers that are ultimately inconsistent with the developing integration plan, so the reps seem out of the loop or the organization looks unresponsive or incompetent. Sales reps also need reassurance about internal issues, such as how they will be compensated and who will cover which accounts. Otherwise, high performers may defect to competitors.

In short, ambiguity – not the distraction of integration itself – is the fundamental enemy. Best-practice acquirers define, as specifically as possible, how the merged organization will eventually look and how integration will proceed. Managers can't know all the answers, but they should describe their intentions and the criteria for decisions and commit to answering the field's questions at a specific pace and timing.

Best-practice acquirers also track progress carefully. They monitor the sales integration process closely: following not only lagging indicators, such as revenue, but also leading indicators, such as how much training on new products is happening, how long deals take to close, how often prices or contracts must be altered, how much sales shrink, and how many customers previously served by both merging companies are won or lost.

Build sales momentum

Best-practice integrators know that the first 100 days after a merger closes are critical to demonstrating its value and tangible benefits to the sales force, customers, and investors. These companies focus on winning a few critical large transactions early as proof-of-concept cases, using the full weight of the top team, product development, salespeople, and technical support.

Sales of products identified as quick wins – those most easily sold initially to customers of both merging companies – provide an immediate, focused experience for the sales force. At the outset, sales performance incentives should target such transactions.

In the case of a semiconductor merger, for example, much of the deal's value reflected the possibility of integrating products into a combined chip set. Because the merging companies persuaded a few key customers to commit quickly to this vision, sales reps felt reassured that the deal was sound and would help them succeed both in sales volume and compensation. The early sales in turn generated enthusiasm and revenue momentum among other customers as well.

One barrier to achieving such early sales success is the time needed to bring together the merging companies' back-office systems and processes, particularly IT and finance – a problem that can hamper the execution of orders. Excitement around a deal typically lasts six to nine months, not long enough for operations and IT to build a strong, integrated foundation for sales systems and processes.

The challenge of such long-term planning can put a deal's early sales momentum at risk. Leading integrators accept the reality that momentum and a seamless transition may require temporary plug-and-play solutions for IT and finance. These workarounds ensure that sales reps can make forecasts, enter joint orders, gain pricing approval, manage exceptions and orders that need to be expedited, and troubleshoot issues in sales crediting and compensation. Longer term, the merged company will have time to cherry-pick each organization's strongest processes, methodologies, and tools.

Look beyond sales reps

There is little argument that retaining top sales force talent is critical, and it's easy to use pure revenue statistics to decide who stays and who goes in any integration effort. Yet all organizations employ certain people whose contributions are less easily measured but who are nevertheless the glue of a high-performing sales team.

Best-practice integrators identify these people and their place in the organization's internal network and target them for retention. They may, for instance, be sales support staff in functional areas like IT and finance who have unique and specific technical expertise in sales processing or approval.

In many start-ups and medium-sized enterprises, some people play many roles. Organizations can map such an internal network by using a variety of techniques to ensure that the people who hold it together stay. Otherwise, an overly rigid or out-of-touch HR process for categorizing employees risks losing the richness of these relationships.

Finally, companies must consider the sequence for unveiling the integrated sales unit and selecting staff for retention. Reorganizing the frontline sales staff and back-office support simultaneously can disrupt customer service significantly. Deferring changes in support functions until account coverage and related matters have been resolved may help ensure uninterrupted customer service.

Review the customer portfolio

Most sales organizations in a merger focus on retaining all customers, regardless of expense. That's natural, given the heightened awareness of competitors' actions and the desire to show that the company is meeting revenue expectations. But mergers provide an opportunity to refocus on the most important and promising customers and to allocate resources to meet their needs more fully.

While altering long-standing customer relationships is never easy, best-practice integrators use the merger process to evaluate a portfolio critically. To ensure that they focus on the most profitable accounts, they examine the true cost of serving customers – support activities as well as sales rep time. They explore options for reallocating account resources, which may mean reducing coverage for customers receiving top-tier service because of historical relationships rather than profitability. And these integrators are willing to have difficult conversations with customers – discussing contracts, terms and conditions, pricing, and anything else that affects account profitability.

Sometimes, a company must be willing to shed customers. A technology company, for example, acquired a smaller firm that had been using its engineering team as a quasi-sales force. Customers had come to expect customization of products for them. Once the two organizations merged, the acquirer refocused the team on core engineering. The decision cost some sales to smaller customers, but the increased engineering productivity more than offset the net effect on profitability .

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Integrating sales organizations is never easy. But companies can make real progress by involving customers and employees in the merger process, generating momentum by quickly winning key accounts, retaining critical staff, and serving the right customers in the right way. These steps can ensure that the sales force helps, rather than hinders, a merger's overall success.

Case study: Rapid sales force integration

Following a merger, executives must decide how fast to integrate sales forces. Moving too quickly invites a clash of corporate cultures, sagging morale, and lost sales momentum. Moving too slowly leaves employees and customers in limbo, with competitors only too willing to poach accounts and top salespeople.

The president of one leading medical-device company chose sooner rather than later. He set the ambitious goal of presenting a single face to customers within eight weeks after closing a merger with a rival. Within two months of the deal's close, senior management had to decide the fate of more than 300 sales reps and accounts totaling several hundred million dollars.

The aggressive timeline called for careful, systematic, and rigorous planning. Immediately after the merger announcement, the leadership of the two companies' sales operations went to work. Both companies had a record of solid performance and a strong culture, yet differences were already apparent.

- One company had a highly entrepreneurial ethos. Its frontline sales reps had more leeway and authority to get deals done and celebrated great performance more exuberantly.
- The other company was more low-key and measured. Roles were better defined, corporate oversight was greater, and employees regarded their merger partners as a bit brash.

The companies had different approaches to staff compensation and performance reviews, so directly comparing the sales records of reps was impossible.

Yet common ground emerged. Over the course of several meetings among sales leaders from both companies after deal announcement, the business objectives and goals of a larger, more powerful combined sales force emerged. The leaders agreed on a new selling model – for instance, the larger combined sales force could focus more intensely on physicians in offices, while maintaining the traditional focus on hospitals.

The meetings used a technology that monitors audience responses in real time to help each side understand the other's culture, which proved critical in determining how to unite the two teams. These cultural awareness sessions also helped the leaders work with sales reps and managers from both companies to retain the swagger while strengthening oversight.

Special clean teams examined both companies' current and projected sales data to see how effective the merged entity could be. A new performance-ranking system enabled direct comparison of reps, allowing the clean teams to create a first blueprint for integration (with leadership oversight). The blueprint included a new territory structure and sales rep organization, defining who would cover which region and how the new entity would ultimately serve customers in a way that minimized disruption for them and the organization.

Meanwhile, sales leaders began planning the thorny aspects of integration, such as compensation and benefits, training requirements, and support functions. They developed a day-by-day plan for the activities required once the merger closed. Problems that the clean teams couldn't resolve were noted, so the combined sales teams could address them after the close.

Within three weeks of the deal's closing, the combined company had already implemented integrated policies on field compensation, benefits, relocation, and separation. In another two weeks, executives had established the complete integrated deployment of the combined sales forces, taking the clean-team output as a starting point and refining it in workshops.

Retention offers to managers and sales reps went out quickly. A national sales meeting assembled the combined organization and helped forge a new identity and culture. Accelerated training of sales reps on the expanded product portfolio began, and plans were set to transfer relationships for each account and sales rep. In the weeks after the merger closed, a war room oversaw the sales integration process, tracking sales and customer service performance, monitoring competitors, and following the attrition or competitive poaching of sales reps.

The process wasn't easy. The pace of sales integration meant that key personnel from both companies did double or even triple duty, and the risk of burnout required constant monitoring. While the combined organization's leaders communicated and shared constant feedback, cultural differences and the sometimes bruised egos of sales reps had to be addressed and decisions made rapidly. Customers had to be kept informed about the progress of the effort to feel they had an investment in it, and sales reps needed quick wins to feel that the merger was paying off and to maintain sales momentum.

The net result of all this activity was reduction in many of the risks usually associated with integrating sales forces. Uncertainty among reps about the merger's impact on them declined, making overtures from competitors less appealing and ensuring that top sales talent remained – competitors don't try to poach also-rans. Effective communication mitigated customer uncertainty, and the aggressive deadline set an end date for the upheaval. Quick sales wins, coupled with an expanded product portfolio and greater coverage, proved the logic of the deal to employees and customers, minimizing the risk that they would see it as a mistake. The effort met the president's deadline: eight weeks after the merger closed, an integrated sales force was in place, with one face to the customer, and the combined company's revenue growth accelerated