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Focusing your M&A team on revenue growth

Revenue synergies can make a good deal even better.

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Capturing revenue synergies in M&A deals often takes a back seat to securing cost synergies. Cost cutting is more intuitive—eliminating duplicate IT, human resources, or executive functions, for example. The benefits tend to come quickly. And cost cuts alone are often more than enough to justify a merger.

Revenue synergies might be more elusive and aren't always available in every deal. But managers who neglect them can inadvertently forgo significant value. Our analysis of global 1000 companies by sector finds that, on average, companies that fail to pursue both cost and revenue synergies from large mergers see the sales growth of the combined companies fall by an average of seven percentage points.[1] That's consistent with our 2015 survey of integration executives[2] in which more than a third of respondents reported failing to achieve their revenue goals after a merger.

Not surprisingly, those who reported the most value from revenue synergies were also significantly more likely to have followed a number of organizational best practices (exhibit). None of these is likely to make the difference on its own—and preserving existing revenues is paramount. But the data suggest a significant difference in outperformance when several well-established best practices are applied. Validating the deal model to set realistic targets comes out on top, followed by engaging the right senior leaders, retaining the best of sales operations, establishing an effective deal team, and addressing cultural differences.

Validate the deal model to set realistic targets

In many cases, pre-deal estimates of revenue synergies turn out to be based on little more than gut-level, back-of-the-envelope calculations. Left unchecked, those estimates can set up potentially unrealistic aspirations that misdirect integration efforts, threaten existing revenues, and reduce a deal's value even further. Among survey respondents who identified their mergers as successful, nearly 9 in 10 were also those who reported validating their deal model to set realistic targets—compared to less than half of their less successful peers.

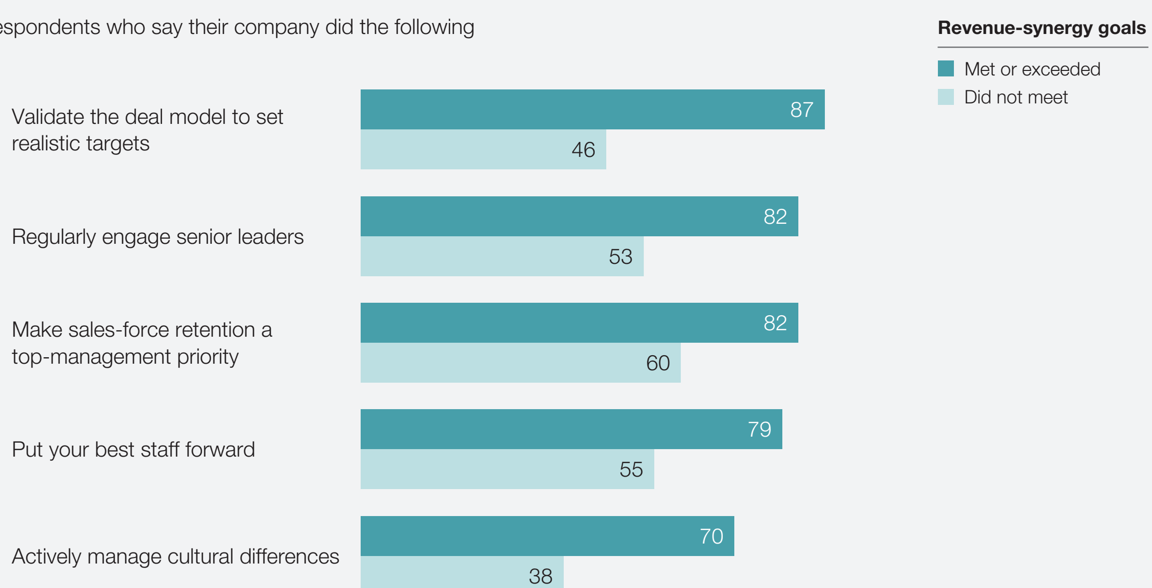
One of the biggest mistakes companies make is moving too fast to capture revenue synergies without confirming that pre-deal assumptions won't threaten the base business. We've seen too many companies learn the hard way, for example, that changing sales and customer coverage too quickly can lead to a sharp decline in revenue. And among our survey respondents, those who reported preserving and protecting existing revenue were significantly more likely to report meeting or exceeding their synergy targets.

Stress testing the deal model requires bringing enough people into the process to kick the tires on key assumptions, but not so many that the volume threatens the necessary confidentiality of pre-deal preparations. Integration teams need to ensure that careful, bottom-up logic supports any estimate of potential revenue synergies and that performance targets are achievable within a

Exhibit

Companies that follow established best practices are more likely to meet their synergy goals.

% of respondents who say their company did the following



Source: McKinsey M&A capabilities survey of nearly 1,600 C-level and senior executives, May 2015 reasonable time frame. This requires both deep probing within the sales organizations to develop a clear basis of facts and detailed marketing research to answer important questions, including the following: Do the sales teams from both companies sell to the same decision maker within a given customer? Is the nature of the sales, whether more transactional or strategic, the same in both organizations? What knowledge and selling skills are required to effectively cross-sell products? Is the customer-adoption process—and therefore the sales cycle—similar in each?

The integration team should supplement and test this analysis by setting up a clean team to dig deep into both organizations' data. This allows the merged business to develop a complete picture of deal value and how to capture it. It also helps to detect and resolve conflicts and overlap between the two sales organizations that would become obstacles to reaching sales targets. For example, a clean-team approach was particularly helpful in a recent merger of two distribution companies that had more than 2,000 overlapping accounts, putting some 15 percent of combined revenue at risk. The two companies set up a commercial clean team that matched customers, resolved the sales-rep assignments on those accounts, and used advanced analytics to design new territories—all before day one.

Regularly engage senior leaders

Senior-level leaders may understand in principle how important their involvement is, especially in bigger deals. But too often they simply delegate integration planning to the commercial-integration managers. The less clear managers are about who has what role at the leadership level, the more likely they are to be reluctant to make decisions or engage deeply.

As might be expected, senior-level commitment is important for a successful commercial integration. But our survey underscored just how important it is: more than 80 percent of mergers and acquisitions that achieved or exceeded their revenue-synergy goals have strong senior-leadership involvement from the CEO to sales.

In these situations, we have found establishing a clear governance structure made up of the future commercial leaders to be most helpful. This committee should meet regularly to review and make decisions on robust, fact-based recommendations developed by integration teams. For one media merger, the committee comprised the business-unit presidents, leaders of each sales force, and the commercial-integration leader. Together, the committee members established a detailed governance model to drive clear, regular, and effective decision making.

Communications to the sales force, especially, needs to be led by the executive suite—often deploying the CEO to communicate personally and directly to top sales staff.

Make sales-force retention a top-management priority

The most common source of revenue disruption to a company's revenue after a merger comes when it fails to identify who has responsibility to reconcile overlapping customer accounts and sales territories. Sales teams operate best under conditions of certainty and clarity, particularly with regard to role, leadership, account assignments, quota and target attainment, and compensation. Uncertainty threatens existing revenues as well as revenue growth.

Transparency helps—whether it's providing concrete answers to questions or just describing the process you're undertaking to reach an answer. We've long advised companies on the importance of communicating—even overcommunicating—as companies merge. Our most recent survey supports that guidance, finding that nearly eight in ten companies that successfully build commercial strength through a merger also commit and invest in a clear communication strategy. Top performers reach out purposefully to employees as well as customers. They keep an open channel with both to reassure them that the company is engaged and focused on avoiding disruption to services and offerings. Among survey respondents, that's true of fewer than half of less successful companies.

Communications to the sales force, especially, needs to be led by the executive suite—often deploying the CEO to communicate personally and directly to top sales staff. In fact, among survey respondents, 82 percent of merging companies that achieved their revenue goals had also made it a priority to implement a plan to retain top commercial talent. That's compared to just 60 percent of less successful companies that did so.

Put your best staff forward

Companies often staff their integration teams with managers who happen to be available or are part of special-projects groups, including part-time team members who lack the necessary skills. An inadequate team results in a failure to prepare the commercial organization for a seamless integration on day one of the merged company's existence. And although even highly experienced teams can stumble, they're the best prepared to tailor the integration to the specific needs of a deal.

In our survey, more than 70 percent of those who reported meeting or exceeding their revenue-synergy goals establish a commercial integration-management office (IMO). This group, which is ideally established soon after announcement and well before close, is responsible and accountable for the overall commercial integration effort.

To be successful, the IMO needs an integration leader allocated full-time for the duration of the effort, with complete accountability and the appropriate seniority to guide the integration strategy. The rest of the team should consist of highly skilled A players who can devote the necessary time and are deeply networked within their respective organizations.

Actively manage cultural differences

Addressing cultural differences has long been an aspect of integration that has vexed merging companies. Going by the responses of our survey participants, it's also among the most powerful differentiators of success. Nearly three-quarters of companies that met their revenue-synergy targets also had actively managed cultural differences—compared to just over a third of companies that fell short of revenue targets that reported doing so.

Nevertheless, executives in M&A situations often overlook or fail to pay enough attention to cultural issues. The most important principle here is to address those differences in practices, processes, and capabilities that truly have an impact on the value at stake and at risk. Even differences in language can portend significant cultural conflict. For example, when two healthcare organizations were merging, it became clear in the integration process that there was a difference in what the term "target" meant. In one organization, it was a stretch goal deployed to encourage new thinking; in the other, it meant an absolute "must hit" expectation that, if missed, could impact compensation. Early on, this simple semantic misalignment, which reflected very different cultures, caused a period of unproductive confusion about basic expectations, requiring the team to clearly define the vocabulary as well as a new set of metrics within the performance system.

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Any merger has the potential to deliver significant value. But successfully improving revenue growth requires focus on and commitment to the activities that can actually make it happen. ■

[1] Revenue growth in excess of industry growth; industry revenue growth based on cumulative revenues of global 1000 companies by sector.

[2] "How M&A practitioners enable their success," October 2015, McKinsey.com. The online survey was in the field from May 19 to May 29, 2015, and garnered 1,841 responses from C-level and senior executives representing the full range of regions, industries, company sizes, and functional specialties. Of them, 85 percent say they are knowledgeable about their companies' M&A activity and answered the full survey.

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