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Merge to grow: Realizing the full commercial potential of your merger

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Companies can protect existing, and drive new, revenue by focusing on seven activities.

For companies that manage mergers well, cost synergies are often intuitive and tend to come quickly. The cost savings can be significant and are often more than enough to justify a merger on their own. For this reason, cost savings tend to get most of the management attention during the planning and execution phases of mergers.

Revenue synergies can deliver significant benefits as well, but they tend to be harder to achieve and therefore may receive less attention. That lack of focus can destroy significant value. In the three years after the deal closes, companies that neglect the painstaking work of an integrated approach in large mergers see the sales growth of the combined company sink an average of seven percentage points (Exhibit 1). Indeed, according to a recent McKinsey survey of integration executives,¹ more than a third of companies fail to achieve their revenue goals following a merger, and almost half of the respondents call out sales and marketing merger capabilities as the most critical gap in their integration teams.

In our experience, the biggest factor behind lost revenue synergies is a failure to carry out an effective commercial integration program. Capturing all the growth benefits of a merger requires conscious management focus and a structured program that protects existing revenue and drives sales.

Our research and experience show there are seven steps to get it right (Exhibit 2):

1. Establish a central team staffed with “A-players”

In a recent McKinsey survey of 1,600 M&A executives,² we found that more than 70 percent of those who meet or exceed their revenue-synergy goals establish what we call 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.

¹ Survey of 250 M&A executives and integration leaders that attend the annual Merger Integration Conference, organized by The Conference Board.

² M&A Capabilities Global Survey 2015—1,587 respondents globally and across industries.

Exhibit 1

Companies engaging in large mergers experience a significant drop in sales momentum

Large deal performance

■ Average ■ Median



¹ Revenue Growth in excess of industry growth - Industry revenue growth based on cumulative revenues of Global 1000 companies by sector; While it includes forced divestitures resulting from remedies imposed by regulators, those account for only 2% of the 1,911 divestitures executed by the companies in the Global 1000.

² PP change in Revenue growth Fiscal Year + 3 post close vs Fiscal Year -1 pre close.

³ PP change in Revenue growth Fiscal Quarter + 1 post announcement vs Fiscal Quarter -1 pre announcement.

Source: McKinsey CPAT, Dealogic, Capital IQ, Deal Patterns 2014

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Too often, however, we see companies staff the integration team with those who happen to be available or are part of special-projects groups, often including part-time team members who lack the necessary skills. An inadequate IMO often results in a failure to prepare the commercial organization for a seamless integration on the first day of the merged company's existence, i.e., Day One.

To be successful, the IMO needs an integration leader with complete accountability, allocated full-time for the duration of the effort and with 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.

Exhibit 2

Our research shows several key activities drive successful achievement of revenue synergy plans

Percentage of respondents

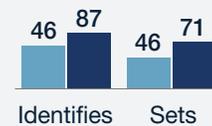
■ Below revenue synergy plan ■ At or above revenue synergy plan

Did your company...?

1. Establish a central team staffed with "A-players"



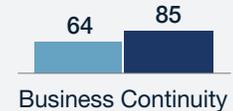
2. Validate the deal model to set realistic targets



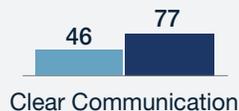
3. Engage the right senior leaders regularly with clear roles and governance



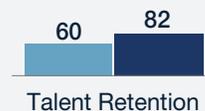
4. Preserve and protect existing revenue



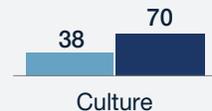
5. Communicate, communicate, communicate



6. Make retaining sales talent a C-level priority



7. Actively manage cultural differences



Source: May 2015 M&A capabilities survey, 1600 C-level and senior executives respondents.

2. Validate the deal model to set realistic targets

It's crucial that acquiring companies stress test the deal model (see "[The artful synergist, or how to get more value from mergers and acquisitions](#)"). In many cases, the expected revenue synergies turn out to be based on little more than gut-level, back-of-the-

envelope estimates. For revenue-based deals, such estimates underpinning the projected value of the acquisition can set up potentially unrealistic aspirations. The results of the M&A Capabilities Survey show that some 87 percent of companies whose mergers are successful identify sources of value effectively, vs. only 66 percent of their less successful peers.

The integration team needs to ensure that careful, bottom-up logic supports any estimate of potential revenue synergies and that they are achievable within a reasonable timeframe. This requires both deep probing within the sales organizations to develop a clear basis of facts and detailed marketing research to answer such questions as: 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 digging deep into both organizations' data as well. This allows the merged business to develop a complete picture of deal value and how to capture it and helps to detect and resolve conflicts between the two sales organizations. In many cases, a clean team can be helpful in getting such answers (see sidebar, "Using a clean team to protect revenue and accelerate synergy—before Day One").

3. Engage senior leaders regularly with clear roles and governance

As might be expected, senior-level commitment is important for a successful commercial integration. But our survey underscored just how important it is: 70 to 80 percent of mergers and acquisitions that achieved or exceeded their revenue-synergy goals have strong senior-leadership involvement from the CEO to sales.

While leaders may understand in principle, they often fail to follow through with those actions that ensure success. Too often, for example, executives are consumed either by the quarterly priorities of hitting their existing targets so they delegate the integration planning to the commercial-integration leads. In addition, there is often a lack of clarity around who has what role at the leadership level. These issues create a reluctance to make decisions or engage deeply.

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. The governance model it established was a detailed mechanism to drive clear, regular, and effective decision making.

4. Preserve and protect existing revenue

One of the biggest priorities for the IMO before the deal closes is the M&A version of a phrase attributed to the Hippocratic Oath: First, do no harm. The most common source of revenue disruption is a failure to resolve lead responsibility for 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.

Creating this level of clarity often requires multiple steps. The commercial-integration team starts by charging a clean team with creating a combined customer database (see sidebar “Using a clean team to protect revenue and accelerate synergy—before Day One”). Doing this

Using a clean team to protect revenue and accelerate synergy—before Day One

In order to create effective risk-mitigation plans, many companies find it useful to set up a clean team, a discrete unit within the broader IMO. This is a neutral, often third-party, team set up prior to close that works within legal and regulatory guardrails to collect sensitive information from both companies and analyze and share its findings in aggregate or disguised form. Clean teams are useful as antitrust laws and competitive concerns prohibit the sharing of competitive sensitive information while the two companies are still operating independently, prior to close. Usually made up of analytic, finance and sales leaders, the team works in support of the IMO and provides future business and

commercial leaders the factbase they need to make important decisions.

Clean teams can be particularly helpful to:

- Refine revenue synergy estimates
- Prevent cannibalization and churn of the customer base by identifying overlapping accounts and developing joint account plans
- Identify and retain critical salespeople
- Plan cross-sell and other revenue synergy plans
- Prepare joint key account plans

well may require a lengthy process of matching customer names, reconciling assignments on each overlapping account, and creating appropriate rules of engagement and incentives for collaboration before the new organization and new account assignments are rolled out.

This was particularly true 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.

5. Communicate, communicate, communicate

Our survey showed that 77 percent of companies that successfully build commercial strength through a merger commit and invest in clear and effective communications. For less successful companies, it's just 46 percent. Communication is an effective tool to manage risk, especially during the transition period. The most effective communications are clear, relevant, and timely. Best-performing companies take this to heart in communicating to both their own people and their customers.

Communications to commercial employees need to address their three most important M&A-related questions: Will I have a job? Who will I report to? What is going to happen to my compensation? Lack of transparency and slow decision making, especially in consolidations with territory and customer overlap, drives front-line talent loss and a resulting drop in sales. Several experienced serial acquirers have coined and regularly use the “Rule of 7” as a key guiding principle in their mergers: To be effective, every message needs to be repeated seven times using seven different channels.

Customer communication is also a differentiator that many acquirers fail to use effectively. In fact, they commonly adopt an incorrect mind-set, communicating only when “we have answers to their questions.” Top performers, in contrast, have a clear communication strategy, reach out purposefully, and keep an open channel with customers to reassure them that the company is engaged and focused on avoiding disruption to services and offerings. Some even establish a customer advisory board during the integration planning and execution phases in order to really tap into customer thinking rather than rely on assumptions about customer needs and preferences.

6. Make retaining sales talent a C-level priority

Are you talking to your best commercial talent? Because you can be sure your competitors and headhunters are, as soon as the deal is announced. Mergers can be unnerving for sales teams, especially for top performers. Our M&A Capabilities Survey showed that 82 percent of merging companies that achieve their revenue goals make it a priority to implement a plan to retain top commercial talent.

In our experience, the best plans usually focus 80 percent of the effort on the 20 percent of the team that matters most. Not all of that 20 percent will be the top revenue producers; the group of most valuable players also includes those sales support and operations people who are critical to ensuring that the sales team can deliver.

Engaging with these individuals is just as important as identifying them. We've found that a mix of tactics that allow the integration team to be responsive to individual employees is most effective. It can range from formal nonfinancial and financial retention packages, to clear communication of roles, to a simple lunch or coffee with an executive that reassures the employee that s/he is a valued member of the team.

7. Actively manage cultural differences

Not surprisingly, the differences between two legacy commercial organizations can be substantial. 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

Seven questions to ask

Every executive managing the commercial side of a merger will have to answer many questions. Here are seven they should be ready to answer soon after the planning starts:

1. Do I have the right talent to manage the complexity of this integration?
2. Do I understand how different the two companies' channels and sales cycles are?
3. Is it clear who will make critical integration-related decisions and how they will be made?
4. What is the degree of customer overlap, and what is our plan to protect revenue?
5. What is the strategy for communicating to our sales force and to our customers?
6. Who are my top performers, and what is the outreach plan to each of them individually?
7. Do I deeply understand both sales cultures and how to bring them together?

stake and at risk (“[How the best acquirers excel at integration](#)”). A deep understanding of the intricacies of each commercial organization is the starting point for any journey toward successful integration.

As an 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.

Key cultural differences are identified through a robust cultural diagnostic involving both qualitative and quantitative measures. A few of the culture-management practices that are critical for commercial organizations include degree of sales-force autonomy as well as the compensation structure and how it ties to desired sales behaviors and roles, such as hunter vs farmer, generalist versus product expert, or industry specialist.

This diagnostic should be launched at the outset of the integration. Once complete, the team should develop a comprehensive strategy to integrate the two commercial cultures. It should include agreement on a shared vision for the new commercial organization, cross-pollination of leading talent, alignment on the performance system (e.g. target setting, quota and compensation, evaluations), and consistent modeling from leadership.



Any merger has the potential to deliver massive value – that’s generally the reason for the merger in the first place. But driving organic growth through the commercial function requires focus and commitment on those activities that can actually make it happen. □

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