

Seven rules to crack the code on revenue synergies in M&A

Companies pursuing revenue synergies can't take them for granted. Leaders need a clear grasp of where those synergies lie—and the persistence to capture them.

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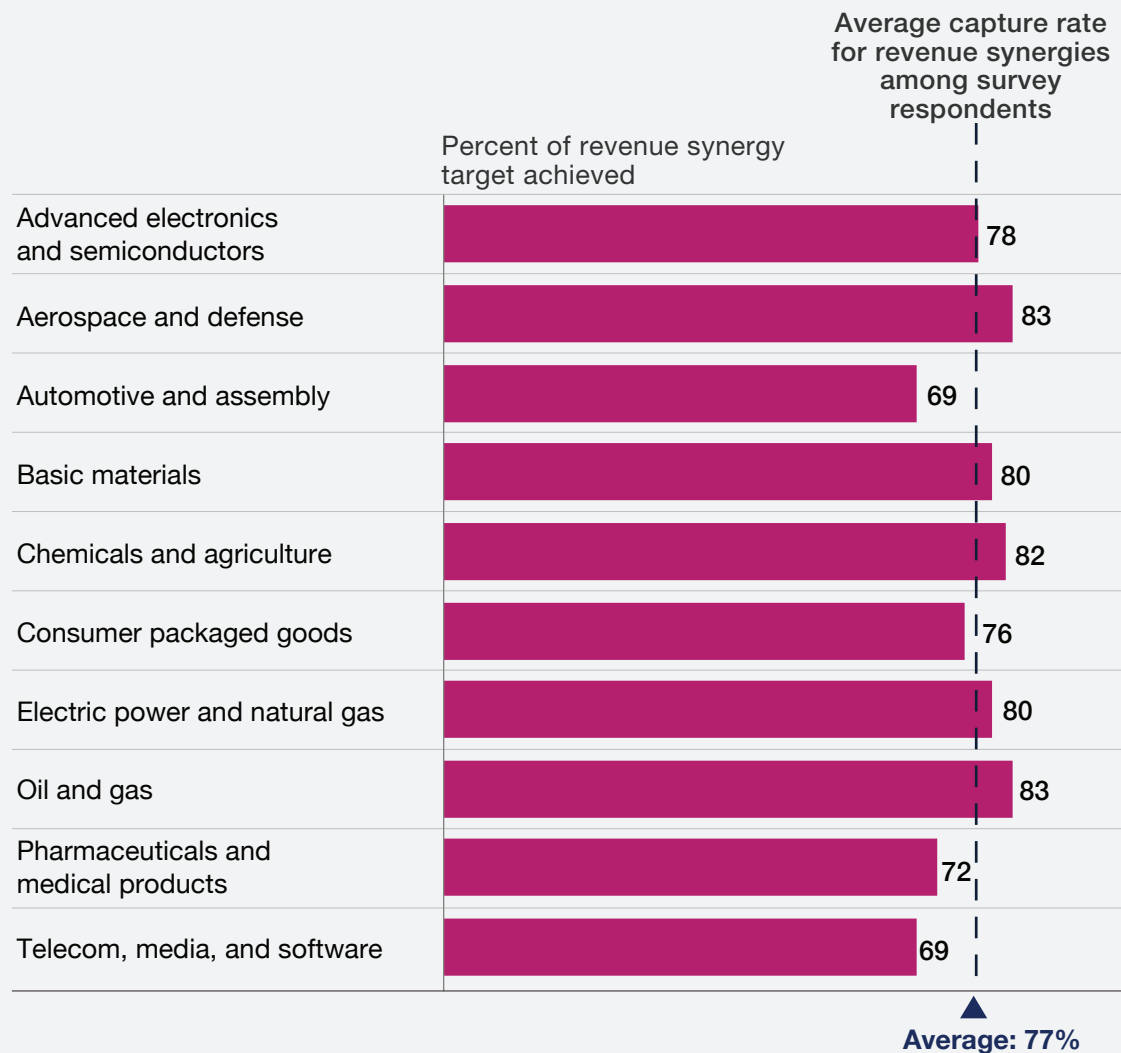
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The intense M&A activity of recent years shows no sign of letting up. Nor does the pressure to extract maximum value from every deal. As one M&A leader commented, “The cost of money has never been lower, the competition for deals has never been higher, and revenue synergies are playing a more significant role in the acquisition rationale.” But though their importance may be growing, revenue synergies are proving elusive to capture.

When we carried out a survey of 200 seasoned M&A executives from ten industries,¹ the majority reported that their company had fallen short of its aspiration for revenue synergies, with an average gap of 23 percent between goal and attainment (Exhibit 1).

Even when companies had succeeded in capturing revenue synergies, the process usually took

Exhibit 1 Across industries, companies consistently undershoot their revenue synergy targets.



Source: McKinsey survey of 200 M&A executives

considerably longer than cost synergies, on the order of five years rather than two (Exhibit 2).

Why is it so challenging to realize revenue synergies? The executives we spoke to cited a number of difficulties: setting realistic targets, changing salesforce behavior, executing across functions, measuring financial impact, and getting the organization to focus on the right things. Nevertheless, a few companies seem to have cracked the code.

To find out what it takes to be successful, we drew on detailed research, analysis, in-depth interviews with leaders who have been successful in capturing revenue synergies, and our own extensive experience.² From these sources, we learned that there are seven practices that matter:

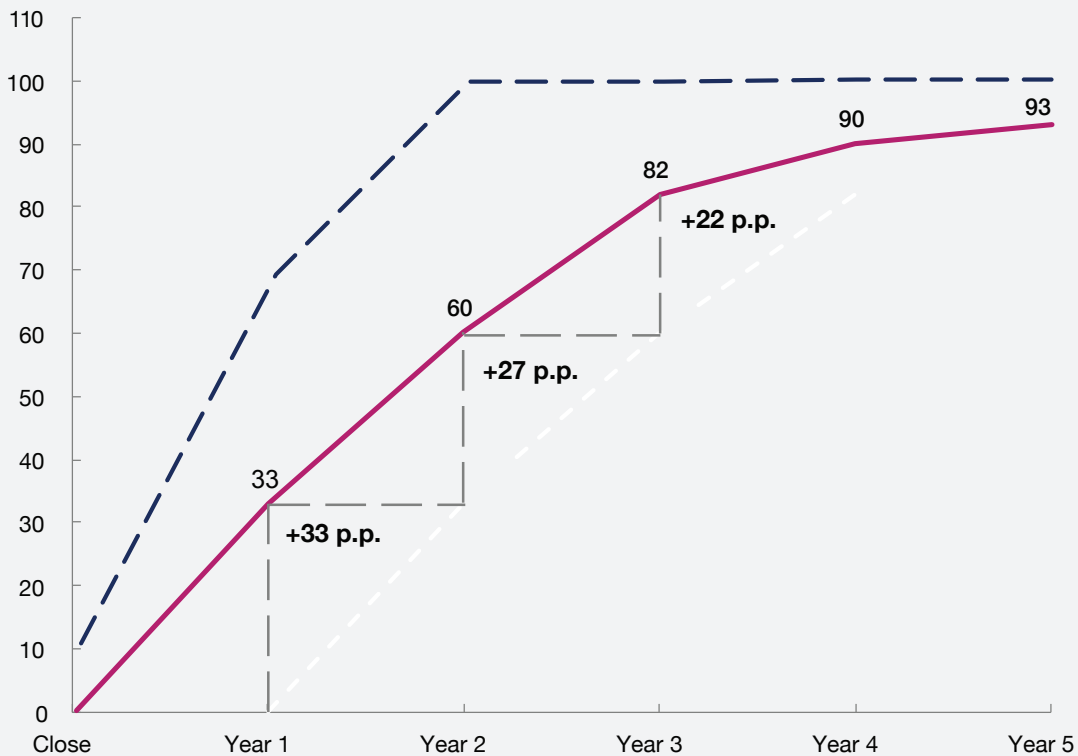
1. Understand the sources of revenue synergies

In our experience, companies tend to be a little haphazard when identifying revenue synergies. Lack of clarity in understanding where the

Exhibit 2 Revenue synergies take longer to capture than cost synergies.

Percent of total synergy target captured by the end of each year after deal close

-- Cost synergies (illustrative)
— Average revenue synergies



Source: McKinsey analysis

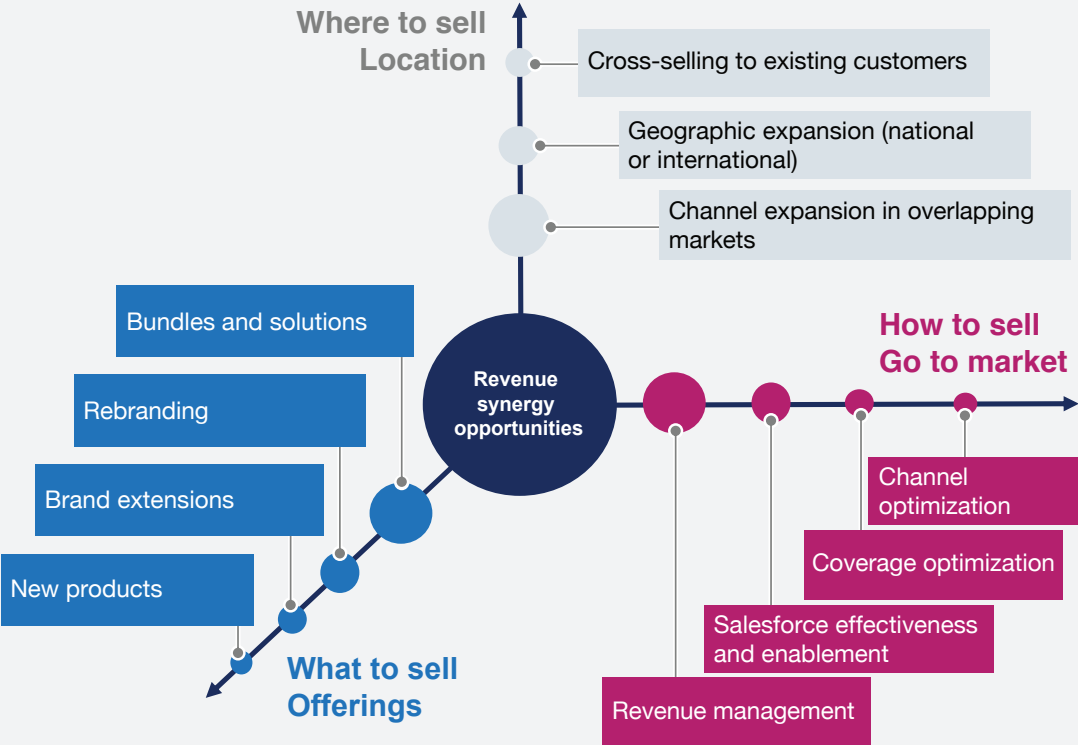
sources of value are means that significant pools of opportunity are overlooked. Capturing revenue synergies calls for a thoughtful approach that identifies, evaluates, and prioritizes opportunities along three dimensions (Exhibit 3):

- **Where to sell.** The most effective and direct way to capture revenue synergies is to take each company's products and sell them to new or existing customers, launch them in new geographic markets, or sell them through additional channels. Our survey identified cross-selling as the revenue-synergy lever most often pursued (Exhibit 4), though not always with a successful outcome.

Common stumbling blocks include failing to ensure that the decision maker at the target account is the same for both company's products; that sales reps have the knowledge, capacity, and incentives to sell the new portfolio; and that leaders are fully committed to the effort.

- **What to sell.** Creating new bundles and solutions, rebranding products, and developing new offerings represent a second source of revenue synergies that can offer promising returns. Bundles and solutions can provide quick wins by enhancing cross-selling to existing customers and attracting first-time customers with a more complete offering. Rebranding can be

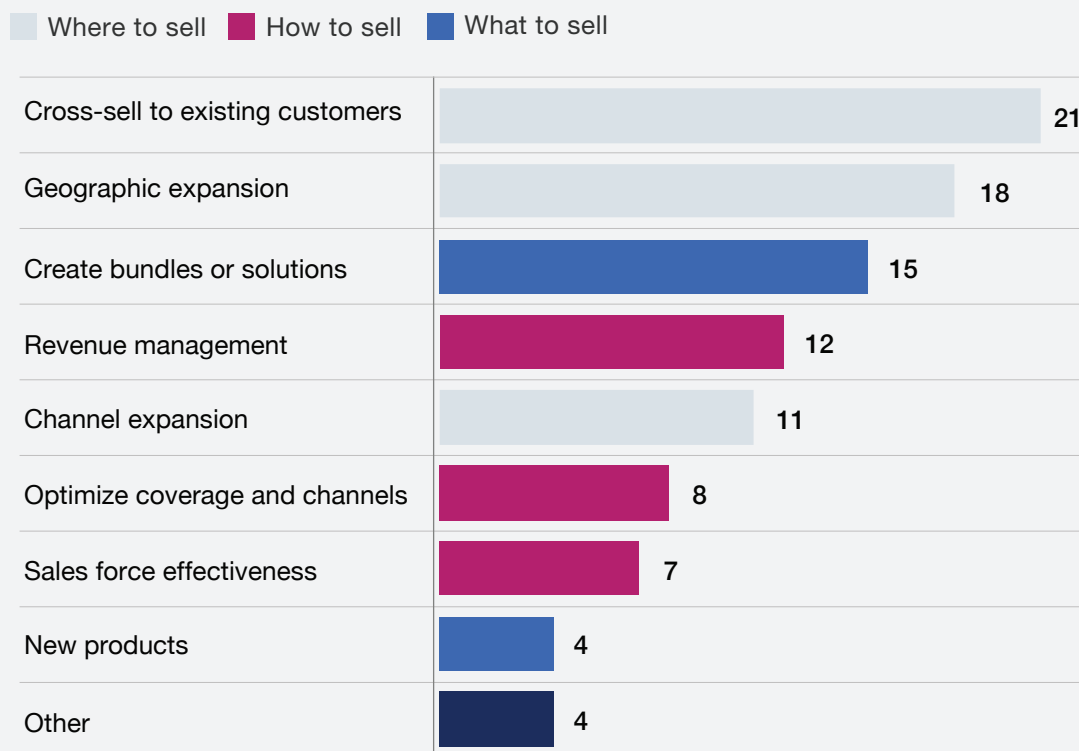
Exhibit 3 Opportunities for revenue synergies exist in three dimensions.



Source: McKinsey analysis

Exhibit 4 Opportunities exist in all three dimensions, with ‘where to sell’ the leading source of value.

Breakdown of revenue synergies by lever; average across industries
Percent



Source: McKinsey survey of 200 M&A executives

helpful if either company has strong equity with a particular customer group. Capitalizing on the combined company’s R&D capabilities and developing new products—whether line extensions or innovations—is a longer-term option and is central to the rationale in some deals.

- **How to sell.** Merging companies often cite the transfer of commercial capabilities and sharing of best practices as a source of revenue synergies.

However, they rarely quantify the opportunity, perhaps because it materializes only when there is a clear capability gap between the companies involved. But mergers can be the perfect catalyst to inspire a broad-scale capability upgrade across commercial activities. When two large consumer electronics companies merged in 2017, for example, they soon realized that one of them followed rigorous pricing and discounting policies while the other gave sales reps discretion in deciding discount levels,

holding them accountable only for a floor price. Immediately after close, the first company's pricing policies were extended to the whole of the merged entity, and sales training initiatives were launched. The result was an impressive 4 percent increase in gross margins for the target product base during the nine months after close. More recently, some companies have developed expertise at applying advanced analytics to challenges such as territory optimization and next-product-to-buy recommendations.

2. Ensure revenue synergies are owned by leaders and the front line

Our research shows that companies that achieve their targets for revenue synergies ensure that leaders and operators take ownership of the effort right from the start. One large consumer-products company with a strong track record in M&A makes a point of having assumptions about value capture thoroughly vetted and signed off by the line executive, operators, and experts who will be integrating the businesses. The company's M&A leader explained, "We go through a super-rigorous

process. The M&A team takes a first cut, but then we have a 30-person cross-functional team of experts drill down deep on assumptions, month by month, quarter by quarter, year by year. The diligence becomes the business plan, and the ownership is clear from the board to the front line."

3. Quantify opportunities thoughtfully using customer-level insight

Value-lever analysis and benchmarks are readily available for estimating cost synergies, but revenue synergies pose an altogether different challenge. In defining an accurate and achievable estimate, the trick is to complement top-level estimates—usually driven by educated assumptions about market-share gain, revenue uplift, or increased penetration—with detailed bottom-up customer insight. That means looking at individual customers and asking, How strong is our relationship? Which products do we sell to them already? What other products and services do they need? Is our sales team confident that our proposed brands, products, and services offer enough potential?

Eight questions to help get started

Leaders preparing to pursue revenue synergies would do well to ask themselves eight simple but revealing questions:

1. What is our aspiration for revenue synergies in terms of value and timing?
2. Have we prioritized where, what, and how to sell?
3. Is our aspiration owned by leaders and the front line?
4. Have we validated and quantified our plan by using customer-level insights?
5. Can our salesforce execute our strategy?
6. What incentives should we offer sales teams?
7. What kind of change program and execution muscle do we need?
8. How do we keep score and celebrate successes?

Even if companies take this step after the deal closes, it is not too late: it can still help shape a robust estimate. Using reference products as a sense check on the numbers is also helpful. As one M&A executive told us, “Our CEO gets into the details, SKU by SKU, account by account, country by country, and then looks at relevant internal and external benchmarks to see if our estimate makes sense.”

4. Build your strategy with your salesperson in mind

However thoughtful and well supported a strategy may be, it still has to pass through the pragmatic filter of the front-line sales team. The trick is to understand how the strategy will affect the individual salesperson, especially in terms of changes to the sales cycle and the salesperson’s capabilities and capacity to carry a broader product portfolio. The closer the new sales cycle is to the old one, the greater the chance of success. Companies like SAP and IBM exemplify this principle, as they have strong relationships with their customers, buy companies with complementary products, and cross-sell them to their accounts.

When it comes to capabilities, examples of companies stretching their salespeople beyond their skill set and reaping disappointing results are all too common. Leaders should consider whether their salespeople can quickly acquire the knowledge and capabilities they need to sell new products, and introduce extra sales training and on-boarding programs as needed. A commercial-integration executive at a leading technology company put it well: “We had our best cross-sell success where we had existing strong relationships and gave the sales teams all the tools and resources they needed to cut the new products in.”

5. Launch bold targets and incentives to make it worthwhile to achieve them

In our survey of M&A executives, transparent targets and carefully crafted financial incentives

ranked among the top four strategies for driving revenue-synergy capture. Transparent targets mean that individuals know what is expected of them, appreciate how they should contribute to the strategy, and understand the rationale for the targets.

To get financial incentives right, companies often have to work around an existing compensation plan. One common approach is to launch a special bonus or incentive to quickly capitalize on the revenue-synergy potential, but our experience suggests a more holistic approach is required to capture the full value. Successful companies treat revenue synergies as a priority, ensure incentives are meaningful enough to affect behavior, and extend them across the whole organization, from top managers to frontline employees. Describing the approach followed in a successful merger between two chemicals companies, one M&A leader explained, “We launched aggressive goals backed up by performance incentives. We used to have 80 percent corporate metrics, 20 percent personal, but for integration we shifted 30 percent of that 80 percent to a special incentive for capturing top-line synergy targets.”

6. Install the support needed for execution

Capturing revenue synergies calls for new organizational muscle and capabilities. One medical-device company was planning to cross-sell two of its leading products. For that to happen, both sets of sales teams had to be able to order the products, and both business-unit leaders had to be credited with the appropriate sales—no small feat in a postmerger world of twin systems and dual order-to-sales processes. So the company pulled together the necessary people and resources into a single cross-functional team of IT, sales operations, compensation, and supply-chain experts and charged them with ensuring that sales processes worked seamlessly from customer order to delivery.

Getting sales data to flow to the appropriate P&Ls in the relevant business units posed another challenge. The team spent months mapping and redefining processes, updating systems, and running tests to eliminate glitches. It then set about explaining new ways of working to sales and supply-chain teams, engaging business-unit and field-sales leaders to communicate the importance of the initiative, creating high-impact sales aids and training modules. The company launched goals, incentives, and a recognition scheme, installed performance scorecards, and set up regular meetings to drive accountability. The leader of the initiative credits the cross-functional team and its detailed execution planning with the company's success at capturing value from the effort.

7. Keep score

Tracking and measuring performance—and making that a core part of the management dialogue—are key to success in any corporate initiative, but particularly thorny in the case of revenue synergies. As one integration leader told us, “We never tracked revenue synergies, so in our last integration, we lost momentum two months after close. It was considered a failure. This time around, our CEO reviews the results monthly after close.” The most effective companies in merger situations find it helpful to create a balanced account-level scorecard of “leading” and “lagging” metrics to ensure laserlike focus on upside among the many competing priorities in an integration environment. Leading metrics focus on inputs such as account activity, whereas lagging metrics measure the results of these activities and include new products sold and revenue and profit at account level. Once a scorecard is in place, it needs to be woven into the regular rhythm of sales dialogues and management routines to make it part of everyday business and turn revenue synergies into a reality.



With M&A activity showing no sign of slowing, a continuing focus on revenue synergy execution will be critical in delivering value to shareholders. By understanding the sources of value and executing against the seven keys to success outlined above, executives can get a jump start on capturing value and outperforming the market. ■

¹ All survey participants had led revenue-synergy programs for more than two deals worth in excess of \$2 billion each.

² McKinsey's Global Capability Survey of 1,600 executives, our survey of M&A executives, past-deal performance analysis, in-depth interviews, experience serving hundreds of clients on this topic.

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