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Corporate Finance Practice

Merging? Watch your sales force

The key to postmerger revenue lies in holding onto your best salespeople.

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The uncertainty generated by a merger creates the perfect environment for competitors to launch an attack. Your best salespeople will get calls for job interviews within days, and your customers will be actively courted.

It's a shrewd move for competitors. As the strongest link to customers, the sales force serves as the key messenger for communicating a merger's benefits: win over the sales force, and a newly merged company is on its way to maintaining its customer base and securing its revenues. But if key salespeople are unclear about the positive side of the merger or distracted by internal considerations, they are likely to defect, taking many of their customers—and revenues—with them. Since lost revenue growth is one of the main reasons for the failure of mergers, acquirers must act fast.

Successful acquirers thus court salespeople lavishly, offering them significant financial rewards and setting up "war rooms" to help them win the battle for customers. They also have a comprehensive internal-communications plan ready to roll the day the deal is announced, including a clear road map for integration and the right kinds of financial incentives. Details of the merger are typically explained to the sales force *first*—and then to the rest of the company. When the front line is fully on board, it can more effectively sell the merger to customers.

Communicate, communicate, communicate

In the hectic days after a merger announcement, executives often pay lip service to employee communications, but take little action. If the goal is to retain customers and increase revenue, that is a big mistake. As soon as the deal is announced, your employees will want to know whether the merger makes sense and how the company will change. Bad news and gossip travel fast—especially among the sales force—and can paralyze an organization. Yet too frequently, a generic e-mail or a message on the company intranet is all that most employees hear from senior management.

For frontline employees and managers certain to be getting calls from worried customers—and solicitous competitors—the day after the news of a merger breaks, anything less than direct and immediate communication from the CEO is too little and too late. That was the lesson one CEO learned recently after acquiring a semiconductor company. He did visit its field offices, but not quickly enough: when he arrived at one office two weeks after the announcement of the deal, he found that 9 of the 12 salespeople there had already accepted offers from competitors.

To avoid such outcomes, the CEOs of both merging companies should hit the road as soon as the merger is announced to explain it to customer-facing employees. By meeting the sales reps and their managers—above all, those of the acquired company, where uncertainty is greatest—in two or three cities a day, most CEOs can cover all major locations within the first three to seven days after the merger announcement. The goal: to generate enthusiasm, to ensure that the sales force communicates a consistent message to customers, and to allay fears.

CEOs should also plan sufficient time to answer questions directly. Rumors, many of them false, flourish after a merger announcement. During the merger of two industrial enterprises, for instance, the CEO of the acquiring company was surprised to find that the salespeople of the acquired one had heard that its entire corporate headquarters—of which they were a part—was to be dismantled. During the Q&A period, the CEO squashed this rumor, no doubt preventing many key salespeople from dusting off their résumés.

By taking the time to communicate personally and to build frontline support, successful acquirers let the sales force know that it is a crucial part of the company. In addition, they ensure that everyone—from the CEO down to individual sales reps in both the acquired and the acquiring company—sends a consistent, positive message to customers and a strong signal to competitors that the company's customers and staff are not up for grabs.

A clear integration plan

Once the sales reps understand the strategic benefits of the merger, they will want to know how it is going to affect them personally. Will the sales forces of both companies be merged or remain separate? Will some people be let go and, if so, how many? How will accounts be assigned? Will compensation remain the same? Immediately following the merger announcement, the top team must be able to articulate, in a clear way, how and when these decisions will be made.

Whether or not the sales forces will be merged, the first step is to quickly name the new sales manager. In two-thirds of all mergers, the new CEO is chosen before the deal is announced, and the same urgency should be applied to appointing the new sales manager, who will be charged with looking after revenue.

The goal is to present a single face to the customer as soon as possible by communicating a simple, unified message.

How quickly the details of integration can be worked out depends on the immediate prospects of the merger. In some cases, the decision about whether to unite the sales force organizations can be made early (Exhibit 1), and shareholders and regulatory authorities can be expected to approve the merger quickly (within two months, say). If so, plans to integrate the sales forces can be developed immediately—ideally, even before the merger is announced.

As integration proceeds, managers should explain the coming changes as soon as possible; withholding information only prolongs the uncertainty and turmoil that devastate revenue momentum. If integration plans cannot be immediately finalized, for example, if it isn't clear whether the sales forces can be immediately merged or whether companies must await completion of protracted regulatory review or a

Exhibit 1

Should these sales forces be joined?

Key questions	Case A: Merger of two pharmaceutical companies[1]	Case B: Merger of two building-products companies[1]
Will overall sales strategy—as well as individual company and product strategies—be enhanced by an integrated sales force?	**Yes:** companies sell similar products and have similar long-term growth/strategic objectives	**Yes:** companies are engaged in similar businesses and share long-term strategic goal of cutting costs through economies of scale
Is there a large overlap among potential customer segments?	**Yes:** both companies target doctors at local and regional hospitals	**Yes:** both companies target similar sets of contractors
Do companies market products to common customer segments?	**No:** customer segment for both companies consists of physicians, but in different specialties	**Yes:** both companies sell wide array of products to range of customer segments, some common to both
Do the products require similar types of sales skills?	**Yes:** reps need deep technical and product information	**Yes:** reps need basic product information
Does the sales force contact the same type/level of decision maker?	**Yes:** physicians	**Yes:** owners of contracting businesses
Are customers generally amenable to merger?	**No:** they had bad experiences with previous mergers (integrated reps not knowledgeable enough about broad product portfolio) or customer segments	**Yes:** one-stop-shopping customers are more focused on product brands than on company ownership
Integrate sales forces?	**No**	**Yes**

[1]Disguised example
Source: McKinsey analysis

shareholder battle, prudent managers communicate the status of the merger frequently, even every day, and clearly articulate the guiding principles of the new organization. Salespeople must then reach out to reassure customers. The moment that account information can be shared, the accounts of individual customers should be reassigned. Meanwhile, new compensation policies for the sales force, as well as the principles guiding its interaction with customers, should be devised quickly. The goal is to present a single face to the customer as soon as possible by communicating a simple, unified message about the changes to come.

If merging the sales forces appears to be the right strategic move, don't let the appeal of cost cutting make you overlook more valuable new opportunities to generate revenues from cross-selling, expanding product offerings and services, jointly developing new products, increasing access to the organizations of customers, and the like. Pruning staff may seem easier and surer than capturing new opportunities, but such cuts can seriously damage prospects for growth, since a company's ability to retain customers will probably suffer if morale declines among remaining employees. Even the elimination of seemingly redundant managers can be costly because the manager group often includes some of the most talented salespeople. On the other hand, if sales staff reductions are clearly justified, make them quickly; the remaining people will focus more successfully on retaining the customer base if they feel assured of their own place in the new organization.

Money matters

Particularly when integration plans can't be made quickly, financial incentives may be the CEO's most important tool for retaining and motivating sales staff during the chaos of a merger. Such inducements work best when tied closely to the most important objectives: retaining key salespeople and customers, encouraging cooperation and the sharing of knowledge with new colleagues, and promoting the cross-selling of each company's products.

Retention bonuses and monetary rewards for maintaining and increasing sales during the transition period should be offered in addition to (not instead of) existing compensation plans. In one high-tech merger, management increased the existing bonus plan by 10 percent for meeting sales targets during the three months after the announcement and threw in an additional 15 percent bonus for exceeding targets during the six months after the close of the deal. Not surprisingly, the company's revenue increased despite the distraction of the merger. This approach is good for the bottom line, but it also creates positive energy throughout the organization and effectively demonstrates to competitors that the company is staying on the ball during the integration.

Interim bonus plans can be costly, but they are worthwhile when compared to the impact of falling sales. In one recent deal, the acquirer estimated that the interim bonus plan would cost $6 million. However, an estimated 2 to 5 percent of the combined company's revenue—that is, $20 million to $50 million a year—was at stake, so it obviously made sense to err on the side of generosity.

Create a war room

Armed with incentives, an understanding of the merger's aims, and management support, the frontline sales force should naturally reach out to individual customers. It is a mistake, however, to expect sales reps on their own to address all of the inevitable questions from customers and tactics of competitors. Unfortunately, sales managers are often too preoccupied with integration issues, so the front line is left to its own devices.

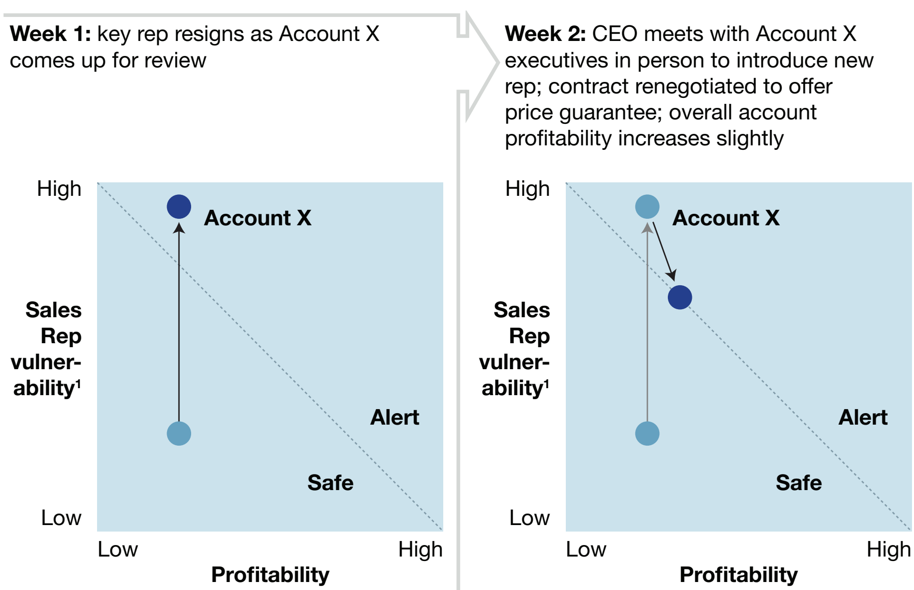
To resolve this problem, successful acquirers create a temporary sales war room, or interim leadership group. Led by two to four high-performing senior salespeople from both companies, along with junior staff to do the legwork, war room staff are taken off their regular jobs and given a mandate to help the company retain customers and maintain sales levels during the 3 to 12 months of a transition. The war room receives authority to cut through red tape and to make on-the-spot decisions, and it has priority access to senior executives.

The sharp focus and flexibility of such a group makes it one of the most effective tools for maintaining revenue growth. It helps the new sales leadership craft detailed messages about how customers will benefit from the merger and sometimes creates customized sales toolkits for presentations. It acts as a clearinghouse for information about the concerns of customers and the strategies of competitors, and it develops and disseminates appropriate responses. When an important account has a concern, the war room can alert the appropriate executives so that they personally address the issue. It can also dispel confusion about the company's new product and service offerings and develop creative cross-selling tools by leveraging its cross-organizational expertise and market intelligence.

In addition, the war room works with the sales force to identify and monitor accounts at risk, something sales managers often let slide during the chaos of integration (Exhibit 2). It helps sales reps to rank their accounts by profitability (not revenues), to group together accounts that have similar retention problems and can be handled in a similar way, and to flag accounts coming up for renewal (Exhibit 3).

Exhibit 2

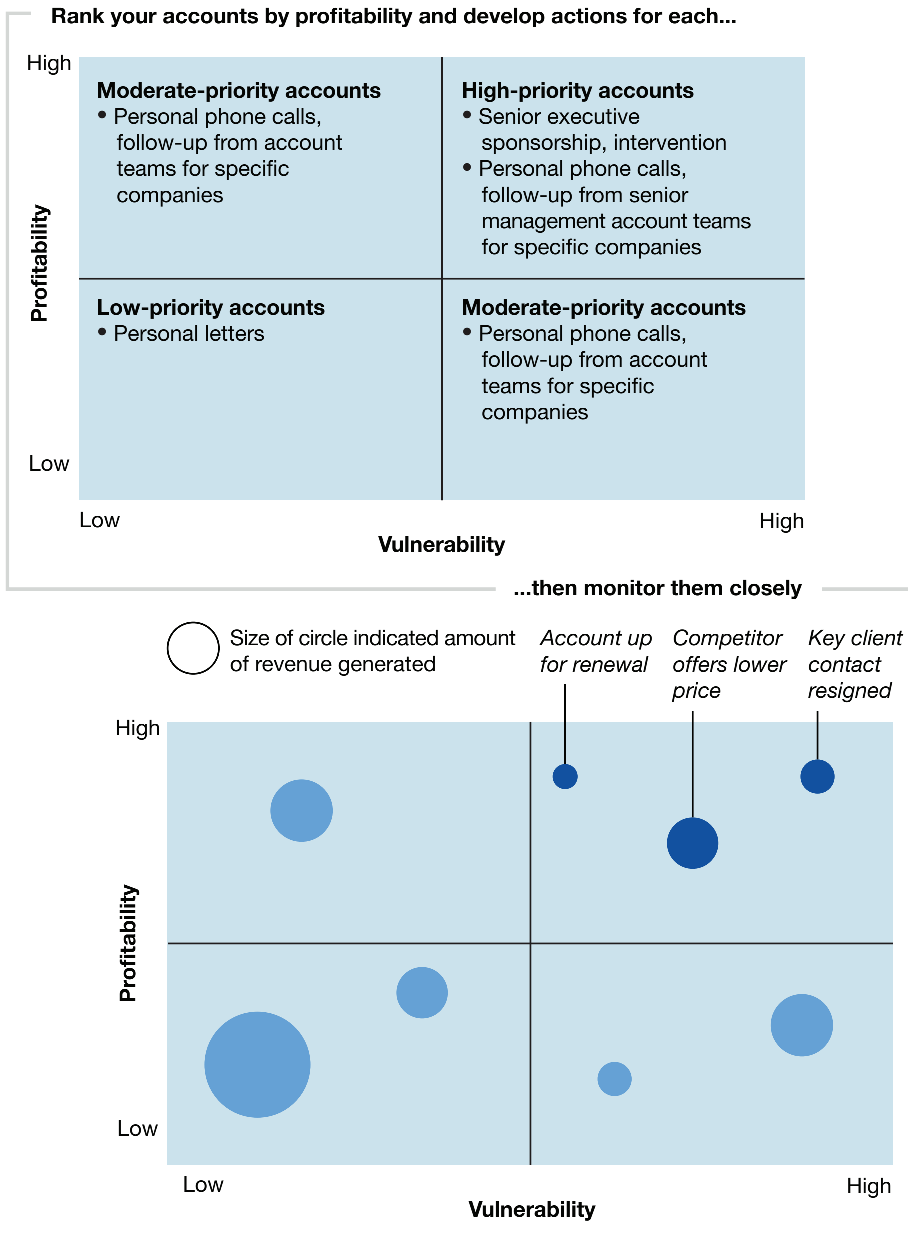
Inside the war room: Retain your customers



[1]Reported weekly
Source: McKinsey analysis

Exhibit 3

Inside the war room: Prioritize your accounts



Source: McKinsey analysis

For high-priority accounts, it ensures that explicit retention plans are developed. An important part of such a plan is an understanding of what—products, personal attention, service levels—drives the loyalty of particular customers and thus what marketing messages and retention tools to use for them. The members of the war room then meet each week with salespeople to review account status reports.

Consider the role of the war room during the merger of two chemical companies in the northwest United States. A competitor had made a compelling pitch to the customers of the acquired company by arguing that its service levels would fall because the acquirer had a reputation for providing less service. Combined with an aggressive pricing proposition, that argument helped the competitor win over a group of these customers. The war room heard about this development immediately and soon worked out a counter-strategy. The acquired company declared in writing its commitment to retaining current service levels and had an executive call or meet with customers when necessary. It immediately began offering some of the acquirer's products, which the competitor couldn't match, and created sales materials to discredit the competitor's claims. These changes, rolled out to the whole sales force within two weeks, stopped the competitor in its tracks.

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Most top management teams devote the crucial days after the announcement of a merger to working out its legal and operational details. While these tasks obviously can't be ignored, CEOs must also find the time to generate excitement for the merger among frontline employees. After all, a company can always go back and cut costs, but revenue is fragile, and once customers have gone elsewhere they are very difficult to win back. ○

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