Leveraging Sales & Marketing to Maximize the Value of Mergers & Acquisitions

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What are the short and long term impacts of mergers and acquisitions on a business' revenue growth? While many companies see enormous revenue growth during the first year after the deal, long term results can vary dramatically. In this report, Accenture evaluates the revenue growth of these companies two years after the deal and highlights key activities to help maintain revenue growth.

Revenue growth continues to be a key goal of C-Suite executives according to more than two-thirds of executives who placed growth initiatives in a more prominent position in their strategic agenda in 2006 in a recent Accenture/ Economist Intelligence Unit survey.[1]

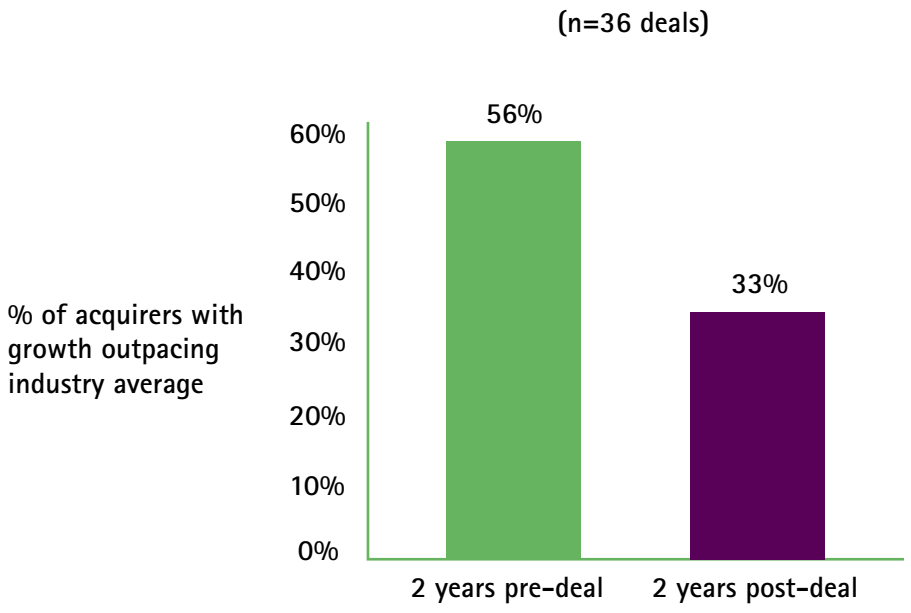
In support of these goals, many of these executives are turning to mergers and acquisitions (M&A). Our analysis of Thomson Financial data shows that since 2002, global M&A deal volume has been growing at a compound annual growth rate of up to 29 percent, with 2007 deal volume increasing to $4.4 trillion. While the acquirer's top-line traditionally benefits from revenue growth in the first year after an acquisition, few companies have been able to achieve sustained increases in revenue growth in the subsequent years post-close. In fact, only half of the senior executives polled in a 2006 Accenture/Economist Intelligence Unit survey believed that their companies had achieved the revenue synergies they had expected from their M&A activities.

In addition, in a recent study of 80 global deals completed during 2002 through 2005, around 58 percent of acquirers were unable to generate increased revenue growth in the second fiscal year after the deal closed compared with what their growth had been two years before the deal. Furthermore, revenue growth for these companies was nearly 600 basis points lower post-close than pre-close.

Even when normalizing for industry and economic cycles, post-merger revenue growth is still elusive. In a study of 36 deals concluded by public US acquirers in 2002 through 2004, around 56 percent were growing on average 6 percent faster than their S&P 500 industry sector in the two years before the deal. However, only up to 33 percent were able to grow faster than their industry sector in the second year after the deal close, with the average for the original group of companies dropping to approximately 4 percent lower than the industry growth rates.

[1] Economist Intelligence Unit, Innovation and Profitable Growth, 2006

Does M&A kill revenue growth?
Only one-third of US acquirers are able to outpace industry growth after acquisitions



Note: Sample consists of deals greater than $750 million that were closed between January 2002 and June 2005 where the acquirer is a publicly traded US company, the target is a public company and the target revenue size is at least 20 percent of the acquirer's at the time of acquisition.

One example of companies' inability to get back to pre-merger revenue growth rates is the acquisition made by an established leader in the outsourcing arena of a fast-growing start up. On paper, this deal should have changed the industry dynamics and created a "one-stop-shop" for outsourcing deals, generating additional revenue for the combined company. In reality, two years after the deal announcement, the acquirer was struggling to stay competitive after posting a significant year-end loss and with its stock price falling. The acquirer admitted to having underestimated the complexity of taking on a large number of new contracts in a short period of time and miscalculating the cost of executing them. This, combined with the loss of confidence in the new organization, led to negative sales growth for the first time in the company's history and a decrease in sales growth from around 16 percent growth two years before the deal to around -1 percent sales growth two years after the deal.

There are numerous additional reasons for these post-close revenue growth challenges. Chief among them is a tendency among acquirers to become inwardly focused on integrating their new acquisitions, and they lose sight of the need to retain and grow their customer bases. In a single-minded pursuit of cost synergies, acquirers may also end up hurting the combined company's positioning for revenue growth. However, there are ways for companies to generate sustained revenue growth post-acquisition. These consist of:

Confirming that a rigorous focus on customer experience permeates all integration planning activities. All customers will be impacted by the merger. The key is to understand how. A clear strategy that focuses on reducing customer disruption, communicating changes timely and accurately, and developing robust retention programs for profitable customers, is essential to successfully manage customer expectations. The benefits are well worth it. Companies can experience:

- Satisfactory retention rates for customers and employees.
- Market stability.
- Informed customers who act predictably during the integration.
- High level of excitement on the part of the customer that can lead to even greater loyalty.

Prioritizing integration efforts to provide employees with the appropriate tools and messages. Not only are customers at risk during integration, maintaining high-performing employees could also be at risk if staff retention is not managed properly. To help reduce these risks, company executives must win the hearts and minds of client-facing employees first, and then leverage them to keep customers at ease. In addition to a motivated sales force, the right tools and messages to communicate with customers can be crucial in maintaining and growing the customer base throughout the

Two-thirds of responding executives were putting growth initiatives in a more prominent place on the strategic agenda in 2006 per a recent Accenture/ Economist Intelligence Unit survey.

integration phase. Engaging leaders from both organizations, developing fair and effective financial incentive plans, and creating and clearly communicating the integration plan are other examples of strategies used in successful integrations.

Analyzing your current and target customer base and finding ways to increase profitability. Successful companies use mergers as an opportunity to discover untapped revenue potential by optimizing cross-selling and rationalizing channels, products, pricing and overall marketing efforts. This can be done if companies understand their new pool of customers—their segmentation, preferences and behaviors.

High-performance businesses in various industries have been able to successfully leverage these strategies to generate post-integration revenue growth. These are the companies that provide useful lessons for executives thinking about pursuing M&A activity for the sole purpose to generate growth.

Help confirm rigorous focus on customer experience

In a recent merger of two wireless companies, a structured approach to customer experience was employed to shape many of the integration activities. The new company focused on ways to retain existing customers during the transition period and create a positive experience for new customers. A newly created cross-functional customer experience team developed a rigorous view of customer touch points, interactions and segments to drive the integration efforts. In addition to developing an integrated plan for new and existing customers, the Customer Experience Team developed a comprehensive set of metrics to track customer retention and growth. Furthermore, throughout the merger customer-facing activities became the single most important consideration during sales force and marketing integration. The result of this relentless focus on the customer was that two years after this acquisition, revenue growth was around 9 percent for the newly combined entity vs. about 4 percent before the merger. Subscriber growth also increased from approximately 6 percent pre-acquisition to nearly 13 percent post-acquisition.

Provide employees with the necessary tools and messages

Providing employees with the necessary tools, training and messages allowed a large US regional bank to actually increase the number of customers and improve satisfaction measures during the merger. This generated a "hassle-free" experience that not only prevented profitable customers from leaving, but attracted new customers via innovative promotions as well as knowledgeable tellers and service representatives. Investing in a thorough training plan for all customer-facing employees was one key factor that drove the success of the merger. Up to 130 customized training programs were created to quickly and efficiently train all employees in the branches on the new products and processes. In addition, the call

Those companies that put the customer first, successfully equip employees with the right tools and messages and mine their customer databases to drive profitability can succeed at generating post-close revenue growth.

centers were staffed up to manage the anticipated increase in call volume, with performance tracked using twice daily metrics (e.g., average waiting time per call, customer satisfaction level after call). Other initiatives contributing to the growth of the customer base during the integration period included creating a team focused exclusively on customer retention and implementing a solid risk mitigation plan that made the transition smooth to the customers. As a result, the company experienced revenue growth around 30 percent in the second year after the merger closed, while two years before the acquisition, revenue was declining.

Analyze the customer base to increase profitability

In 2005, when Harrah's acquired Caesars, Harrah's focused on improving same store sales and efficiency at Caesars' properties by implementing its industry-leading player tracking systems and loyalty programs. The integration planning effort focused on confirming that the plans and data were in place to capitalize on these opportunities after the merger post-close. These upfront sales and marketing efforts to mine Caesars' relatively un-tapped customer database of approximately 20 million customers led to increased cross-sales and adoption of Harrah's successful customer loyalty program. Harrah's could also use its player tracking and loyalty programs to drive its Atlantic City and riverboat customers to its new Caesars properties in Las Vegas, generating additional revenue per customer. As a result of these efforts, the combined Harrah's and Caesars was able to increase revenue by around 13 percent in its first full year, in excess of Harrah's previous revenue growth rate of around 10 percent.

Accenture's Perspective

Despite the intention of companies to merge to drive revenue growth, our research has shown that companies more often fail than succeed at generating post-merger revenue growth. However, those companies that put the customer first, successfully equip employees with the right tools and messages and mine their customer databases to drive profitability can succeed at generating post-close revenue growth.

Accenture has been involved in up to 400 M&A deals over the past five years and is a leader in providing sales and marketing support. Given our experience, we understand what it takes to help increase the growth opportunities of mergers and acquisitions and utilize the lessons learned from the cases outlined in this article.

For more information

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