Analytics: The Secret Weapon for Retaining Customers During and After a Merger

By Bruce Kiene and Brendan Dugan
When customers find out their favorite retailer or services provider is merging with another organization, their first reaction is fear: that the combination will result in poor service or otherwise degrade their relationship. When those fears become reality due to mismanaged integration activities, the resulting customer exodus can be deadly to the value of the deal. However, analytics has emerged as a powerful tool for combating customer dissatisfaction and defection during a merger. Leading organizations are using analytics to create more potent and effective customer migration strategies and subsequently generating greater value from their deals more quickly.

History is littered with examples of companies that have experienced mass customer defection when undergoing a merger. A large bank, for instance, lost hundreds of thousands of customers in the wake of a major merger. When the bank bought a rival institution, it closed dozens of branches, reduced tellers’ responsibilities (and thus its ability to solve customers’ problems in this way), and failed to integrate the two banks’ multiple computer systems for several years. Consequently, customer satisfaction plummeted 6 percent almost immediately.1 Unfortunately, this institution’s experience is not unusual for its industry: The average customer attrition rate for banks, measured at around 15 percent, can double following a merger, and remain that high for an extended period of time before eventually returning to the “standard” rate.2

Other industries have also experienced similar retention challenges during a business combination. Consider the merger of two major telecommunications companies. The acquiring company incurred billions of dollars of expense integrating the acquisition while losing millions of newly dissatisfied customers. In the first quarter of 2008, the acquirer lost about 1.1 million “post-paid” subscribers, or customers who pay a monthly bill for service. This is compared with a loss of 1.2 million customers in all of 2007. Meanwhile, one of the acquirer’s major competitors added 1.3 million wireless subscribers during the same quarter, and another gained 1.5 million customers.3

It’s no surprise customers defect when companies undergo merger integration. Studies show that more than half of customers are likely to be dissatisfied after a merger. One such study analyzed data collected for five years as part of the widely respected American Customer Satisfaction Index. The study reviewed customers’ perceptions of 28 large companies that were involved in major mergers between 1997 and 2002. The study showed that customers were significantly less satisfied, on average, even two years after the deals closed than they were prior to the merger.4

With so many cases offering evidence of customer dissatisfaction and defection as a result of a merger, the business risk is real. To avoid degradation of the assets they just acquired, companies must do everything they can to retain existing customers while, at the same time, adding new customers during the integration process.
Analytics: The Secret Weapon in Merger Customer Retention

Analytics, which we define as the critical analysis of data to make optimal decisions, can play a key role in helping merging companies prevent or minimize customer defection. Accenture has confirmed through its cross-industry merger experience that the strategic use of customer data can maximize retained customer value throughout merger integration.

We have identified five ways that a company can use analytics to develop unique perspectives into newly acquired customers. Such perspectives enable more informed integration decisions as well as the construction of integration “safety nets” that can direct the optimal allocation of customer support during a merger.

- **Segment customers into distinct migration support levels.** A company can refine standard CRM segmentation methods to include measures of probability of retention and potential financial loss of attrition to provide optimized support during the migration process.

- **Create customer impact and communications timelines.** An organization can determine which customer groups, segments or geographies will face prolonged periods of negative impact and subsequently create specially designed risk-mitigation plans for these groups.

- **Develop an optimized customer migration strategy and schedule.** Based on various stakeholder needs and measures, a company can balance the value of “big-bang” conversions with options for phased roll-outs that leverage learning curves.

- **Develop an optimized retail store conversion strategy and schedule.** A company can incorporate geographic impacts and predict competitive response into signage, technology rollouts, and marketing plans.

- **Accelerate integration planning in order to capture quick wins.** A company can use clean-room data prior to legal close to accelerate merger integration planning in anticipation of the rapid realization of benefits after close.

We further explore each of these actions and the insights they generate, and provide some examples of how companies have used them to improve customer retention following their mergers.
Segmenting customers into distinct migration support levels

By understanding the value each individual customer adds to profits, as well as the migration complexity and retention risk of each customer group, business leaders can develop a stratified customer support model that maximizes overall retained customer value during the integration. This is particularly appropriate where there are large numbers of customers, accounts, and relationships to manage during the transition. In these cases, customer segmentation can be extremely beneficial in determining an overall strategy for conversion support.

A top-five US bank holding company recently took a segmented migration support approach during one of its acquisitions. Working with Accenture, the corporate bank leadership team defined and executed a migration support customer segmentation schema for the merger integration. The company tiered customer segments based on data that included product and service usage value, level of customer migration complexity and business demand. Based on these characteristics, the integration team identified which level of support the customer should receive throughout the conversion. These insights enabled the company to realign its support strategy and exceed its strategic merger objective of retaining key corporate customers.

Specifically, the customer segmentation modeling helped to optimize several of the bank's downstream integration activities:

- **Reporting**—ensuring the highest migration support levels are highlighted in a consistent manner for planning purposes.
- **Scheduling**—tracking customer conversion loads by migration support level by event to allow for effective ramp-ups of support staff in key locations and functions.
- **Support model**—creating dedicated support resource teams for each migration support level that are trained in the unique features of their respective customer groups.
- **At conversion**—having conversion weekend command centers triage customer issues to the right support teams.

Overall, the definition and execution of migration support levels helped the bank's business and technology teams understand the diversity and scope of its newly acquired customer base—and, in turn, develop effective strategies and tactics for managing those customers during the transition.
Creating customer impact and communications timelines

Organizations can leverage analytics to create customer impact timelines. Such timelines allow an organization to identify customer groups that will undergo a high number of unfavorable, merger-related impacts during any given period. Identification of these customer impacts helps companies, in turn, proactively plan and execute customer support models and resource alignment to provide the appropriate level of support at the right time.

For example, Accenture helped a large super-regional US bank develop a customer impacts timeline that tracked a consolidated view of the communications, system releases, and customer migration activities that would affect the converting customer’s experience during merger integration. The inventory of activities and dates reflected in this timeline included customer dimensions such as line of business, geography and segmentation. The bank classified customer impacts as positive or negative along with their measured severity, and presented measured impacts in both a timeline view as well as an aggregate matrix view (See illustration below).

This timeline enabled the bank to clearly identify particular customer groups that would, over the integration lifetime, undergo a significant number or percentage of negative impacts. It also enabled the bank to create a more focused view of particular periods during the merger in which a customer would experience several consecutive negative impacts (thereby increasing the likelihood of attrition).

Based on an understanding of negative impacts, the integration planning team proactively built mitigation plans or “safety nets”—such as the careful timing of positive-impact communications (e.g., bundled mailings) and promotions to strengthen customers’ experiences at key times. In addition, the bank could focus more support resources on the customers facing the most painful migration experience.

Example Output: Customer Segments by Impact Severity and Type (percent of total customers in conversion Event A)
Developing an optimized customer migration strategy and schedule

Any issues customers experience during or after conversion are more likely to lead to attrition, especially in industries where switching costs and barriers are low. Thus, high customer retention is directly related to the execution readiness of the merging companies. A key component of conversion readiness is the creation and execution of a customer migration schedule that is tightly aligned with the technology and employee support structures of the integration.

During the corporate bank customer migration discussed earlier, Accenture partnered with the bank to create a customer conversion strategy and schedule. The integration team organized distinct conversion events based on customer segments that considered customer product usage, relationship ownership, account management, and more. The schedule allowed for effective pre-event migration testing and post-event customer support. It also incorporated systematic tracking of customer readiness based on the successful accomplishment of pre-migration activities. Any customer or customer group deemed not yet ready for a "standard migration event" was excluded and reassigned to future conversion events.

The customer modeling allowed the bank to stage its technology and product migration by moving only customers with the right products into each conversion event. As the target operating model was built out, and more functions and features were offered at each stage, customers with more sophisticated needs were migrated. In this way, the bank accomplished a near just-in-time migration of customers to each release of its target platform, which provided early benefits to many customers and allowed the support teams to boost capability in line with the increasing needs of each successive rollout. As this strategy was communicated to customers, the bank was able to demonstrate the value of the phased integration plan and achieve greater acceptance.

Developing an optimized retail store conversion strategy and schedule

Retail merger integrations can be particularly damaging to customer retention, as disaffected customers can quite easily switch to a comparable competitor. Thus, retailers must build integration conversion strategies with a clear focus on the customer. However, customer retention in a retail environment is more difficult to measure than in industries such as financial services, where every customer has a unique identifier. So retailers must use alternative methods to track customer experience, such as using sales figures across stores (comparables or "comps") as its best measure of success.

When a top-five US pharmacy chain acquired another large US chain, Accenture worked with the retailer’s leadership to redefine its store conversion strategy to maximize customer retention as measured by post-conversion comparable sales. The conversion team created an optimization decision model for the store conversion schedule that incorporated key customer impact factors as variables. Examples of some of these factors include:

- Sequencing the store conversions within a region to allow customers to find an alternative store in the same chain during the days in which the converting store was undergoing the rebranding and merchandise reset activities.
- Ensuring the regional "grand opening" promotions were grouped together to allow for efficient advertising and marketing spend.
- Allowing specific geographic areas to have all of their conversions completed in a sequence that would support effective cross-training of employees on new store systems and the efficient movement of conversion support staff between stores.

The conversion team built a new sales tracking methodology that measured pre-conversion and post-conversion store sales comps by developing a data warehouse that collected sales data, store attributes, and conversion information. As a result, the team was able to identify conversion success patterns—such as where certain training teams were over-performing or where specific sales categories were generating strong results. These findings became a key component of the company's repeatable merger integration capability, to be used on future merger initiatives.
Accelerate integration planning in order to capture quick wins

Customer data analysis in pre-deal clean-room environments gives companies an opportunity to accelerate merger integration planning and synergy realization in anticipation of legal close, as well as mitigate against the financial costs of delays in a merger environment. For example, an acquirer expecting to reap $500 million in yearly cost savings from a deal will find the net present value of the deal reduced by more than $40 million from only one month of delay.*

Rather than limiting the clean room to a simple collection of raw data, customer analytics can serve as a mechanism for capturing value. Within the legal and security parameters of a clean room, a team can segment acquired customers into the acquirer sales schema prior to legal close. Immediately upon close, sales and marketing leadership will have the actionable information needed to make early decisions about customer integration and cross-selling, thereby substantially reducing the time required to achieve revenue synergies. This approach to information preparation and processing prior to close ultimately allows the buyer to begin post-merger integration planning early while carefully respecting anti-trust and privacy requirements.

An instructive example of the use of analytics in a clean-room environment involves the merger of two large hospitality companies. Accenture teams led the clean-room analysis of hundreds of thousands of customers in anticipation of legal close, with the aim of accelerating revenue synergies from the merger. Analysis focused on applying the segmentation schema for the best-in-class loyalty and cross-sell promotion program of the acquiring organization to the customer base of the merged entity. By leveraging such data as historical customer sales and properties for the combined entities, the companies could analyze new sales opportunities for targeted organization customers as well as for the combined entity as a whole. Such analysis enabled the acquirer to more clearly define the accretive potential of the target company.

The actionable information produced via this clean-room analytics initiative allowed the newly merged company to move on revenue synergy opportunities immediately after close, thereby meeting merger synergy goals well before the forecasted timeline.

*Assuming a 10 percent cost of capital and excluding the additional cost of maintaining the integration team for an additional month.
Conclusion

No company can afford to lose customers, the lifeblood of its business. This is especially true during a merger or acquisition, when the success of the deal largely depends on how well the acquiring organization integrates its new customers into the target business model.

Based upon Accenture's first-hand experiences, the strategic use of analytics is not only beneficial but necessary in today's merger environment to retain newly acquired customers, accelerate integration planning and optimize merger synergies. Companies that employ customer analytics early and build data analysis models into the merger integration process are increasing the likelihood of success and furthering their journey toward high performance.
References


About the authors

Bruce Kiene is a Senior Executive in Accenture’s M&A and Growth Strategy practice supporting M&A and corporate growth initiatives worldwide. Bruce has directly assisted in the integration of over 30 major acquisitions by Fortune 500 companies, comprising more than 20 years of M&A experience. Bruce holds patents for his work on one of Accenture’s key assets, the M&A Workbench. He was also a key developer of Accenture’s M&A Capability Assessment Model, PMO in a Box and Accenture’s Merger Integration Toolset. He is based in Phoenix, Arizona.

bruce.p.kiene@accenture.com

Brendan Dugan is a Manager in Accenture’s Global M&A Strategy practice with extensive experience in Merger Integration planning and execution. For the past 5 years, Brendan has worked with clients across multiple industries with a particular focus on using analytics to drive key integration support decisions. Brendan holds a B.S.E. in Operations Research from Princeton University and an MBA from Duke University’s Fuqua School of Business. He is based in Philadelphia, Pennsylvania.

brendan.dugan@accenture.com
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

This document is produced by Accenture as general information on the subject. It is not intended to provide advice on your specific circumstances. If you require advice or further details on any matters referred to, please contact your Accenture representative.

Copyright © 2012 Accenture
All rights reserved.

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.