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Marketing: The New Critical Capability in M&A

Successful mergers require an optimized brand portfolio and a laser focus on customers

By Kevin O'Donnell and Ken Fenyo

TODAY'S RED-HOT MARKET FOR mergers and acquisitions spells huge opportunities and challenges for marketing leaders and their teams. The decisions they face extend well beyond which company's brand hangs on the front door when the deal is done. And the pressure will only intensify as deals focus increasingly on growth and revenue synergies instead of cost savings alone.

Consider: Procter & Gamble expects to add 1 percent in top-line growth through revenue synergies resulting from its acquisition of Gillette. More than half of the €165 million in anticipated synergies created by the Lufthansa-Swiss Air transaction are revenue-related. Kmart and Sears predict that 40 percent of the \$500 million in synergies from their recently completed

merger will come from revenue growth over the next three years.

For most companies, however, pre-merger expectations don't measure up to long-term results. One recent study shows that 70 percent of merged companies don't achieve their predicted revenue synergies.

The reason: Too often, companies fail to focus on the potential impact that merger integration decisions have on customers, which puts the onus directly on the marketing team to keep customer needs front and center during the integration process. This is further complicated when the merging companies have large product portfolios with various brands serving different customer segments. Managing multiple brands is a struggle for most companies even without the added pressure of inte-

grating the people, culture and operations of two organizations.

To meet objectives for increasing revenue synergies, the new executive team must create a combined offer that is uniquely valued by customers and differentiated from competitors. If the merger won't help the "new" business grab new customers, build a bigger share of wallet or create greater lifetime value, then perhaps the deal shouldn't take place at all.

Senior marketers must take it upon themselves to help identify revenue synergies in the new brand portfolio. This leadership will go a long way toward establishing marketing's role in helping to set the strategic agenda and deliver value. To ensure that the transaction lives up to its promise, the CMO should consider these three principles:

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Put the customer at the center of planning and analysis. This begins by understanding customer profitability by segment and identifying which customers the combined company is going to target. It requires a comprehensive evaluation of how well each brand in the portfolio compares to its key competitors in meeting the needs and preferences of these customers. A merger poses a unique opportunity to think about customers in a broader and more integrated fashion. Combining and analyzing both companies' knowledge of their respective customer bases will provide a broader view of customer behavior. This information can be augmented by new qualitative and quantitative research to understand category drivers and competitive positioning. By developing a more comprehensive and integrated understanding of such issues as current and emerging marketplace dynamics, customer preference drivers and perceptions of brand equity, marketers can more effectively make decisions on how to structure and manage the merged brand portfolio.

Optimize the brand portfolio. The CMO's goal here is to drive business growth while generating marketing efficiencies. Often, brands can be leveraged better through

repositioning or the creation of new offers or concepts. Or, to better support the strongest brands, weaker brands can be divested or the underlying products and services rebranded. Decisions regarding the portfolio must be guided by a detailed analysis of customer targets, brand performance and opportunities, and the brands' impact on business results. Innovative analytic techniques are available to help drive this decision making. In a recent client setting, for example, we used "discreet choice modeling" to understand the factors driving customer purchase decisions and the offers and brands that have the greatest impact on sales.

Establish the right brand-management organization. An acquisition provides a unique opportunity to improve the way a business manages multiple brands. It's essential that the CMO join forces with the CEO and other senior executives to create and support the organizational structures, processes and metrics necessary to foster long-term brand building. Brand managers must evangelize the role of the brand while also translating brand ideas in a practical and compelling way (distinctive products, services and experiences). If those capabili-

ties are lacking in-house, the CMO must move quickly to recruit the right outside talent. To succeed, the brand "prophets" must have the necessary authority, resources and organizational support to succeed. Finally, the CMO should institute a measurement program that monitors brand portfolio moves and their financial performance to demonstrate how brand management is driving tangible business impact.

For all the hype surrounding the merger activity that is changing the competitive landscape in many industries, history has shown that delivering on the promise of a merger often falls far short of expectations. While the integration of people, operations and systems are important to delivering promised cost efficiencies, the ultimate arbiter of the deal's success is the long-term growth of the post-merger business. Achieving that growth requires marketers to better understand and utilize the power of their combined brand portfolios to influence the customer's decision to purchase.

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