AlixPartners

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Growth mergers: setting the stage for top-line success

A multibillion-dollar brick-and-mortar company serving industrial clients was experiencing stagnating revenue growth. In response, the company decided to acquire an innovative online platform to extend its offering and supercharge growth.

Capturing the full opportunity required establishing a clear and shared understanding of the benefits of the deal for both customers and salespeople. It also required overcoming several go-to-market (GTM) integration challenges—including overlapping territories, different sales management philosophies, and different compensation approaches. Failure to surmount these challenges could cause the company to miss out on the new growth opportunity at hand as well as slow the company's existing growth.

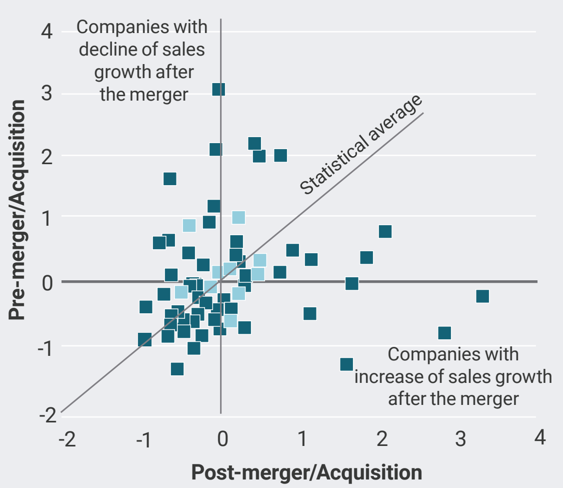
The combined leadership team could have taken the safe route and focused on capturing traditional cost synergies. Instead, the leaders chose a more ambitious strategy. Specifically, they aimed to quickly take the new company's commercial approach beyond the best strengths of both predecessor companies. In just a few months after the close, the new company rolled out combined value propositions, sales territories and support, target setting and measurement, and compensation approaches. As a result, the integration succeeded—delivering first-year net growth (after customer attrition) in the mid-single digits, and a 15% increase in stock price since the close.

AN AMBITIOUS, STRATEGIC APPROACH TO GETTING THE GROWTH YOU ARE BUYING

Revenue synergies that drive new growth are often harder to capture than cost synergies. Indeed, AlixPartners' experience shows that as many as 66% of all mergers and acquisitions fail to deliver value, despite achieving approximately 80% of announced cost-synergy targets.[1] Companies often struggle to show a meaningful correlation between revenue growth before and after the transaction, which makes it hard to prove that revenue strategies have succeeded (figure 1). Investors are therefore typically skeptical of deal theses centered on growth.

FIGURE 1: TWO THIRDS OF ALL MERGERS AND ACQUISITIONS FALL SHORT OF MEETING EXPECTATIONS; REVENUE SYNERGIES TEND TO BE ELUSIVE

STANDARD DEVIATIONS FROM MEAN INDUSTRY REVENUE GROWTH



■ Large companies ■ Small companies

Note: Revenue synergies – Average PMI does not result in measurable synergies

Source: AlixPartners' Acquisition/Merger Project Experience

Why are revenue synergies so hard to capture? In the short term, both customers and salespeople can leave, taking hard-won business with them. More damaging in the longer term is the dissipation in commercial momentum that results when a newly merged organization focuses on everything but supporting its sales engine. This mistake is understandable, as cost synergies are usually the first promise made to investors in a merger situation. Revenue benefits are often thought to be less predictable, lack guarantees, and come later.

When integration leaders do turn their attention to sales forces, they typically focus on talent retention, using a combination of incentives and communication to ensure that their most important salespeople don't leave. Retention of top sellers is necessary, but often not sufficient for maximizing the revenue upside of a merger. To fuel fresh growth, companies must also boost capabilities, product portfolios and sales effectiveness during the integration process, and align the entire organization around revenue priorities while also capturing cost synergies.

KEEPING TOP CUSTOMERS AND TOP SALESPEOPLE ON BOARD

Growth mergers can't deliver as promised unless CEOs, business unit leaders, and sales leaders focus on retaining top customers and top salespeople alike as they seek to drive other strategic benefits. The good news is that mergers present a unique opportunity to go beyond just retaining great customers and sellers—and attracting new ones into the fold. But achieving this level of success requires some changes. Most acquiring companies focus on telling their best customers and sellers that everything will "be okay" after the transaction. For customers, this means "We won't reduce your service quality"; for top sellers, it means "You'll still have a job at your current compensation."

[1] AlixPartners' Acquisition/Merger Project Experience

Companies often complement these messages with customer and seller retention plans such as new contracts and incentives to stay loyal.

These are important steps, but may not be ambitious enough. Top acquirers also work hard to explain the transformational benefits of the transaction to both customers and sellers. They describe, and make, visible investments in initiatives such as an upgrade in a product or service offering that appeals more strongly to the company's best customers. They show salespeople how those types of initiatives will accelerate cross-selling, and thus enhance their compensation. And they communicate to both customers and sellers realistic timelines for delivery of these initiatives, further burnishing their credibility.

BOOSTING SALES EFFECTIVENESS THROUGH NEW PROCESSES, COMPENSATION STRUCTURES, AND PRICING GUIDELINES

Post-merger integrations present a golden opportunity for companies to transform how they acquire new customers and sell more to existing customers.

Best-in-class companies use an impending M&A deal to make needed changes. These include modification of their customer-segmentation schemes and sales coverage models, improved customer targeting, redesigned compensation to incentivize a sharper focus on new customer acquisition, and refreshed product roadmaps to drive market excitement about the new company.

But all of this is challenging to pull off. That's because many leaders worry about their organization's ability to absorb change in times of uncertainty, such as during and after an M&A transaction, as well as designing the right strategic change programs in multiple areas. So, they seek to minimize change when instead they should be pushing for the kinds of major modifications in customer-related processes just described.

To boost sales effectiveness in the post-merger period, forward-thinking leaders focus on developing the new processes, compensation structures, and pricing guidelines needed to supercharge the sales team's effectiveness. They create the vision for these in time for Day 1, and clarify how these will be implemented post Day 1. In particular, they include in the post-merger budget required investments to attain growth goals—and they explicitly identify the cost synergies required to pay for these investments.

What differentiates average and best in class acquirers is an approach that maintains the status quo. This only perpetuates uncertainty about questions that matter most to salespeople, such as how their compensation will work after the merger. The result is often a steady exodus of talent seeking surety on such questions elsewhere.

ALIGNING ALL FUNCTIONS' INTEGRATION EFFORTS TO SUPPORT SALES

Driving revenue growth from a merger or acquisition requires effort from more than just the company's sales function. Other functions throughout the company need to line up behind a common understanding of sales priorities. For example, to foster cross-selling of the predecessor companies' products to the combined customer base, the newly merged entity should develop and implement new offerings and pricing schemes. That calls for a coordinated effort between sales, HR (which must support sales in designing the most effective combined organization going forward), and finance (which has to drive an aligned pricing model that adjusts for the differences in the individual companies' approaches to pricing and supports the strategic go-forward approach).

Sales and marketing must also work together to articulate clear cross-selling value propositions for customers. To install a support infrastructure for sales, experts in product design have to assist in selling; for example, by describing the integrated product value proposition and roadmap. And sales operations teams must help close deals; for instance, by enabling rapid decisions about pricing.

Achieving this level of coordination and alignment is no easy feat. In many organizations, functions tend to prioritize initiatives that relate directly to improving their own performance or those that they can fully control instead of supporting intiatives of other functions to achieve their initial benefits.

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To help overcome these challenges, top leaders should send a crystal-clear message to all functions: revenue growth is the priority. They then reinforce this message by spelling out the functional interdependencies and identify tradeoffs in applying resources between various initiatives. They modify functions' objectives to reflect and prioritize initiatives that drive revenue growth. Finally, they explicitly track progress in cross-selling and up-selling activities that truly drive revenue synergies.

LOOKING AHEAD

Merger integrations present vital opportunities for companies to transform their selling approaches in ways that catalyze new revenue growth. Before and after the close, management teams take action to keep their best customers and salespeople on board, set out a compelling transformational vision, and deftly manage the functional interdependencies vital for capturing revenue synergies. They also closely measure the results of these efforts on their revenue growth performance. If orchestrated effectively, all this hard work pays big dividends. The ultimate reward in a growth-focused transaction is boosting revenue, while increasing margins at the same time – the magic formula to maximizing the growth multiple. A

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