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Branding and M&As:

The Risks in "Getting the Deal Done"

By Suzanne Hogan and Ken Hodge

The handling of brand-related issues can make or break a deal. Why? Because brand moves send messages, intended and unintended, to the companies' stakeholders. Wrong or inconsistent moves—or, more typically, no moves at all—can confuse customers, discourage employees, and signal a lack of will and forethought to investors. Furthermore, the failure to sort out the combined company's brand portfolio can saddle the firm with an unnecessarily high marketing cost structure that delivers no demonstrable benefit.

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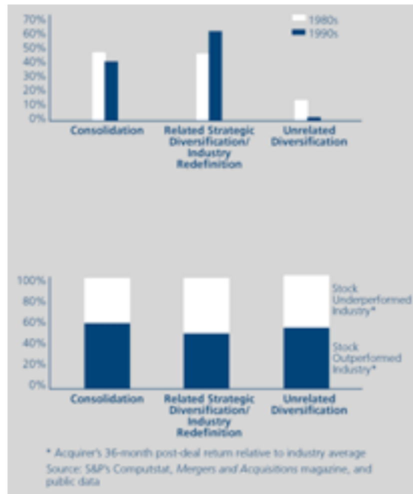
Unless a company is acquiring or merging solely to increase capacity or to gain access to a new technology, management will have to deal with brand issues. For example, if a company is making an acquisition to:

- Fill out the product line, should the new offerings carry the existing brand or a different one?
- Expand its geographic footprint, what are the relative merits of the marketing economies achieved through brand consolidation vs. the strength of each brand's local franchise?
- Augment its value proposition with new capabilities, do the strengths of either of the predecessor brands support the new positioning or is a new brand required?
- Cut costs through consolidation, should one of the existing company names prevail or should a neutral name be chosen?

Oliver Wyman research has found that mergers and acquisitions in general have been getting smarter, driven increasingly by strategic reasons—such as the diversification of products, geography, and capabilities—rather than simple consolidation and cost-cutting. But even with the shift in focus, nearly half of all mergers are unsuccessful in shareholder value terms (see Exhibit 1).

Exhibit 1: One of the reasons for this failure, the research found, is the lack of pre-deal planning about post-deal management. This includes issues involving brand, which creates one of the first post-merger impressions that customers, employees, and investors have of the combined company.



Screening

Brand issues arise at three critical stages of the M&A process: screening, pre-announcement, and integration. In our experience, addressing the right issues at the appropriate time increases the chances for a successful transaction. Screening. Brand issues can play important roles in the screening of potential acquisition candi-dates or merger partners. For each candidate under consideration, managers must compare their brand(s) with those of their target, assessing such things as each brand's equity elements and its relevance to "future-defining" customers. Then, looking across all potential targets, managers can ask: Which combinations would best achieve the company's strategic objectives? Of these, which offer the post-combination brand moves with the greatest potential? To realize that potential, should one or the other brand predominate? Should a new brand be created?

Thinking through these issues, particularly when supported with quantitative analysis, is invaluable in ranking candidates. Furthermore, it provides a dispassionate, fact-based framework for the potentially emotional discussion of brand in exploratory meetings with merger partners.

Pre-announcement

Stakeholders' first impressions of a potential merger or acquisition are hard to change. Within moments of an announcement, investors will bid the share prices up or down, the most talented employees may dust off their resumes, and competitors will start calling on both companies' best customers. It is therefore imperative to think through the brand implications of the merger and develop a convincing brand strategy.

In this phase, management must definitively answer several crucial questions. The most conspicuous one involves the name of the combined entity. Different approaches offer different potential benefits. Creating a new name—such as Cendant, which arose from the merger of HFS and CUC International—can signal both a clear break from the past and the seamless integration of the two companies. Using a combined name—such as DaimlerChrysler or ExxonMobil—can leverage two brands that are powerful in different industries, geographic areas, or customer segments. Retaining the name of one of the companies—for example Honeywell, after its merger with Allied Signal—can extend the strong equity of that brand to the other company and signal a direction for the new entity. Retaining both names—for example, IBM and Lotus, after the Lotus acquisition—can allow two strong brands representing very different cultures to flourish independently.

Apart from the corporate name, management must decide which product and division brands it will retire, which it will retain, and what investments it will make in each one. Retaining existing brands, while often having some initial appeal, particularly to the executives of a

company being acquired, can be surprisingly costly. A large healthcare company acquired some 25 regional firms and retained each of the acquired brands in its local market. Although the company estimated that the total marketing costs for those divisions was several million dollars, on close analysis it learned that the amount was actually more than $100 million. The marketing efficiencies that can be realized through a single, nationwide brand are why United Healthcare and Humana, for example, have adopted a single-brand strategy after acquiring several regional healthcare companies.

Many times, tough decisions on naming or on brand consolidation are deferred or avoided in favor of "getting the deal done." This can result in cumbersome compound corporate names such as those that have proliferated in professional services. Worse, it can send mixed signals to the marketplace. Brand decisions, along with facility closings and layoffs, are the most visible decisions in the early stages of a business combination. Just as cost-cutting decisions are clear statements of economic intent, brand decisions offer a window on strategic intent. When that window is cloudy, stakeholders typically react quickly and negatively.

Integration

After the transaction is announced, management must quickly and flawlessly communicate to each stakeholder group the rationale for the brand strategy that has been developed during the pre-announcement period. This is particularly important where one or more brands may be eliminated, which will cause concern among employees and customers whose emotional tie to a company was based in part on the now-absent brand.

But an explanation is not enough, particularly for employees. Programs and processes must be implemented to ensure that employees from both companies become effective "brand ambassadors" for the new brand promise. For example, incentives must be reviewed and revised in light of the new business and brand strategies.

And the brand strategy of the new business must be constantly monitored, with clear metrics established to assess the progress against brand objectives: Are equity elements changing as intended? Are brand investments bearing fruit?

Given the need for companies to constantly rein-vent themselves in a world of rapidly changing customer priorities, the accelerating pace of mergers and acquisitions across the industrial world is likely to continue. The ability to identify merger or acquisition targets, negotiate agreements, and integrate combining companies will become an even more important management skill. A fundamental aspect of this skill will be understanding the key role brand plays at each of these stages.