



## Merger Mastery

Getting people focused on growth, not just costs, is the the key to successful M&A strategy.

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Maritz®



Up to 80 percent of M&A deals fail to justify the capital that funded them.

Why?

Companies too often focus on cost synergies instead of revenue (and the people that drive it).

## Executive Summary

Mergers often disappoint. Why? Companies too often focus solely on cutting costs and forget to protect the revenues that are the lifeblood of the organization. The uncertainty and disruption that are part of all mergers put current and new business at risk – which in turn threatens to negate cost savings, fosters a negative culture and robs the organization of much-needed fuel during a time of massive change.

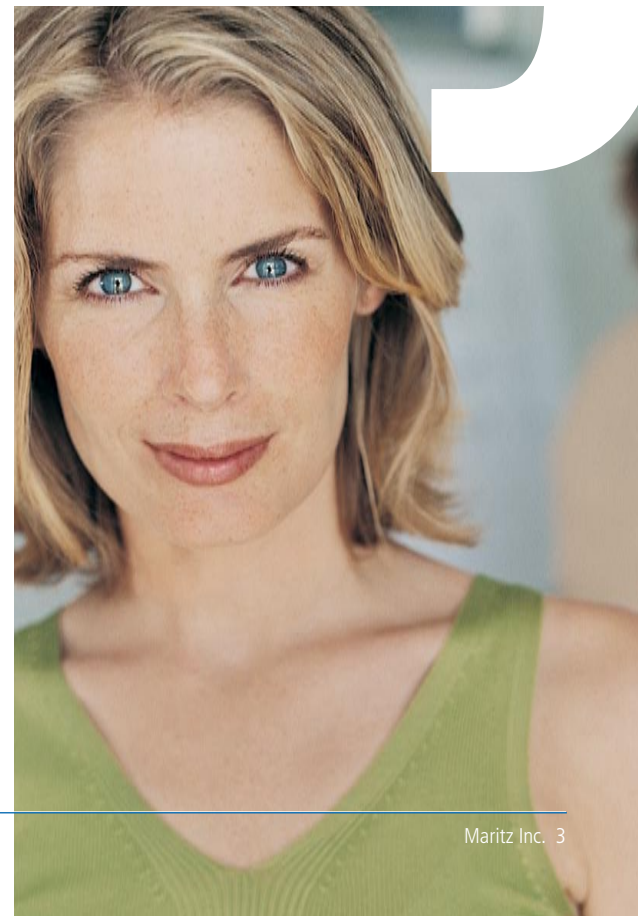
Companies that understand how to protect sales in addition to cutting costs, however, greatly increase their chance of success. This focus on revenue often means a heightened awareness of the people within the equation – the customers and employees whose perceptions and behaviors will determine success or failure.

Three areas of emphasis can help align the people in and around the organization to sustain growth:

- **Meaningful communications with key stakeholders:**  
Senior management must take aggressive steps to begin a dialogue with customers and employees to foster a sense of trust during the transition. Meaningful communication can reduce churn, lessen disruption and speed the transition.
- **Develop short-term sales incentives to prop up revenue:**  
To ensure that front-line behaviors and a focus on revenue production do not wane during the upheaval, it is critical to install short-term incentives to motivate sales performance.
- **Create the right customer experience in a complex environment:**  
Mergers are often a time of considerable client dissatisfaction and defection. Significant emphasis must be put into safeguarding the customer experience to avoid loss of current business.

Realizing cost synergies is certainly important during a merger or acquisition. However, companies that balance that approach with a focus on people and revenues will achieve vastly improved short-term results and a much higher probability of sustainable long-term success.

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### Focus on Revenues First

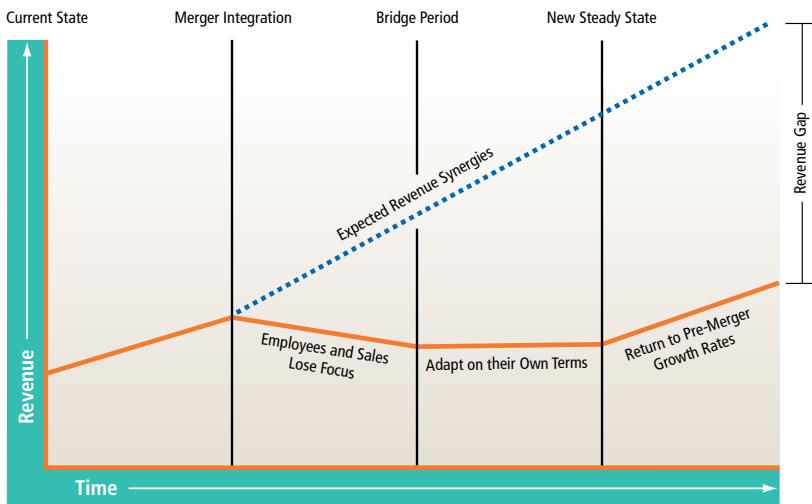
In a vast number of M&As, failure occurs because unexpected shortfalls in revenue reduce or even eclipse benefits from cost reductions. According to research from Bain & Company, up to two-thirds of companies fail to realize the synergies that were identified pre-merger.<sup>2</sup>

Although cost is more tangible, a focus on revenue is more important early in a merger or acquisition. If you don't get all the cost out the first time, you can go back and try again; customers who walk out are gone forever.

Many companies plan for revenue growth as it is a stated goal in three out of four mergers. However, most are not effective in achieving it. According to a McKinsey study, nearly nine out of 10 deals over \$100 million saw a median 12 percent revenue decline in the nine months following the announcement<sup>1</sup>. The study, based on 80 companies, also found that only seven (11 percent) were actually able to accelerate growth over the three years following the merger.<sup>1</sup> As a whole, companies that attempted to grow through acquisition methods posted organic growth rates four percent below their industry peers; 42 percent of acquirers actually lost ground in post-merger combined value.<sup>1</sup>

However, companies that understood how to protect and grow sales in addition to achieving cost synergies greatly increased their chance of success. Growth-focused companies drove returns 22 percent greater than the S&P 500 post-merger, and 40 percent faster than their industry peers.<sup>1</sup>

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### Why Mergers Fail to Create Value

Identifying cost synergies has become standard fare in M&A activity, but an average of 40 percent of expected savings are still never realized.<sup>3</sup> In addition, the costs that do come out are often at the expense of both the customers and the employees.

The problems often begin after a merger is announced, as customers begin to question the service levels that the new combined company will provide. From the customer's perspective, cost synergies often result in inconvenient processes, increased transaction volume and a drastic internal culture change - all of which begin to degrade the value proposition that attracted that customer in the first place.

Will there be any unnecessary inconvenience caused by the deal? Will the channels or touch-points they use continue to be available? These perceived obstacles drive customers to defect at an additional rate of two to five percent.<sup>3</sup>

This number can grow significantly in specific sectors such as financial services or retail banking if the cost synergies are aggressive and the customers feel ignored. The mergers of the 1990s saw retail banking lose an average of 10 percent of their customer base post-merger as cost synergies were the primary focus in those deals.<sup>1</sup>

News of a merger or acquisition will immediately create turmoil among the workforce – especially with those that have their careers based in the acquired company. And the individuals who often feel the most disenfranchised are those primarily responsible for customer satisfaction – the front-line employees.

Corporate headhunters will target the stars within five days of the announcement.<sup>3</sup> Furthermore, "culture-clash" can exacerbate problems when management tries to impose top-down processes and procedures based on their assumptions of what is needed. Overly rigid acquiring firms can run the risk of losing innovation, productivity and employee engagement if they try to impose a cost saving structure that is rejected by the creative personnel in the acquired firm.

In a merger of equals, focus often can shift to a political battle. Employees will view the deal either as a great opportunity to build their positions and/or departments, or as a personal competitive threat. In either case, the focus on cost synergies causes significant employee distraction and a shift from growing customer business to growing or protecting individual power.

"Having the company you work for acquired is probably the worst thing that can happen to somebody, other than the loss of a family member."

Jack Welch  
Former GE CEO



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The resulting upset and churn, both at the customer and employee level, are devastating to revenues. Missing these “people issues” is often the critical oversight behind revenue shortfalls - as well as missed expectations within many mergers.

To avoid this common M&A killer, targeted interventions can be employed to ensure service levels and front-line employee engagement. If these issues are identified and handled, it is possible to not only meet pre-merger revenue expectations, but to exceed them during merger integration.

Growth initiatives are almost always more successful than cost cutting alone, simply because they focus on increasing value. They have a more positive impact on both customers and employees, thereby reducing churn in both groups. To help drive growth activity, there are several key strategies that can be implemented to align and focus the organization on the positive:

- **Communicate aggressively to foster trust**
- **Use short-term incentives to prop up performance**
- **Safeguard the customer experience**

The companies that have been successful at creating revenue growth through merger integration have not done so by simply stating changes in growth objectives but rather by enabling their organizations and cultures to transition into the new expectations.

### **Initiative 1: Communicate, communicate, communicate...**

To prevent revenue loss, it is imperative that the company communicates well and often with both customers and employees. It is also necessary to have a discrete strategy for communicating with large groups that consistently measures both message retention and overall effectiveness.

#### **Communicating with the Customer:**

To offset the initial negative perceptions of the customer, the company should engage them with various communication strategies throughout the transition. It is important that the messaging focus on the value that the new firm will provide to the customer.

Gathering customer satisfaction data can be a starting point to developing these messages, but it is not a replacement for honest one-on-one dialogue. The objective is to discover what is driving the customer behavior and use the information to continuously refine both the communication message and strategy.

“Transition is what makes change work. Without transition, change just wears people out.”

William Bridges  
Author, *Transitions*



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If the firm has several large and profitable customers, they may consider developing a facilitated approach in the form of a customer summit. This approach will bring the customers and company closer together, forming a sense of community and co-creation for those who have a larger stake in the outcome of the merger or acquisition. In terms of feedback, this approach is often very effective because it is the most personal. Customer and company have an open dialogue about how the merger can have a positive impact for both. And even if the concepts uncovered are not an immediate change, the conversation has fostered a deeper relationship that will prevent short-term defection when executed well.

### Communicating with the Employee:

Effective communication is also the first step to lessen the impact of front-line disruption that robs the company of the expected revenue and destroys the customer experience. According to a recent study by the Corporate Strategy Board, communication is considered to be the most important interaction between a company and an employee - above both pay and benefits.<sup>5</sup> When designed and executed properly, communication strategies can drive growth by fostering idea generation, targeting strategy alignment and improving employee engagement – all of which have a positive customer impact.

Communication with the employee should focus on energizing them about the new combined company. The company must first let everyone know how the deal will affect them. If a department or individual will be eliminated they should have this communicated to them at the outset as they often are needed to transition knowledge to the new teams. But for those who are going to be a part of the new company for some time, executives need to focus on the increased value the deal creates. Why the new combined company will have increased strength, unique pricing power or deeper product portfolios moving forward needs to be communicated early and clearly, along with any new revenue targets or other expectations.

Executives must be prepared for many questions and have a mechanism to answer them with a personal touch and in a timely manner. This small but highly important step will ensure that the firm is enabled to execute against the new objectives.

### Communicating to Large Groups:

One of the most effective methods of communicating the value of the merger is through a comprehensive meeting and event strategy. Depending on the company, these events can be global, national or regional. The primary

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purpose is to gather stakeholders together - be it employees, customers or shareholders and to communicate one message at one time. With the heightened risk that a merger can bring, it is critical that communication is not "interpreted" as it travels down the chain of command or through the media.

To ensure that corporate communication goals are met, the meeting strategy should also create a communication scorecard that articulates the objectives of the firm. Creating the scorecard will first require that some type of voice of the participant research is completed. This process will help shape the communication strategy by better understanding what is top of mind with those in attendance. While this information will certainly help to develop a participant-focused event, it is also imperative that the research not stop there. Measuring participant feedback against the scorecard should continue both throughout and after the event to help refine communication strategies moving forward.

Exhibit 2: Effective meeting & event strategy requires the following...



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|--|--|
| 1. Identify Audience, Meeting Objectives and Measures                | 5. On-Site Event Management and Real-Time Measurements |
| 2. Survey Potential Audience and Establish Performance Benchmarks    | 6. Post Program Evaluation and Analysis                |
| 3. Develop Optimized Meeting Strategy                                | 7. Measure Ongoing Impact                              |
| 4. Audience Invitation, Registration Management and Pre-Event Survey | 8. Conduct Comprehensive Outcomes Analysis             |
|  | 9. Business Improvement Plan                           |

Source: Maritz Meetings Effectiveness

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### Initiative 2: Motivate Front-Lines with Meaningful Incentives

During a merger, standard compensation and incentives may not only lose their luster but also their alignment to the new growth strategy. For the latter reason alone, it is imperative that incentive programs are used to accelerate sales through the transition period, as any indication of misalignment in the compensation model can prove disastrous.

A short-term, non-cash incentive program can offer greater flexibility and visibility than cash. These programs can offer high-profile incentives to speed transition to new products or behaviors, as well as prop-up vital sales and service levels during the transition. But a lesser known fact is that non-cash incentives are actually more effective than cash incentives according to a study by the University of Chicago. Specifically, the study found that cash incentives could increase performance by 14.6 percent, but that non-cash incentives could increase performance by 38.6 percent - making them 2.5 times more effective.<sup>6</sup>

Motivating the sales force, however, goes well beyond just selecting awards. Motivating them requires understanding the environment they are operating within and finding opportunities to leverage the new assets of the corporation. A first step is training them to make sure that they understand the new product/service offerings and value proposition. Second is to examine the rule structure that defines how they earn awards and what behavior is being reinforced – paying close attention to the balance between customer acquisition and retention to make sure that both are covered in the model. And finally, the company should determine how they will be awarded - through merchandise, filtered cards, cash, travel, etc.

### Initiative 3: Actively Manage the Customer Experience

Customer loss is a huge concern during a merger as almost half of customers who are lost defect because of service; and 77 percent of the time employee attitude is to blame.<sup>7</sup> It is critical that a systematic approach be installed to measure, enhance and protect current levels of customer experience.

Probably the most important factor when protecting the customer experience through a merger is a better measurement regimen. Standard customer satisfaction metrics will not be enough to accurately identify new gaps or breakdowns at customer touch points. Tools that generate a holistic, 360 degree understanding of the needs of both current and new customers are available, as well as more robust voice of the customer research. Successful companies employ these tools to understand gaps in the customer base and create actionable steps to address them.

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At the same time, employees must be able to make the transition to a future state that may be significantly different than their past reality. Training designed to address any issues within the customer experience should be designed as bottom-up interventions. A facilitated approach at the front-lines will yield the best results, as these are the people who have the greatest knowledge of the customer interactions from either firm. Forcing a top-down structure often fails because it lacks an understanding of what truly happens on the front-line and misses the local variables that makes the bottom-up approach effective.

In addition, creating a real shift in customer-facing behavior requires an inherent desire to change at the individual level. Answering the question, “What’s in it for me?” in a compelling way can turn a disengaged employee following orders into a thinking advocate who is actively interested in success. Explicit and implicit motivators must be identified early in the process before new incentives can be installed. Then formal incentive and recognition programs should be employed to speed adoption of new, desired behaviors.

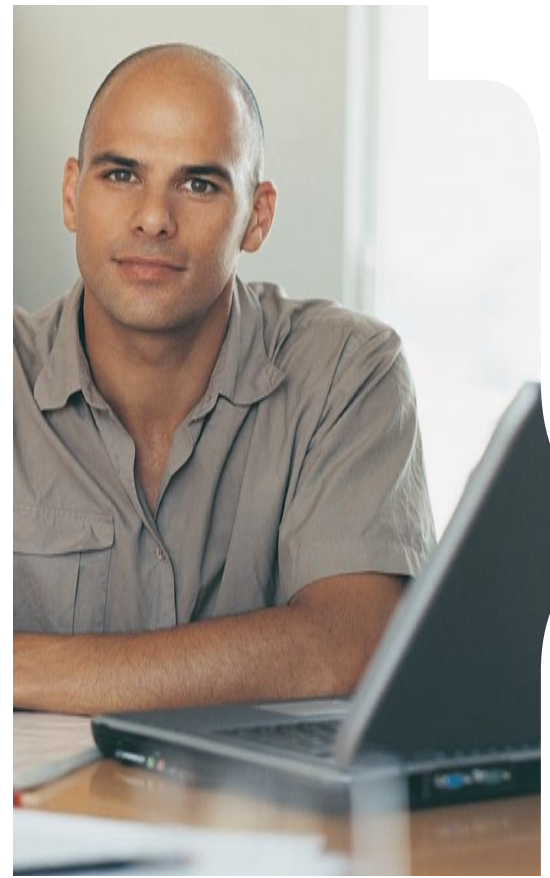
Finally, the customer experience can only be improved if there is an integrated management approach to address the issue. If the responsibility is in silos (e.g. marketing, sales, customer service, etc.) it is unlikely that it will be consistent across the company. The problem is only compounded in a merger or acquisition as the customer experience will almost always be different between the two companies, creating even greater inconsistency.

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## Conclusion

While meeting post M&A growth objectives is often more difficult than expected, applying the right approach has proven successful for those operating in the profitable minority. Implementing a growth focus through a merger requires creating strong communication strategies, aligning sales incentives and protecting the customer experience.

Integrating two companies may seem like a daunting process, but paying attention to the right things early and often will lead to success.



### Footnotes:

1. McKinsey – Mastering Revenue Growth in M&A (2001)
2. Bain & Company – The Merger Before the Merger (2002)
3. McKinsey – Where Mergers go Wrong (2004)
4. McKinsey – The People Problem in Mergers (2000)
5. Corporate Strategy Board – Mitigating Human Capital Risk in Emerging Markets (2005)
6. University of Chicago
7. Maritz Customer Experience Research (2006)



## Supporting Sales Post-merger through Meetings Management

### Situation

As Cingular began planning its annual sales meeting, rumors of a possible merger with AT&T Wireless began spreading. If the merger took place, the plans would need to accommodate a much larger sales force. It would be essential to craft and deliver a unified credible message. The logistics of recognizing top performers from two different incentives programs would also need special attention.

### Solution

Maritz took proactive steps to create an experience that would support a multi-faceted sales event and create a critical springboard to integration. Through our industry connections, we were able to determine the size and scope of AT&T's sales meetings and create a "site matrix" that reflected the new meeting requirements.

To accommodate the increased size of the new organization, the sales meeting was structured as a two-wave, four-track event. Maritz designed the complex, end-to-end solution by combining travel, event and video production, and communications teams to maximize the opportunity.

By the time the merger was finalized, accommodations for a much larger event were already secured and the message strategy was well developed. Dedicated Maritz teams worked closely with Cingular to solve logistics problems, many of which would only become apparent as the event unfolded. Maritz staff worked around the clock to assure a seamless delivery of event programming and sales recognition.

### Results

In a post-event survey, participants declared the Cingular Wireless summit a huge success giving it an overall rating of 9.2 out of 10. More importantly, the first combined event of the two sales forces was just that – a combined event. Delivered immediately behind the merger announcement, Cingular was able to use the forum to significantly accelerate communications and engagement of its front-line staff.

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### About Maritz

Maritz helps companies tap into the potential of people to achieve unprecedented results in unexpected ways. At Maritz, we help companies understand, enable and motivate employees, sales partners and customers to bring business strategies to life – delivering tangible results, reducing costs, increasing productivity and driving growth.

### What we do

Maritz partners with companies to design and execute market research, creative communications, learning solutions, incentive programs, rewards and recognition solutions, customer loyalty programs, and event and meetings solutions. All of Maritz' services focus on helping companies drive greater performance through their people, often in ways they never thought possible.

### How we do it

By combining creative thinking with strategic insights and advanced technology, we provide each of our clients with the optimal combination of solutions to their unique problems.

### Who we work with

Our Fortune 500 clients understand that their business success relies on engaging and inspiring their employees, channel partners and customers. We have helped companies in the automotive, financial services, high tech, telecommunications, hospitality, retail and pharmaceutical industries exceed their business objectives and generate exceptional growth.

For more information, please call (877) 4 MARITZ  
or visit Maritz at [www.maritz.com](http://www.maritz.com)

