



Incorporating Brand – and Marketers – in Mix Can Enhance M&A Outcomes

In a business environment where “scale wins” and the fastest way to achieve that scale remains the once-again burgeoning merger and acquisition route, the fact remains that this is a path rife with pitfalls.

Various studies by such consulting firms as KPMG and Booz Allen Hamilton suggest that 50 percent to 80 percent of M&A deals under-perform or actually destroy shareholder value within the first five years.

Part of the problem may stem from the way most post-merger integration efforts focus on internal initiatives like identifying cost savings and restructuring jobs. If integration efforts were also applied externally, with measures designed to ensure the combined organizations continued to meet customers’ needs and their expectations of the brand(s) behind them, the longer-term success rates of deals might well improve.

The problem is that brand isn’t comprehensively incorporated into the deal-making equation. The investment bankers, finance, strategy, and operations execs haven’t fully grasped the strategic implications of the brand to the transaction beyond its immediate role in helping acquire customers and achieve scale. In fact, brand has many facets, and as an asset can be leveraged to help businesses enter new markets, reach new customers, and launch new businesses that create organizational value.

Yahoo’s recent acquisition of MusicMatch, for example, lends both concerns enhanced credibility and stature in the online music space. Yahoo gains a more popular brand with consumers, allowing it to extend its reach. With the clout of Yahoo behind it, MusicMatch is in a better position to go toe-to-toe with Microsoft and Apple. Likewise, IBM’s 2002 acquisition of PWC Consulting, for example, solidified the promise of its Business Consulting Group to effect business transformation; having the “people” part of the equation in place closed a huge credibility gap in terms of its ability to bring the pieces (products and services) together.

The scope of the potential impact of brand on deals makes one argument for providing marketing leaders a seat at the deal-making table. Here’s another reason for incorporating brand strategy into the M&A process from the outset: Under new U.S. accounting standards concerning intangible assets, how the acquired brand(s) will be managed – whether they’re kept as-is or retired – affects the way they are valued as part of the deal. Failure to plan ahead has been known to lead to unanticipated (and often substantial) write-offs.

When marketing and brand are not incorporated into the due diligence process, some common failings occur that may prevent mergers and acquisitions from achieving their full potential

Too often, for example, short-term and ultimately short-sighted incentives and rationales can be allowed to dictate how the acquisition is branded. In the AOL/Time Warner merger, the desire to play off AOL’s prominence overshadowed its lack of relevance outside the Internet channel. It illustrated how branding decisions motivated by business politics rather than customer insights can easily lead to loss of customers, employees and shareholder trust, negatively affecting business results. Time Warner dropped the AOL designation from its corporate unit in recognition of the failure of content and distribution convergence and negative publicity emanating from AOL’s accounting practices.

Another failing often revolves around management’s failure to recognize the implications of the financial value of brands that are part of the acquired asset pool. These can carry a value in the millions, if not billions, of dollars. Yet while a rigorous plan is devised and followed to ensure the value of the other acquired assets is maximized, this

does not necessarily hold true for acquired brands. Too often, the acquired brand is integrated into the acquiring company's portfolio without a strategy that thoroughly accounts for communication of the move and, ultimately, how well the "new" organization will be able to deliver against the brand promise at all points of customer interaction.

Awareness is on the rise of the importance of metrics to gauge how well brands are supporting business strategies. Yet metrics programs to gauge how well the acquired brands are performing are not yet widely employed after the assimilation process has begun. There's a strong causal relationship between customer attitudes, customer behaviors, and business results that all businesses should monitor. As a rule – and not only in a merger or acquisition situation – putting related metrics in place is critical to monitor and prove out how well brands are driving business performance.

The current wave of M&A activity will have an end result of creating stronger businesses *and* brands if a brand-oriented lens is applied at all stages of the transaction. But this can only come about if marketers are brought in to the discussion to help ensure that strategic brand benefits are closely tied to the economic benefits of the deal.

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