

Quest for Revenue Synergies Elevates Marketing's Role in M&A

Merger and acquisition activity is again skyrocketing, but the complexion of the deals is changing. Cost savings alone are no longer enough to justify the high premiums being paid. Instead, the focus is increasingly on gaining revenue synergies, with the end goal being to fuel greater business growth.

The \$18.5 billion acquisition of Cadbury by Kraft Foods, for example, is expected to create annual pre-tax cost savings of at least \$675 million by the end of 2012. This includes \$300 million resulting from operational synergies, \$250 million from lower general and administrative costs, and \$125 million from marketing and selling synergies/efficiencies of scale.

Whether such expected synergies are achieved once the dust settles, however, is subject to question. One study found that 70% of merging companies failed to achieve predicted revenue synergies. Why? Consider some of the key ways to gain synergies: By capturing new customers. By tapping new distribution channels. By rolling out new products and services that leverage the brand portfolio of the combined companies. Yet, few merging businesses focus on the potential impact that their individual brands and overall brand portfolio may have on customers.

In fact, the quest for revenue synergies puts the customer at the center of the discussion. If the merger doesn't help the "new" business grab new customers, a bigger share of wallet, or create greater lifetime value, then maybe it shouldn't take place. The emphasis on revenue growth creates opportunities for senior marketers to play a lead role in driving the integration process, as they help to identify revenue synergies in the new brand portfolio and set the combined company's strategic agenda.

Three Considerations for Success

Set clear customer focus. The first step is to understand customer profitability by segment, identify which customers you are going to target, and evaluate how well each brand in the portfolio meets these customers' needs. Importantly, a merger presents a unique opportunity to think about customers in a broader and more integrated fashion; combining and analyzing both companies' knowledge of their customers provides a broader view of their behavior. New research can also help. A more

comprehensive understanding of current and emerging marketplace dynamics, drivers of customer preference, perceptions of brand equity, etc., enables marketers to better decide how to structure and manage the brand portfolio.

Optimize the brand portfolio. Here, the goals are to drive growth and generate marketing efficiencies. Decisions regarding the portfolio often involve tough calls and must be guided by a detailed analysis of customer targets, brand performance and opportunities (e.g., which segments match with which brands), and the brands' impact on business results. Certain brands can be leveraged through repositioning or the creation of new offers or concepts, while others can be divested or the underlying products and services re-branded.

Organize for success. The right brand management organization is essential. Most companies with multiple brands fail to optimally manage their brand portfolios. An acquisition provides a unique opportunity to signal significant change. The CMO, CEO, and other senior executives must institute the organizational structures, processes, and metrics that foster long-term brand building. Brand managers must both evangelize brand's role and also translate brand ideas into practical yet compelling operational standards. If these capabilities aren't in-house, then outside talent must be recruited quickly. Additionally, the company must "arm the prophets" for success by providing them with the necessary authority, resources, and organizational support. Finally, the CMO should track brand portfolio moves and financial performance to demonstrate how brand management drives tangible business impact. ©

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