Get the Most Out of Your Merger: Key Activities to Achieve Revenue Synergies

While M&A transactions are driven by an assortment of reasons, the realization of synergies is omnipresent. An acquirer's focus, post-merger, is more frequently on cost synergies, as they are more tangible and easier to achieve than revenue synergies. In fact, a recent Mckinsey article *Merge to grow: Realizing the full commercial potential of your merger* revealed that revenue growth of companies involved in large merger deals tend to decline post-transaction. And while many companies do expect revenue synergies to comprise a significant component of total deal synergies, less than a quarter report achieving 80% of their target[1].

According to Tim Morton, Managing Partner at Prompta Consulting Group, and an expert on post-merger integration:

"Far too often the M&A focus is on achieving cost synergies, [and] the culture, people, processes and ways of working are often overlooked. It's paramount for companies to have a clearly planned vision of success to support the achievement of M&A revenue synergies."

According to Mr. Morton, there are several critical elements that need to be addressed including:

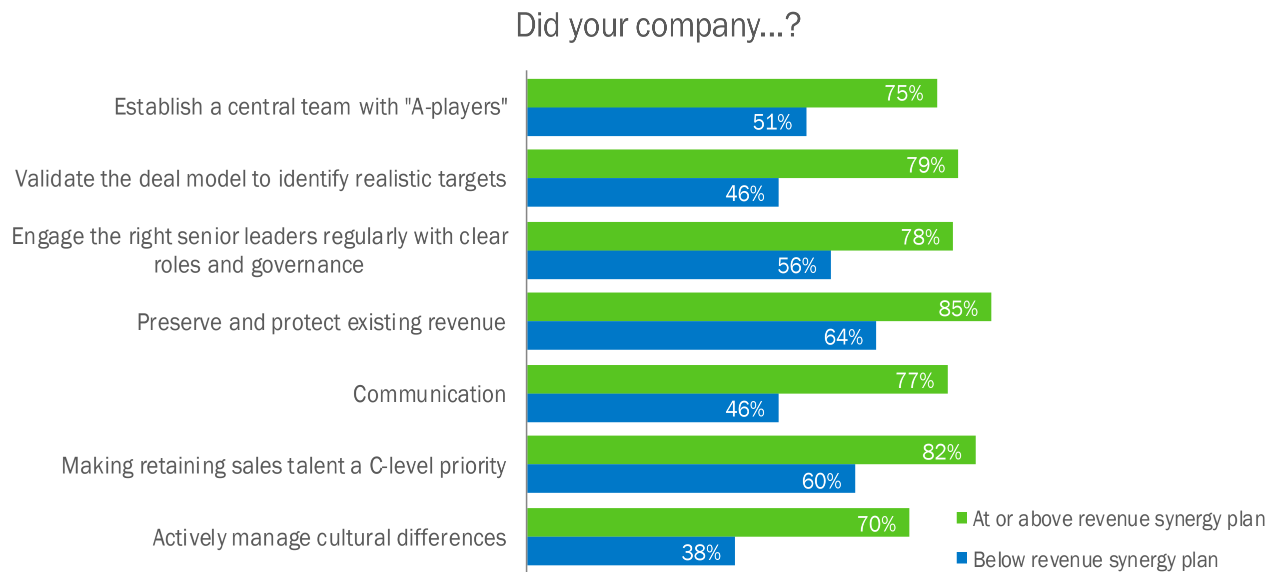
1. Key stakeholders should be engaged early and consistently as the strategic vision is brought to life. Employees, customers, suppliers and other key stakeholders will stay true when presented with a clear, consistent and compelling vision of how the new company's going to be better and different.

2. Leaders need to be active, visible and consistent, and what they do (their actions) during these transformations is just important as what they say in bringing the vision to life.

3. Culture change (often overlooked) needs to be addressed, it has a tremendous impact on achieving M&A revenue synergies. Culture is, at its essence, "the way we do business" and is largely focused on mindsets, behaviours and associated actions.

A McKinsey survey conducted on over 1,500 integration executives provides insights on seven key activities, that acquirers can implement to achieve or even exceed revenue-synergy targets. The chart below shows the survey results, which are consistent with Mr. Morton's recommendations.

[1] According to a Deloitte report on acquisition synergies



Source: [Mckinsey Market & Sales]

In our view, these activities can be further categorized into four themes: establish clear accountability, commit to effective communication, actively address cultural differences, and identify and materialize key sources of value.

Establish Clear Accountability

This is the first step towards a successful merger, and as the Mckinsey authors suggest, is facilitated by establishing an "integration management office" (IMO) fully responsible for post-transaction integration. This team, ideally formed well ahead of the closing date, is best staffed by employees who have a good network within the organization. The IMO should actively engage appropriate senior executives who have clear responsibility and can provide proper governance, thus mitigating reluctance in decision making.

Commit to Effective Communication

According to the McKinsey authors, management should address the needs and concerns of their employees with transparency and fast decision making, while purposefully connecting with and reassuring customers with quality services and an open channel. Every message should be repeated often and through different channels, to ensure that messaging about the transaction is heard.

Actively Address Cultural Differences

As Tim Morton points out, awareness and management of culture differences is critical, His view is supported by the McKinsey survey results; 70% of respondents that met or exceeded their revenue synergy targets reported actively addressing culture differences during and after a merger. The

Mckinsey article suggests that management should develop an understanding of the two legacy companies' culture by examining relevant quantitative and qualitative measures such as sales force autonomy, compensation structure, and leadership style, with the goal of establishing a shared culture and consistent future practices.

Identify and Materialize Key Sources of Value

While the above themes might apply to any aspect of a successful merger, the following actions contribute specifically to achieving revenue-synergy goals: preserve existing revenue, retain top 20% sales talent, and set realistic targets.

These steps share a common theme: identifying the key sources of value and consolidating them. This requires the management team to delve into the sales teams of both companies, become familiar with key facts, and reconcile shareable customer resources.

We recognize that it isn't easy for management to achieve all of the above, and none of these factors alone guarantees success in realizing the full potential of revenue synergies. However, appointing a strong IMO, committing to clear and effective communication, addressing and managing cultural differences, and keeping an eye on key sources of value will significantly improve the likelihood of hitting or exceeding those revenue synergy targets.