BLUE RIDGE PARTNERS
The Revenue Engine

Capturing Post-Merger Value from Commercial Integration:

Part 2: Revenue Synergies and an Improved Commercial Engine

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Acquisitions (mergers, carve-outs, bolt-ons and tuck-ins) are important to many companies as they manage their overall corporate development. Success depends upon: (1) Selecting acquisitions that can create value **– making the right strategic choices** and (2) Effectively managing the Post Merger Integration (PMI) – **integrating the business and commercial engines effectively**. This article is part 2 in a 3-part series that talks to the second of these challenges – effective integration of the business and commercial engines. In this article, we examine how understanding and leveraging the potential upside from revenue synergies and from building a more effective commercial engine can create significant value. We delve into how this understanding allows an organization to play better offense by bidding more successfully and then capturing anticipated value more effectively.

Understanding the value creation potential that is available in any acquisition is critical to win bids without experiencing the "winner's curse". This value creation comes from three areas, cost synergies, revenue synergies, and an improved commercial engine. Too often companies only focus deeply on the first of the three and fail to put themselves in a position to be successful.

Cost synergies, such as from operations, procurement, back-office, IT and similar, are typically viewed as "hard" numbers and included in analyses. Revenue synergies, from cross-sell and up-sell and the impact of an improved commercial engine can be significant but many times is relegated to the "potential icing on the cake" category and not included in the core analysis. We believe that this is often because companies lack the experience or confidence in conducting this type of analysis. Our experience with hundreds of engagements assessing revenue synergies and improving commercial engines leads us to believe that this information can be known and a competitive weapon if done well.

Sizing potential revenue synergies and the output of an improved commercial engine

An acquisition, especially a major acquisition, provides an ability to not only combine existing capabilities but reset and adjust the key commercial elements that drive the business economics. Assessing potential economic improvements requires detailed commercial analysis and planning.

This analysis generally needs to cover a number of areas including:

1. **The customer decision making dynamics (Decision Making Unit – DMU, Decision Making Process – DMP)** of the products or services to be assessed. DMU/DMP of the related offerings can be aligned and compared. Ideally there should be some connection so that relationships and strategic positioning of both organizations can be leveraged to accelerate adoption.
2. **The customer value creation potential.** The best cross-sell and up-sell opportunities come from situations where the customers will realize an important value creation effect. Too often acquirers look primarily at their own value creation and fail to deliver a compelling advantage to the customer and yet are surprised when they fall short of their targets or expectations.
3. **The risks or disincentives that may exist for customers.** Too often acquirers fail to consider that beside the positive incentives for customers, there could be disincentives or risks that customers will have concerns over (e.g., combined business may be viewed as "too many eggs in one basket" when customers are looking for multiple sources).
4. **Repositioning of the combined offerings** (products and/or services), the brand(s), and the messaging to the market based on customer and market perceptions of legacy organizations and potential integrated value proposition.
5. **Refreshing pricing approaches and tools** (e.g., quote generation, template RFP responses) and rules of engagement that reinforce the message (e.g., dual brands with differentiated value proposition) and drive margin.
6. **Reimagining the product service roadmap.** In the longer-term, a roadmap needs to be developed for new product/ service innovation leveraging both companies´ complementary capabilities.

Capturing these benefits

The efforts to understand and capture these new benefits starts before the deal closes and should continue throughout the post-merger Integration phase.

Prior to deal close

1. **Complete initial customer and market research.** This work goes beyond typical diligence work focused on customer economics, concentration, satisfaction, and retention and should include:
    a. Key DMU/DMP dynamics for major segments
    b. Initial view of overall value creation potential
    c. Potential end customer value creation levers
    d. Potential end customer risks and disincentives

2. **Develop initial cross-sell and up-sell plans.** This should be realistic plans based upon specific initiatives with required support.
3. **Develop initial combined entity GTM plans.** This should be the high-level plan that provides direction (and will be confirmed and fully detailed post close when the full leadership team can be brought in to the process).

Immediately/shortly after deal close (first 30-60 days)

1. **Develop and launch immediate market messaging.** Given the elevated risk of confusing the market with messaging, it is imperative to quickly align the messaging based on the combined value proposition (i.e. "what's in it for the customers and partners") and rollout the necessary tools to convey the message (e.g., website, brochures and other collateral, case studies).
2. **Develop and launch immediate communication plans.** Similarly, immediately launching a clear communications plan for customers, channels, and sales team consistent with the market message developed will help mitigate competitors' attempts to poach.
3. **Finalize the integration GTM Model and cross-sell and up-sell plans.** This is a key element to both set the cross-sell/up-sell targets and define the GTM model to deliver on those targets by providing the customer segment coverage and ensure the necessary coordination and interactions elements required for cross-sell, up-sell (e.g., organizational structure linkages, specialized support roles) are included.
4. **Communicate the immediate integrated core product and pricing.** Although this may be adjusted with further work, providing a clear post-close picture is important including whatever initial adjustments are necessary.
5. **Assign specific cross-sell and up-sell targets to the sales force.** These targets will signal intent and commitment to achieving cross-sell and up-sell. It is also important to create early successes to both help motivate the team internally and have showcases/examples for customers for the combined value proposition.
6. **Institute an attractive cross-sell up-sell compensation incentive/spiff to help jump start the cross-sell and up-sell sales motion.** Again, these plans will signal commitment while also driving behaviors. The key thing to consider here, similar to any other adjustment to incentive compensation, is to ensure the plan drives the right behaviors, by also checking how it would have impacted last few years' compensation.

Longer term (60-120 days)

1. **Improve integrated frontline sales management.** Too often, integration efforts focus mostly on the field sales personnel and territories; of higher value is the thoughtful integration and improvement of the sales management function.

2. **Complete detailed customer segment and value driver work as needed.** Both legacy businesses might have market analytics in place, but these need to be reviewed looking from a combined business' perspective and updated, as needed to derive the necessary actions.
3. **Finalize the repositioning of the combined offerings** (products and/or services), the brand(s), and the messaging to the market based on customer and market perceptions of legacy organizations and potential integrated value proposition.
4. **Develop refreshed pricing approaches and tools, if needed** (e.g., quote generation, template RFP responses) and rules of engagement that reinforce the message (e.g., dual brands with differentiated value proposition) and drive margin.
5. **Reimagine the future product service roadmap.** Create/Update the roadmap for new product/ service innovation leveraging both companies´ complementary capabilities and the new positioning of the combined company.

If undertaken correctly, a better understanding of the potential in revenue synergies and an improved commercial engine will allow a company to bid more effectively and create more post merger value. This understanding translates into captured value if one executes the Post-Merger Integration process effectively. In our next installment, we will delve into how to run the Post-merger Integration process.

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