



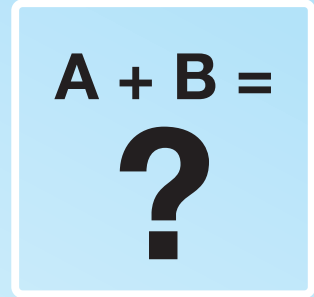
GRANT FOSTER

More Mergers and Acquisitions To Come

... but what about the brands?

When brand assets are ignored, under-valued or used as bargaining chips in M&A transactions, the capacity of the new venture to achieve its full potential is put at risk.

Brand merger strategies must establish which combination of brand assets is most likely to secure existing business and capture the greatest share of future revenues. With a predicted boom in M&A activity, a more disciplined approach is overdue.



A boom in mergers

A recent survey by UBS found that of 13 Asian countries surveyed, Australia had the most probable and most likely candidates for M&A activity in the coming 18 months. There are few events in business more exciting, challenging and for some more disturbing, than when businesses are acquired or merge. Two distinct organisations with unique histories, cultures and structures, often engaged in fierce competition, combine in pursuit of something greater than they could achieve as separate entities... or so it is hoped.

But, pre-merger dreams too frequently become nightmares for shareholders, management and staff when the rosy afterglow of the deal has faded. McKinsey & Co claim that 80% of mergers and acquisitions don't earn back the cost of the transaction and there is a commonly held belief among keen observers that 50% fail to realise the anticipated benefits. Put simply, in terms of creating value, 1 plus 1 often becomes less than 2 and there is growing evidence that a lack of understanding and focus on merging the intangible assets of the businesses is partly to blame.

Brands – critical or incidental?

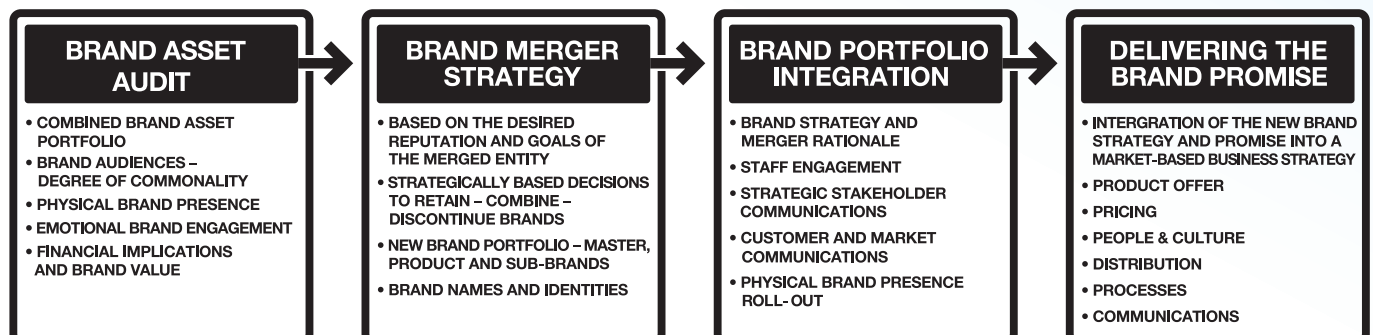
Most notably, in the case of services based businesses that rely heavily on reputations and relationships, the success of a merger depends on its ability to retain its most perishable assets – those with legs. While merging balance sheets, branches, IT systems and product portfolios is important, the extent to which staff and customers decide to stay with, or walk away from the merged business will ultimately determine its success or failure. And so, we come to brands.

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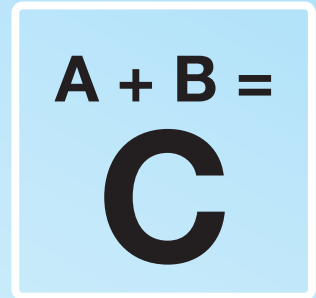
Like it or not, the world at large will often view a new brand as the reason for and principal outcome of a merger, yet mainstream M&A practice regularly fails to adequately consider brand assets as part of the due-diligence and deal-making process. The health and effective deployment of brand assets directly affects the vulnerability, volatility and future growth potential of cash flows and profitability. Critical branding decisions are, too often, left to be dealt with post-merger and resolved by opinion, ego or politics rather than through a considered and objective process designed to preserve and maximise brand equity. There is a growing list of brands that have fallen victim to the short-term needs of the M&A deal-makers and shareholders should be demanding more of directors and executives when it comes to deciding these issues.

Maximising brand assets – 4 steps

Successful brand mergers require a logical 4-step process.



Unless you're into guesswork, it all starts with a **Brand Asset Audit**. Not just because the brands in many cases will represent the most valuable assets in the merger, but also because an understanding of the dynamics of the brands can provide the best indication of the combined organisation's capacity to retain and expand customer relationships and generate future revenue. The Brand Asset Audit should aim to capture and explain the market-based capacity of the individual merger partners, the physical brand footprint of their brands, emotional engagements with customers and any balance sheet implications for the new organisation. It is basic good governance, which causes us to wonder how financial projections can be established and consequently how mergers gain board approval without this fundamental understanding.



With the audit information at hand, the **Brand Merger Strategy** should emerge from a robust methodology and disciplined decision process. Ultimately the brands have one purpose – to help the new organisation deliver on its commercial objective and in doing so, extract the maximum value from the intended merger. The Brand Merger Strategy must answer one question - which combination of brand assets is most likely to secure existing business and capture the greatest share of potential revenues?

Achieving the optimum outcomes can demand tough decisions – to run with one or both the existing brands, or to create new ones; to retain or discontinue product or service brands; to change or refresh the logos and visual identity. Sentiment, tradition, ego and worst of all, grubby compromise have no place in this process – just facts and sound brand and business practice. The brand merger strategy will play a significant role in helping customers and staff decide whether this new organisation deserves their continued support and attention... to stay loyal or seek other options. It may just be the difference between merger success and failure and surely that should be a material concern for boards and management.

Brand Portfolio Integration is essentially an execution phase, but it involves more than just replacing the stationery and signage. If you subscribe to the view that a successful merger is focused on the preservation of the intangible assets of both merger parties, that is the staff and customers, communicating and explaining the

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new brand story is one of the most crucial aspects of rebranding. No matter how large or small the changes to the existing brands – allowing staff and customers to discover the new brand in a press release, or on a smart new coffee mug and to be left to draw their own conclusions on the rationale and benefits of the merger can be

a fatal mistake from which merged entities never recover. Remember, employees will share their opinions and experiences widely – with customers, colleagues and even competitors. In addition to an orderly rollout of the physical brand, a considered and comprehensive brand engagement process for staff and important stakeholders is critical to M&A success.

Now, if all this seems critical of current M&A practice... it is, but the observation of mainstream activity that concerns us most is that Brand Portfolio Integration is clearly seen by so many as the end of the brand merger process. The prevailing mindset seems to be... the staff have been told, new business cards issued, neon signs are up - brand job done. Let's get on with business.

It's true, many M&A opportunities are driven by financial market strategies and there are numerous examples of how such deals have created significant, sometimes massive short-term returns before a single product is sold or a new customer found. But, the focus soon moves to results. You've made a lot of noise, made some big claims and promises to staff, customers and maybe shareholders – someone has to deliver the brand promise and this has to happen in its product and service markets. As the business turns to its Market-Based Strategy to achieve its goals and meet its targets, the new brand must be delivered and experienced through the products, services, people, processes and communications of the new business, as this is the only way to build a brand and long-term shareholder value.

The brands are the merger

Far from being an afterthought, or worse still a trade-off in the deal-making process, merging the brands should be one of the core responsibilities of the merger team. If post-merger performance isn't one of their priorities, then it certainly should be for directors – that's their job. Of course, if that's not the case and you are one of the senior managers responsible for the integration and future performance of the new entity, all is not lost... don't forget, you too are an asset with legs.

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