WALL STREET JOURNAL

June 16, 2007; Page R4

M&A Blind Spot

When negotiating a merger, leave a seat at the table for a marketing expert
By RICHARD ETTENSON AND JONATHAN KNOWLES

Pulling off a successful merger or acquisition is a daunting management challenge. Only about one in five deals actually succeeds in creating shareholder value. But there's a step companies could take to improve their odds: pay more attention to marketing during the negotiations. Our research with managers involved in 200-plus M&As shows that companies don't think much about how to present the merged company to customers, employees and investors. And that's a crucial error, since the success of a deal often hinges on getting the right message out to those groups.

Take something as seemingly straightforward as a name. Instead of choosing a name that communicates the vision of the new company, or what it offers to customers, executives often make a choice based on expediency. Two merging companies might decide to give the new entity a combined name (such as AOL Time Warner) to show that the deal is a merger of equals. But in some cases this decision perpetuates two separate cultures in the merged company—and creates a very challenging post-merger business environment.

Including a senior marketer at the M&A table will address this blind spot—and also generate three benefits for the negotiating team:

Selling the Brand. First, a marketer would explicitly consider how the company can communicate the benefits of the merger to customers, employees and investors—and win their support by making them feel like active agents in the deal rather than passive participants. A marketer would also ensure that the new entity's corporate brand is chosen based on strategy rather than expediency.

Finding Key Assets. Typically, the pre-merger discovery process limits itself to verifying the potential of hard assets such as property, equipment, patents and drilling rights. A marketer would also look at "relational" assets that drive cash flow, such as corporate reputation, goodwill and the brand itself—vitally important factors that often get overlooked in a merger deal.

Looking Beyond Deal Breakers. Similarly, due-diligence teams largely look for "deal breakers" that could prevent a deal from closing. But a senior marketer would also look for "deal makers"—factors that will enhance the chances of success after the merger, such as the strategic use of the corporate brand. The marketer would focus attention on ways in which the new company could deliver more value to customers, for instance, instead of focusing on how it could cut internal costs.

Recognizing and filling the missing seat at the M&A table will significantly enhance the chances of a company identifying the right deals—and doing them well.

Dr. Ettenson is a professor and Kieckhefer Fellow in Global Marketing and Brand Management at the Thunderbird School of Global Management, Glendale, Ariz.
Mr. Knowles is founder and CEO of Type 2 Consulting in New York.

FOR FURTHER READING

These related articles from MIT Sloan Management Review can be accessed online:

Merging the Brands and Branding the Merger
By Richard Ettenson and Jonathan Knowles (Summer 2006 issue)
Corporate rebranding can greatly facilitate the merger of two businesses by sending the right signals both inside and outside the organization.
http://sloanreview.mit.edu/smr/issue/2006/summer/10/

How Acquisitions Can Revitalize Companies
By Freek Vermeulen (Summer 2005)
The infusion of ideas, perspectives and processes that result from an acquisition can produce lasting benefits and value.
http://sloanreview.mit.edu/wsj/insight/pdfs/46409.pdf

Brand Equity Dilution
By Kevin Lane Keller and Sanjay Sood (Fall 2003)
As companies realize that brand names are among their most valuable assets, creating, maintaining and enhancing the strength of their brands have become a growing management imperative.
http://sloanreview.mit.edu/smr/issue/2003/fall/5/