Branding Pitfalls & Imperatives for M&A

by Sara Tang

Much has been written about the failure rate of mergers and acquisitions globally – a report by McKinsey puts the number as high as 20%, and goes on to state that 65 – 70%[1] of deals fail to enhance shareholder value.

One of the chief reasons for failure often cited by companies who have undergone this change is that financial and legal matters take precedence over the brand and customer during the integration process. And when these two critical areas of a business are neglected, it can make integration nearly impossible or extremely costly to achieve in the long-term. Customers become cynical and dissatisfied, employees defect to other firms, and other key stakeholders give up supporting the brand altogether.

In Asia-Pacific (excluding Japan), M&A currently only accounts for 10 – 20%of global volume although experts predict that the region will grow to represent a third of global M&A volumes in years to come. [2] While mega-mergers like Prudential – AIA are still considered rare in this region, there is still plenty of interest in smaller deals where foreign firms seek opportunities to tap the region's growing markets either through M&A or joint venture agreements, as well as local companies looking to expand abroad.

As brand consultants, we are often called upon to give recommendations to companies trying to manage brand issues resulting from M&A. However, as there is no a one-size-fits-all approach to M&A branding, our experience suggests that sometimes learning what *not* to do can be as helpful to a company as being given a list of recommendations for what should be done.

Derived from our collective experience working with companies, here are some branding pitfalls that anyone about to undergo or presently undergoing a merger or acquisition should consider and avoid:

- **Failure to make an objective assessment of relative brand strengths**

Often in the case of a merger, people have strong emotional attachment and allegiance to the brands they have called their own over time, and naturally they do not want to see their own brand to disappear as a result of change.

However, there are situations where only one brand can prevail as the primary identifier, and it is important to make an objective assessment – often through stakeholder research – as to which brand that is. Failure to do so can result in the disappearance or reduction of the more valuable and salient brand.

[1] McKinsey Survey 2001
[2] WSJ “Merger Deals Surge in Asia”. April 2, 2010

It is commonly assumed that the acquirer brand will become the primary brand after an M&A i.e. retaining its name and symbol, as well as extending it to the target brand. And it is shown that up to 40% of M&As[3] follow this route mainly out of expediency – one less thing for senior executives to think about in the midst of complex merger discussions.

But this should not always be the default option. When Bank of America was purchased by NationsBank in 1997, one of the largest bank acquisitions in history at the time, an extensive study was undertaken of both brands and it was found that the Bank of America brand was much stronger than the NationsBank brand amongst key audience segments. Thus, the decision was taken to phase out the NationsBank brand over a period of two years in favour of Bank of America.

- **Emphasis on the Short Term, Lacking Future Perspective**

Research shows that in nearly two-thirds of deals exceeding $250million, brand strategy was deemed to have low to moderate priority in merger discussions[4]. And in our experience, brand consultants are most often called in to work with companies only after the M&A deal has been announced or approved.

Under such circumstances, branding then becomes the responsibility of marketing executives who are charged with the unenviable task of “making the deal work”. Branding decisions may subsequently be made with the emphasis on the short term, giving rise to solutions that then have to be changed in the longer term.

For example, when UK insurers Norwich Union merged with Commercial Union General Accident (CGU) in year 2000, a solution for branding the merged entity was required urgently. So an extra letter ‘N-U’ for Norwich Union was bolted onto the current existing CGU name to form CGNU in the UK, as a short-term fix. However, the company still operated under 40 other major trading brands across the world.

Two years on, it was found that this solution was hindering customer recognition and sales, as well as being costly and inefficient to maintain. As a result, a new brand Aviva was developed to replace CGNU.

- **Marrying the Incompatible**

When devising an M&A branding solution, it is important to evaluate and consider the core values of the entities being merged, and not to force a fit between them.

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[3] MIT Sloan Management Review 2006
[4] MIT Sloan Management Review 2006

Take for example, the failed merger between Germany's luxury car brand Daimler that manufactures the prestigious Mercedes-Benz brand, and the United States' mass market brand Chrysler whose motto was once "Great Cars. Great Trucks."

Billed as a "merger of equals", the deal was beset by cultural, linguistic and management style differences from the outset. The gulf between the two brands, and what they stood for, only added to integration difficulties.

One DaimlerChrysler executive was even quoted as saying, "It is unthinkable for a Chrysler car to be built in a Mercedes-Benz factory, and only over my dead body will a Mercedes be built in a Chrysler factory."

In the event that two branded entities undergoing a merger are considered incompatible or in conflict, then it might be more prudent to keep the two brands operating independently of each other, until this situation changes.

IBM did this successfully with its acquisition of software provider Lotus in the mid-90s. At the time, IBM was known as a hardware company while Lotus was clearly a software brand. They also had extremely distinct cultures – IBM being very corporate while Lotus was deemed extremely progressive.

In order to retain both talent and customers from Lotus, IBM adopted a relatively hands-off approach to integration and allowed Lotus to operate independently as a corporate entity and product brand. Over the period of a decade, IBM brand managers finally migrated Lotus to a product brand within its software group.

- **Lured by the New, Casting Aside Existing Equity**

In certain instances, to side-step thorny integration and legacy issues, companies may be tempted to discard their existing brands and simply come up with something completely new.

The advantage of creating something new is that it signals change to the market and may be viewed as 'transformational'. Some organisations also see it as one of the key ways to motivate and unite staff under a new umbrella, as one brand is not being subsumed by the other. Others may use the launching of a new brand as an easy exit strategy from dealing with issues plaguing their existing brands.

A new brand is valid if the existing values, attributes or associations from the merged entities are irreparably damaged or are unsuited to the merged entity's strategic ambitions. However it is not a magic bullet, and a new brand would requires years of sustained input to imbue it with meaning over time.

Thus, this resource-intensive approach is also the most risky as shareholders will question the need to wipe the slate clean when equity may still exist in the brands that are being merged.

Take the example of PWC Consulting, a brand that underwent a hasty de-merger from Pricewaterhouse Coopers in the aftermath of the Enron accounting scandal. Their eagerness to put as much distance between the new brand and their auditor parent caused them to adopt the disastrous new brand “Monday” with a £70 million price tag. Just days after the new name was launched, they were acquired by IBM and their new brand was abandoned.

Existing brand equity and heritage can be an invaluable asset to a company, and our experience as brand consultants suggests that more often than not, most companies try to find solutions that preserve brand equity in some way, shape or form. This could be through an endorsement line or visual expression or even through an intelligently phased migration strategy.

So what should a company undergoing M&A do to avoid the pitfalls listed above? Our best advice is to plan early, and evaluate often.

Incorporating brand early into merger discussions helps to tie the brand strategy closely to the business strategy. Taking a longer term view to branding the M&A is crucial, but so is evaluating the brand strategy at regular phases of the merger as market sentiment and organizational goals change.

Planned and executed well, the prognosis for M&A need not be unnecessarily grim. Rather, it could turn into a unique opportunity to establish a leadership position in the market by setting out a new direction for the branded entity, and clearly articulating the benefits for key constituents.

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