SALES AND MARKETING CONSULTANCY ZS ASSOCIATES ASKS:

WHEN CONSIDERING A MERGER, *Ask*

Mergers and acquisitions are at an all-time high in 2015. There are many reasons why this is happening—companies are buying to increase their heft in contracting, fill an innovation deficit, reshape a portfolio, smooth out cash flows, and even manage a tax bill.

In an industry where most start-ups are funded expressly to sell their innovations to bigger companies and cash out, and where big players merge and grow to protect themselves from becoming a target, it is useful to decode *why do we buy*?

We have seen too many mergers fail to create value for the acquiring company. Of course companies sometimes overpay or get locked in an egotistical bidding war to acquire in moments when, ideally, cooler heads would prevail. But those aren't the most interesting cases. More useful is to examine the mergers where the companies lost sight of the reason why they set out to acquire in the first place.

First, a cautionary tale: A medtech company with a truly unique therapy in wound care decided to broaden its portfolio by offering to the customer more than just a single product. The company wanted to have a portfolio of wound care products so it decided to buy another wound care company with traditional wound dressings.

The idea was that it would be able to care for most wounds that a hospital sees, advise on appropriate use, and maybe even propose to contract in a capitated manner. The purchase of the target wound care company would bring exciting prospects which would be enabled by combining a traditional portfolio with their unique therapy. A ton of excitement surrounded the acquisition.

But when it came time to merge, everyone seemed to forget the reason they acquired the company. The idea of putting things together sounded good until individuals responsible for pieces of the portfolio started letting their egos and incentives get in the way. To protect turfs, the sales forces were kept separate. Any notion of a combined offer, let alone a capitated model, immediately vaporized—and what was left was a loose affiliation of the companies. The reasons to merge were lost and completely ignored when the commercial organization was designed. So, in the end, zero synergies. A real shame.

We believe it is critically important to keep the reason for the acquisition firmly in mind when considering the future commercial model. A few illustrative examples:

If the goal is scale, the new commercial organization needs to ensure it builds an integrated approach to commercial buyers, rebate structures, and business integration. This approach begs for new roles engaging with healthcare systems, IDNs and other top level structures. Expect to see new roles, or at least to expand some for the senior roles that are working top-to-top. A critical success factor here is providing the support and empowerment for the cross-business team to actually represent the combined company without hindrance.

If the goal is building a portfolio, as in our earlier example, it is critically important that one voice speaks for the portfolio, allowing the customer to access the primary value of the combined offering. The worst thing you can do in this instance is avoid a sales force integration and leave two separate teams, forgoing the reason you made the acquisition in the first place. Sadly, this is a very common mistake.

Sometimes an acquisition allows entry into a market and a footprint that would otherwise take years to build. Now this is a tricky one—there is a need to preserve that which was successful, recognize how much the network and the people who constitute it are needed, but also bring them into the fold of the new organization to take advantage of the new channel that was just opened. The guts must stay the same, and a degree of autonomy should be preserved, but at the same time, the new organization needs to be a viable mechanism to leverage geographic expansion. Too much "hands off" will achieve nothing of the original goals.

And sometimes the acquisition is more financial in nature—tax benefits, paper growth to feed Wall Street's insatiable need to show expanding percentages, productive uses of free capital. Initially these acquisitions look like free money, but managers should rarely be satisfied with a loose affiliation of companies or a house of brands. Eventually, the inevitable consolidation of value proposition, selling channel or even simple real estate will have to happen. Foolish are those who ignore this need just because the original premise was financial.

In the end, we know that M&A is critical to the healthy function of our industry. But better understanding of the drivers is an essential piece to driving better outcomes.

ABOUT THE AUTHORS

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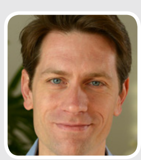

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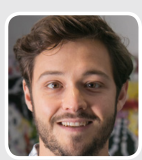

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