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SALES & MARKETING INSIGHTS

Merger and Acquisition Success: The Sales Force Integration Imperative

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Recent studies cite that between 40% and 70% of mergers fail to achieve their objectives. This article discusses the role that sales force integration plays in merger success, and provides insights on risks and success factors derived from more than 200 sales force integrations spanning a diverse range of industries, sales models, company sizes and countries. The article then presents a sales force merger road map using a case study example.

The Role of Sales Force Integration in M&A Success

A powerful driver underlying many B2B merger and acquisition outcomes is the degree to which sales forces are successfully integrated. The majority of deals are sold to shareholders and to the board based on expected revenue synergies where 1+1 is greater than 2. Assuming these synergies are real, the integrated sales force's ability to realize them is paramount to merger success. The new selling organization must be able to capitalize on the combined offerings, customer bases and sales talent to net greater cross-selling, up-selling, customer acquisition and penetration than either company could achieve independently.

Sales effectiveness derives from a complex set of interdependent drivers. These include customer insight and segmentation, value proposition and sales process strategy, sales force design, sales force knowledge and skills, and rewards and motivation systems. Even the most capable sales leaders are challenged to maximize sales effectiveness with just their own sales force. When two are brought together the degree of difficulty can increase dramatically. Further, the sophisticated combinations of different sales roles and channels, and of segment-specific value propositions employed by many of today's sales forces, add to the degree of complexity.

Successfully addressing these challenges requires a combination of integration expertise, well designed processes, and specific analytical techniques and tools. For most companies, large-scale sales force mergers are not a common event. Not surprisingly, organizations often lack the core competencies necessary to maximize sales force integration success.

What this means for B2B executives engaged in a merger or acquisition is that they must carefully assess how critical the sales force integration will be to the ultimate success of the deal. Accordingly, they then need to objectively assess their organization's overall competency in M&A-related sales force integration. Where there are gaps, executives must determine how to bring in the expertise and resources necessary to address those gaps. Finally, they must oversee and ensure a rigorous process that cost-effectively delivers the sales model and execution capability required to actually realize the promised revenue synergies.

Sales Force Integration Risks

Results derived from a study conducted by ZS Associates of more than 200 sales force integrations during the last 25 years provide valuable insights for executives and sales leaders engaged in sales force integrations. The companies included in the study span 10 industries and 60 countries, with a large portion falling within the Fortune 500. Information about the integrations was provided by ZS partners who directly supported each.

The study identified a number of sales force integration risks that can undermine the degree of merger success, including:

1. **Too much or premature downsizing**: leadership cuts too much sales capacity in the spirit of contributing sales' "fair share" to cost synergies. The resulting market coverage gaps and relationship disruption reduce sales for years to come.
2. **Excessive or poorly managed customer relationship disruption**: too many customer relationships are damaged, resulting in decreased share-of-wallet and customer defection. Sales force effectiveness drops while sales representatives learn new customers and develop credibility with key decision influencers. For every customer lost, the acquisition cost of replacing them is three to ten times that of having maintained them.
3. **Loss of too many high performers**: top performing sales persons defect because of too much uncertainty or aggressive competitor headhunting. New top performers take years to develop or hire.
4. **Loss of focus on current business**: the sales force becomes distracted and demotivated by impending change. The company ends up losing market share during the transition period.
5. **Failure to design the required sales model**: the new sales force design is incapable of cost-effectively achieving the revenue synergies sought by the merger. Revenue synergies fall short regardless of success on other fronts.
6. **Incomplete and/or sub-optimal implementation**: leadership loses focus and momentum during detailed and more drawn-out stages of implementation. The execution capability of the integrated sales force falls short of that required to achieve the merger objectives.

7. **Destructive "us" versus "them" sales culture:** the integration process fails to generate a shared sense of mission, culture and teamwork. Finger pointing and destructive conflict persist for years.

Any one of these risks has the potential to significantly reduce merger success, both short-term and long-term.

Sales Force Integration Key Success Factors

In addition to identifying potential risks to M&A sales force integration, the ZS study also identified a number of key success factors that together maximize sales force integration success, including:

1. **Enlightened executive and sales leadership:** the leadership team understands how critical the sales force integration is to M&A success and the associated challenges and success factors.
2. **An aim first, fire second approach:** leadership dedicates the time and energy necessary to determine a sales force design that will effectively capitalize on the integrated product and customer portfolios. Politics are not allowed to shape the answer.
3. **Comprehensive implementation plan and execution:** issues critical to successful implementation are carefully identified and addressed through a comprehensive work plan. The plan ensures effective timing, sequencing and ownership of all work streams based on interdependencies and effort requirements.
4. **Effective governance model:** review and sign-off processes drive transparency of and accountability for key milestones and success metrics. A project management office oversees the overall work plan and ensures alignment between interdependent work streams.
5. **Leveraging best of both:** leadership commits to learning and adopting best practices from the merged organizations and from external benchmarks, and does not simply force-fit one organization to another.
6. **Required expertise and capacity:** a careful assessment of internal expertise, tools and capacity is made to identify support needs. External support is brought in as necessary to meet those needs, and to help ensure objectivity and incorporation of best practices.

7. **Fact-based decision making**: objective, rapid and high-quality decisions are based on data derived from best-in-class sales force design and implementation frameworks, and leading analytical methodologies and tools.
8. **High performer reassurance:** interim retention tactics are put in place to reassure top performers of their future role and earning potential.
9. **Focus on current business**: interim motivation and reward tactics are developed to ensure sales people do not become distracted from existing business during the transition period.
10. **Effective rollout sequencing:** timing, sequencing and processes to manage the rollout of the new sales model and supporting elements are based on degree of change relative to current capabilities.
11. **Proactive account hand-offs**: rigorous and proactive processes, tools and motivators are used to minimize disruption for customers.
12. **Continuous improvement:** post rollout, continuous improvement needs are identified and acted upon on an on-going basis.

Together these success factors can produce an integrated sales force that maximizes profitable revenue from the combined company's offerings, customers and talent—while minimizing the transition costs.

The following case study illustrates several of the common sales force integration missteps as well as some of the best practices.

CASE STUDY

In early 2000, a global paper products company acquired a specialty paper products company to expand its ability to provide broader customer solutions. Enthusiasm for the integration was high across both organizations.

Early in the integration process, leadership made the decision to leave the sales forces of each company relatively separate. While both would now report to a single VP, the basic structure, sizing and deployment of each would remain essentially unchanged. Leadership believed that this approach would minimize transition costs and ensure continuity of current business. They felt that they could drive synergies by requiring the two sales forces to hand-off relevant leads to each other and to bring each other into situations where the customer was requesting solutions that spanned the broader product/service portfolio.

Eighteen months after the merger, few revenue synergies had been realized. Confused customers were complaining about the lack of coordination between the sales forces and multiple points of contact. Revenue targets that had been based on anticipated synergies were being missed. Tension between the two sales forces was high, with each blaming the other as the source of the problem.

Enthusiasm for the merger had all but vanished across the organization, with most believing the decision to merge had been a bad one. Furthermore, competitors were starting to significantly threaten key relationships. The company had moved to a price premium strategy in anticipation of greater customer value creation. However, most customers were not experiencing new solutions or additional value from the merged organization. The company was increasingly vulnerable to defection of some of its most important customers. After some reflection, senior leadership recognized that they had gotten the sales force integration wrong.

As a first step to recovery, the company initiated a rigorous sales force design study. The objective of this study was to fully assess the sales force design required to most effectively maximize growth given the company's joint products, services, customers and prospects. The process began with a detailed examination of customer needs, buying processes and potential by major product group. From this effort a number of unique customer segments were identified. Next, the critical sales force activities required to take the offerings to market for each segment were identified. From here, alternative sales models were developed and carefully analyzed to identify the most cost-effective option with the best prospects for successful execution.

The resulting sales force structure reorganized ownership of sales roles, products and service responsibilities, and account type ownership. Some activities were reassigned from the sales force to internal sales and service support functions. The structure also specified a new approach for ensuring that support resources, such as technical service reps, would be prioritized against the most important accounts at the right times and in the right quantities.

Leadership then carefully determined all implementation issues, including interdependencies, and made detailed work plans for each issue. These work plans were integrated into a comprehensive implementation plan and governance model (Figure 1):

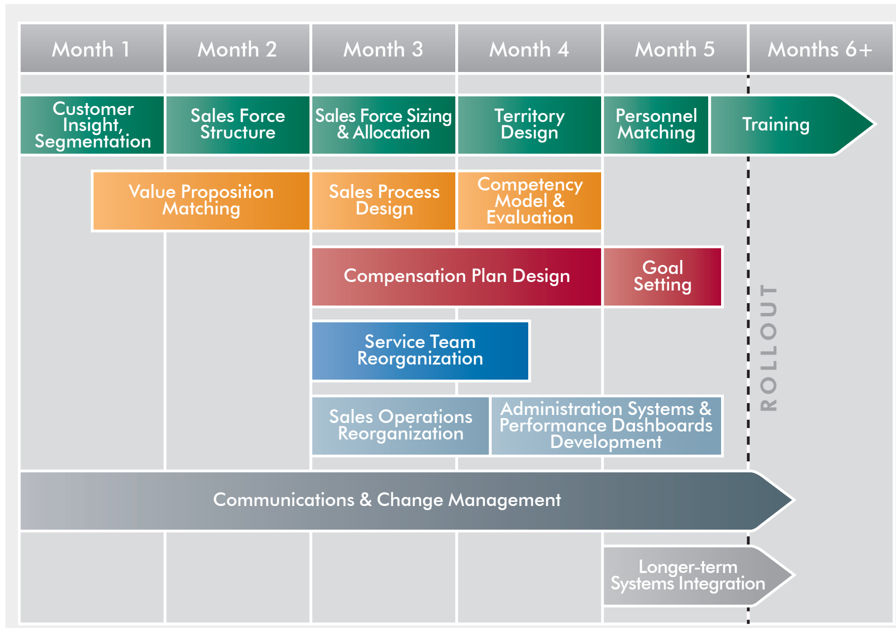

Figure 1. Case Example Company's High-Level Implementation Plan

Core teams were formed for each work stream that ensured deep expertise, access to sales force integration tools and necessary capacity. A project management office was set up to oversee successful execution of the implementation plan, and to help ensure alignment between work streams. The project management office also oversaw sales force and customer communications, as well as other aspects of change management.

Timing of the implementation plan balanced the need for a rapid transition with the need for quality decisions. Each work stream was accomplished with machine-like precision, with downstream work streams directly building on the results of preceding work streams.

Leading analytical methodologies and tools were leveraged for sales force sizing and territory design. These tools allowed leadership to understand the relationship between sizing decisions and financial impact. The tools also allowed the implementation team to simulate alternative territory design configurations and to design territories to maximize target account coverage while minimizing account relationship disruption.

CASE STUDY

A detailed competency model was developed for all new positions and used to assess current sales person competencies. Historical performance ratings for sales people in both companies were normalized to allow "apples to apples" comparisons. Integration tools designed to help match people to roles were then used to ensure strong skills fit while minimizing disruption to customer relationships and minimizing the need to relocate salespeople and/or disrupt reporting relationships.

Likewise, leading analytical methods and tools were leveraged to design and evaluate incentive compensation plans and goals for the integrated sales force. Payouts under alternative incentive plans were simulated to gain insight into financial costs, risks and impact on high performers. Ultimately, these models were used to detail the actual goals and payout relationships for each of the new incentive plans.

New sales operations capabilities were developed to administer the new incentive plans and goals and to provide on-going account data, pipeline tracking and reporting.

First-line sales managers were privately "brought into the tent" well in advance of communication of the new strategy to the sales force. Doing so helped ensure better decision making on key sales force implementation issues, and strong understanding, buy-in and commitment from first-line management.

In advance of actual rollout, a proactive account hand-off process was developed along with supporting tools and sales force training. A three month interim component was added to the incentive plan to motivate prior sales persons to introduce and coach new sales persons taking over their accounts.

The resulting sales force and supporting elements were considerably different and more effective than the prior. An interesting by-product of the experience was a new level of executive respect for the degree of complexity and skills required to maximize sales force effectiveness.

Conclusion

Sales force integration needs to be highlighted as a critical success factor for B2B mergers and acquisitions that are based on revenue synergy. The best performing M&A leaders will be those who recognize the complexity of successfully integrating sales forces, and who ensure comprehensive, disciplined and analytically rigorous approaches to their integration decisions. Only in this way will they minimize transition costs and arrive at the sales force design and execution capability necessary to beat the low odds of M&A success—where one plus one is indeed greater than two.

About the Authors

Mike Moorman is a Principal in ZS Associates' Chicago office. Since joining ZS in 1993, Mike has consulted with more than 30 companies in the high-tech, transportation, financial services, industrial products, consumer goods, media & publishing and life-sciences industries. Mike's primary expertise is in go-to-market strategy, sales force effectiveness and sales force transformations. Mike's expertise spans a diverse range of sales models, including global, strategic and key account management, generalist and specialist field sales, and inside sales. In 2007, Mike was named one of the Top 25 consultants by *Consulting Magazine* for his thought leadership in value-based sales strategies and sales force transformation. Mike is a frequent conference speaker and author, and lectures on sales force topics at the Kellogg School of Management Executive Education Program. Mike has on MBA from the Kellogg School of Management and a BS in aerospace engineering from Wichita State University. Prior to attending Kellogg, Mike held aerospace engineering positions at NASA, JSC and Rockwell Engineering. Mike has served as interim vice president of customer experience for a *Fortune* 200 ZS client.

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About ZS Associates

ZS Associates is a global leader in sales and marketing consulting, outsourcing, technology and software. For almost 30 years, ZS has helped companies across a range of industries get the most out of their sales and marketing organizations. From 20 offices around the world, ZS experts use analytics and deep expertise to help companies make smart decisions quickly and cost-effectively. ZS comprises multiple affiliated legal entities. Learn more at www.zsassociates.com.

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