SALES + MARKETING

Achieving the Revenue Promise From Mergers and Acquisitions

By Rodolfo Luzardo and Mike Moorman

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Merger and acquisition activity has picked up after the Great Recession, with mega-mergers and inversions taking over the headlines. Deal volume reached an all-time record high in 2016 with nearly 50,000 transactions exceeding $3.5 trillion in value. Yet, 83% of these deals will fail to boost shareholder returns. In fact, achieving a superior revenue engine has been the exception rather than the rule. Only three in 10 M&A transactions generate growth in excess of pre-merger rates.

A study conducted with senior partners at ZS (who have collectively been involved in four of the 10 largest M&A transactions in history and more than 200 sales force integrations spanning a multitude of industries and countries) provides sales force integration insights that are critical to overcoming these odds.

The Role of Sales Force Integration in M&A Success

Although most corporate acquisitions are predicated on increased shareholder value, less than two in 10 actually increase shareholder returns, according to KPMG. Failure to achieve revenue synergies is a chief culprit, with McKinsey reporting that only three in 10 M&A transactions generate growth in excess of pre-merger rates. These trends underscore the immense challenge of creating and effectively implementing an integrated sales and marketing strategy. Getting the sales organization strategy and implementation right is critical to enabling the new company to meet the revenue aspirations that justified the merger business case.

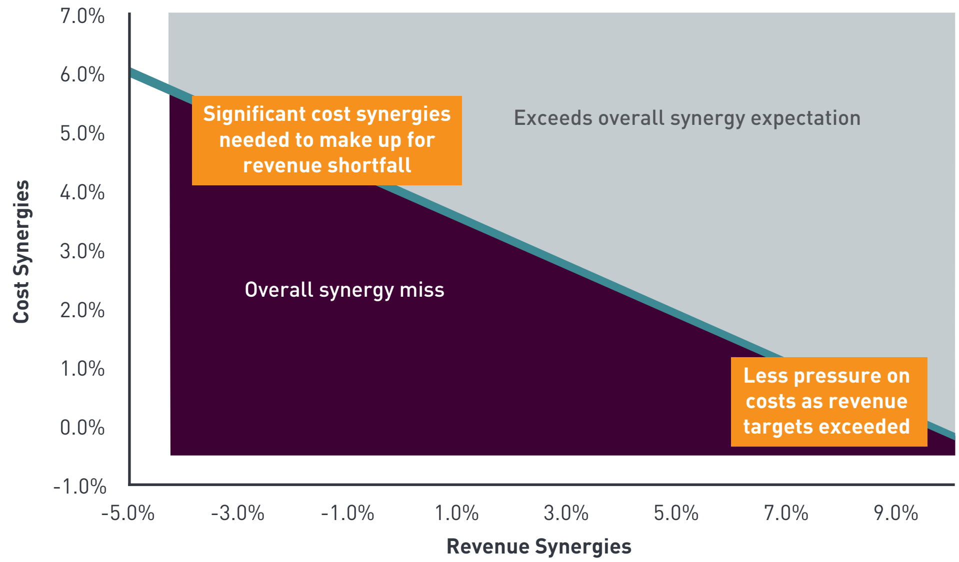
Senior leadership and consultants commonly, and often disproportionately, focus on cost-cutting during mergers. In many ways, the elimination of duplicative selling, general and administrative expenses, overhead rationalization and supply chain integration—all critical—are somewhat easier and faster than achieving revenue synergy.

Unfortunately, for a merger to be successful, gains in efficiency come second to accelerated revenue generation. A 1% shortfall in targeted revenue growth would require a 28% increase in cost synergies to deliver equal shareholder value. Conversely, exceeding revenue goals by 3.5% eliminates the reliance on cost synergies altogether. (See figure 1.)

The success of many mergers hinges on the ability of the new organization's sales force to capitalize on the combined offerings, customer bases, talent and best practices to generate greater cross-selling, up-selling, new customer acquisition and customer retention. In short, the integrated sales organization must be more productive than the prior independent sales organizations. So why has achieving this superior revenue engine been the exception rather than the rule? It all boils down to complexity, expertise and capacity.

"Divide-and-conquer" and "check-off-the-boxes" approaches to sales integrations are appealing to many merger integration teams. They also almost never work.

TRADEOFF BETWEEN COST SYNERGIES AND REVENUE SYNERGIES



*Assumes average S&P 500 gross margin of 42% and operating margin of 13.5%

Figure 1: Senior leadership and consultants commonly focus on cost-cutting during mergers, but they should be focusing on revenue synergies.

Sales is arguably the most complex business function in many organizations—and often one of the least understood. Sales force performance derives from a complex set of 30 interdependent drivers. (See figure 2.) Sales effectiveness is a system. The performance of the sales organization is a direct result of the effectiveness in each driver and in the interlinkages between them. Successful company integrations must address the entire system.

Furthermore, sales, in general, is in a state of significant change in most industries. Recent and continuing evolution in customer buying practices is forcing suppliers to re-evaluate and adapt their value creation and commercial strategies. Sales areas including segment-specific value proposition strategies, sales and marketing channel harmonization, hybrid sales organization design, solutions-oriented customer engagement processes, increased reliance on predictive and prescriptive analytics, new competency requirements, new approaches to learning and development, and new approaches to motivation are all rapidly evolving.

Integrating two sales organizations—each with its own culture, strategies and practices—requires a comprehensive and carefully orchestrated assessment of each of the drivers, many of which are "owned" to varying degrees by different leaders or groups within each of the organizations. "Divide-and-conquer" and "check-off-the-boxes" approaches to sales integrations are appealing to many merger integration teams. But they almost never work. At the end of the day, the newly formed sales function must operate as a highly synchronized system capable of outperforming the previously independent sales organizations. Anything less will fail to achieve the revenue synergies on which the merger was predicated.

SALES FORCE PERFORMANCE DRIVERS

SALES STRATEGY	SALES FORCE DESIGN	CUSTOMER ENGAGEMENT PROCESS	PEOPLE AND SKILLS	MOTIVATION
Customer-focused strategy targeting the best growth opportunities with differentiated and mutually valuable offerings	Effective and efficient coverage of the full target account universe with a structure and deployment that best fit the value proposition and sales process strategies	Customer-focused and expertly executed sales processes and planning that maximize mutual value and trust	Sales managers and salespeople with the knowledge, skills and attributes required to excel at their respective roles and responsibilities	Highly motivated, performance-focused and accountable sales force committed to "getting it done" and "doing it right"
+ MARKET INSIGHT + SEGMENTATION + GROWTH PRIORITIES + VALUE PROPOSITION + PRICING STRATEGY + SALES AND MARKETING COLLABORATION + LEADERSHIP ALIGNMENT	+ STRUCTURE + ACCOUNT ASSIGNMENTS TO TEAMS + SIZING AND ALLOCATION + TERRITORY DESIGN	+ SALES PROCESS + TARGETING, TERRITORY AND PIPELINE MANAGEMENT + ACCOUNT PLANNING + SALES TOOLS AND ENABLERS	+ COMPETENCY MODEL + SELECTION AND HIRING + TRAINING + COACHING + PERFORMANCE REVIEWS AND ACTIONS	+ CULTURE + METRICS AND DASHBOARDS + GOALS + INCENTIVES AND REWARDS

SALES OPERATIONS				
Highly efficient support capabilities that provide the sales force with the information, expertise, speed-to-market and efficiency needed to achieve superior performance	+ DATA MANAGEMENT + ANALYTICS	+ LEAD GENERATION AND MANAGEMENT + PRICING AND CONTRACTING SUPPORT	+ REPORTING AND ADMINISTRATION + PLATFORMS AND SYSTEMS	

Figure 2: As illustrated in ZS's SFE Navigator™ above, the performance of the sales organization is a direct result of the effectiveness in each of these 30 drivers and in the interlinkages between them.

When it Goes Wrong: Sales Force Integration Risks

With most mergers failing to achieve revenue synergy, executives embarking on a merger need a deeper understanding of common sales force integration errors and success factors. Based on our research and observations, there are three big sales-related errors that most dramatically undermine integrations: sales force design, implementation and risk management.

1. **Failure to design and commit to the necessary change in growth strategy, channel mix and sales organization structure:** The result is a sales organization strategy and design that are incapable of capitalizing on the integrated offering and customer portfolio irrespective of implementation quality. Root causes leading to this risk include:
    + **Insufficient leadership bandwidth:** The senior leadership team lacks the capacity, the bandwidth and, potentially, the integration expertise to design and lead the sales force change while simultaneously running the business.

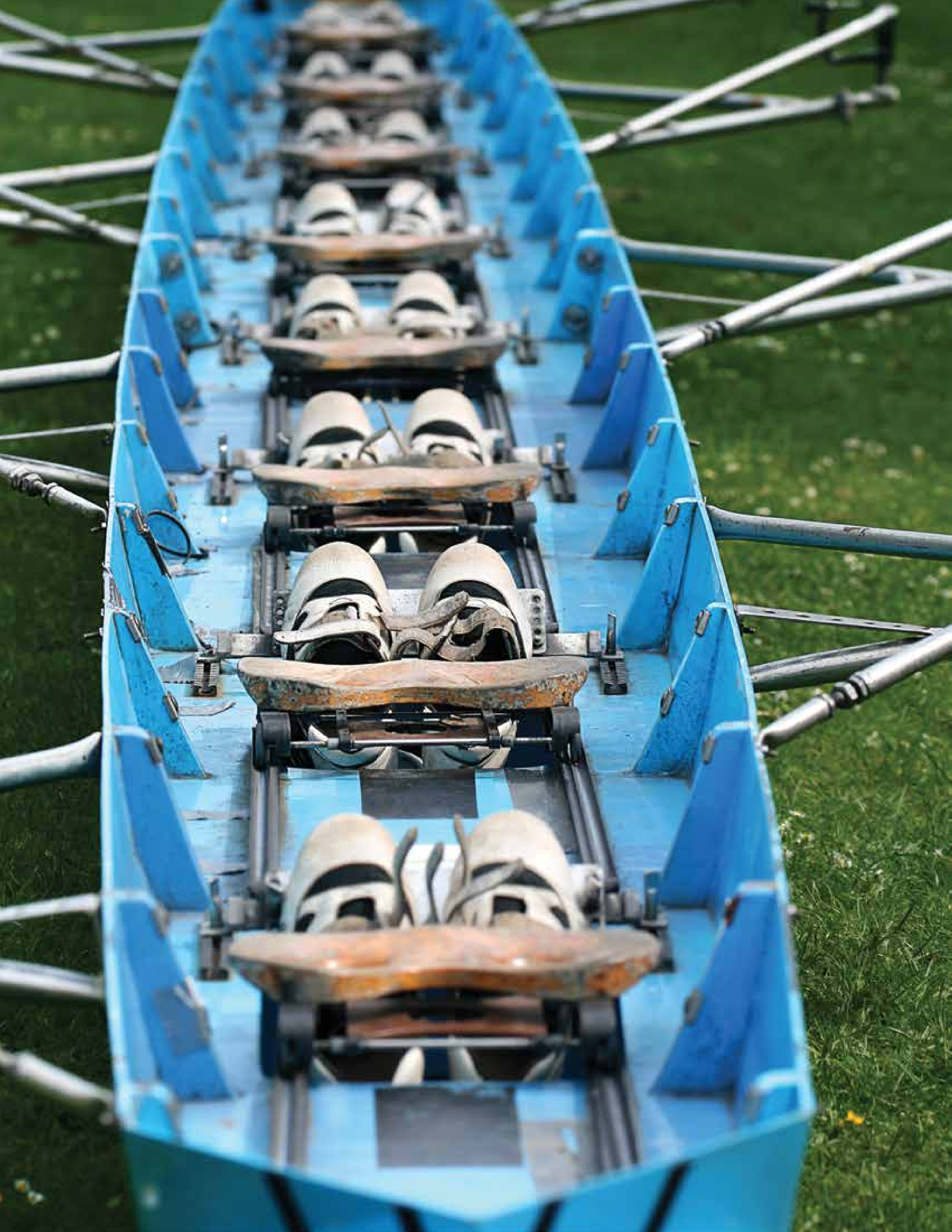
- **Reluctance to make a bigger organizational change:** Leadership opts for a few easy changes at the cost of the larger, more comprehensive and more disruptive changes needed for success.
- **Rushed decision making:** In a hurry to move through the transition period, decisions are made quickly and don't fully consider and assess all options.
- **Rushed downsizing:** Leadership cuts too much sales capacity in the spirit of contributing the sales team's "fair share" to cost synergies. The resulting market coverage gaps and customer relationship degradation reduce sales for years to come.
- **Insufficient road map:** Leadership doesn't fully assess the optimal sequencing, staging and timing to evolve the sales organization to the necessary future state. The organization moves too fast or too slow, and suffers unnecessary risk and disruptions.

2. **Lost momentum, poor decisions, and insufficient coordination during implementation planning and rollout:** As a result, sales productivity is no better than that of the pre-merged organizations (and sometimes worse). Root causes include:

    - **An implementation blind spot:** Leadership dramatically underestimates downstream implementation requirements and diverts attention once initial sales strategy decisions have been made.
    - **Reactivity:** Important implementation issues and interdependencies aren't identified early. As a result, critical issues and decisions fall through the cracks, and teams scramble to address them haphazardly.
    - **Divide and conquer:** Implementation is parsed out to independently operating sub-groups. Critical interdependencies are not recognized or addressed, resulting in poor coordination and a significant reduction in sales effectiveness.
    - **Check the boxes:** Getting it done takes precedence over doing it right. Important implementation details are glossed over as the organization rushes to get back to normalcy (like their day jobs), forcing the organization to go back and fix resulting issues over a prolonged period of time.
    - **Waiting on IT:** Instead of adopting interim solutions, implementation is dragged to a near standstill while the organization waits for complex systems and data integrations, greatly increasing transition time and associated risks and costs.

3. **Too much and poorly managed disruption:** Here, the result is damaged customer relationships and lost share that take years to recover. Failure to manage the risk of disruption can have lasting damaging effects on the combined company. Root causes include:

    - **Loss of focus on current business:** The sales force becomes distracted and demotivated by impending change, and the company ends up losing market share during the transition period.



Approach sales as an investment, not a cost. Sales drives revenue. The relentless pursuit of efficiency gains at the expense of combined organizational effectiveness will almost certainly undermine merger success.

+ **Reluctance to deal with obstructionists:** Vocal and silent obstructionists are allowed to persist, undermining the initiative and achieved business performance for years to come.
+ **Loss of too many high performers:** Top-performing salespeople defect because of too much uncertainty or aggressive competitor headhunting. It takes years to hire and develop new top performers, so when they leave, it hurts customer relationships and the sales growth trajectory.
+ **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 10 times that of having maintained them.
+ **Destructive us-versus-them sales culture:** The integration process fails to generate a shared sense of mission, culture and teamwork. Finger-pointing and destructive conflicts persist for years.

Getting it Right: Key Success Factors for Sales Force Integration

The risks of getting sales force integration wrong are daunting, and the long-term negative impact on merger success is clear. Our study surfaced four critical sales integration success factors that keep customers constructively engaged, result in a singular performance-based sales culture, and align implementation with go-to-market strategy.

1. **Establish the right senior leadership awareness, commitment and governance model.** Here's how:

   + **Invest early in the senior leadership team's understanding of sales integration impact, priorities and requirements.** This understanding is central to achieving the necessary resources, flexibility and time required to get the sales integration right.
   + **Approach sales as an investment, not a cost.** Sales drives revenue. The relentless pursuit of efficiency gains at the expense of combined organizational effectiveness will almost certainly undermine merger success.
   + **Commit to "aim first, fire second."** Understand and commit to the leading practice frameworks, methods and tools for making rapid, fact-based decisions that result in the sales effectiveness necessary to achieve target revenue synergy. Don't dumb down decisions with the idea of "fixing it later."
   + **Leverage the best of both organizations.** Achieve a commitment to understanding and adopting best practices from both organizations. Don't simply force-fit one organization into another.
   + **Invest in a rapid assessment to shape the integration approach and timeline.** Determine up front the sales integration "type" that will maximize business impact. The answer will strongly impact the scope of the effort, as well as resource requirements, timing and sequencing decisions, and the ideal work plan. (See figure 3.)

DEFINING INTEGRATION TYPES

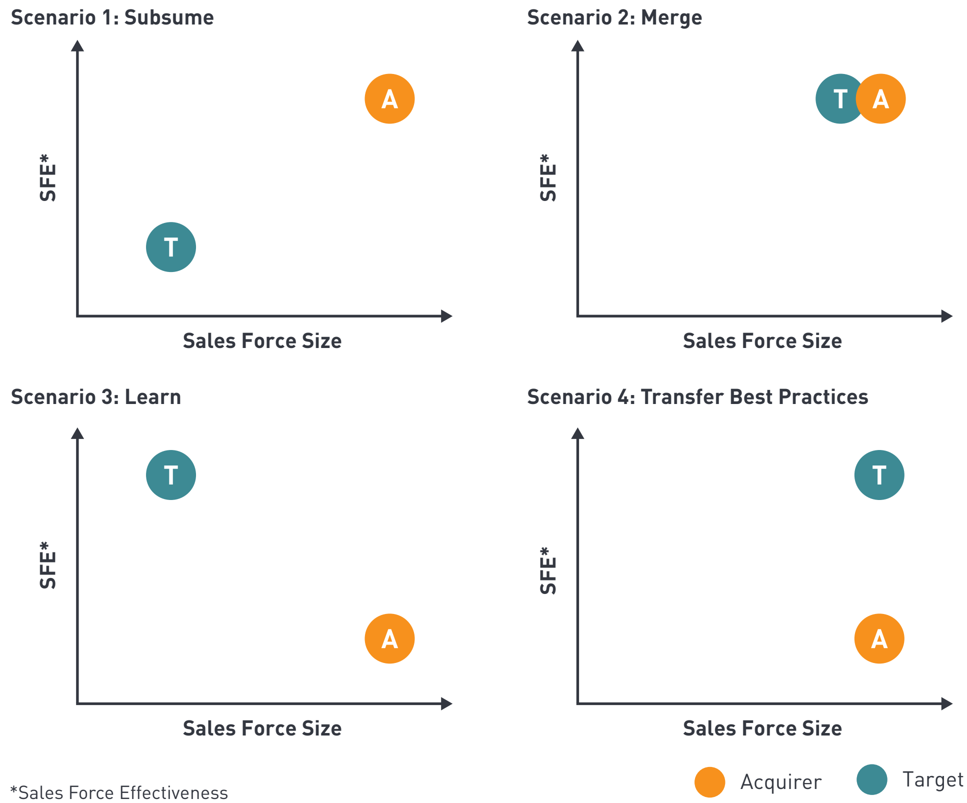


Figure 3: Determine up front the sales integration "type" that will maximize business impact. If the acquirer's sales force is larger than the target's, it could be best to subsume the target's sales force. If both firm's sales forces are of relatively equal size, the best route could be to transfer best practices.

- **Establish a highly comprehensive and detailed sales integration work plan.** Proactively and comprehensively address strategy and all aspects of downstream implementation. Don't leave important details to chance. Carefully identify interdependencies, work streams and expertise requirements. (See figure 4.)

2. **The sales strategy must be explicitly designed to capitalize on the key revenue synergies created by the combination of the two companies.** Here are the key steps for success:

   - **Invest in determining the "optimal" segmentation and growth strategy upon which all else depends.** Customer insight, segmentation and growth priorities are foundational to nearly every aspect of sales strategy and implementation. Commit the time and effort needed to get these right, including developing the integrated customer, prospect, sales history and relationship-status database required for making fact-based and effective decisions. Where possible, leverage a "clean room" approach to

SAMPLE INTEGRATION WORK PLAN

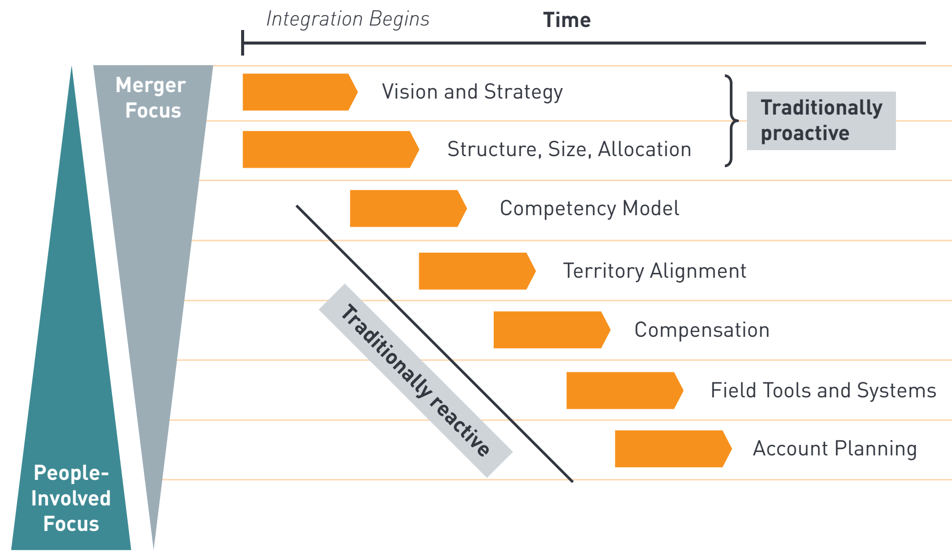


Figure 4: Proactively and comprehensively address strategy and all aspects of downstream implementation. Carefully identify interdependencies, work streams and expertise requirements.

get a jump-start on analysis in advance of final merger approval, better ensuring a smooth integration and the sales organization's ability to hit the ground running.

+ **Front-load value proposition design.** Don't defer value proposition strategy for later phases. The value proposition strategies and variance across segments are key inputs to sales organization design, skills requirements, and people selection and placement.
+ **Start with a blank sheet of paper to develop the ideal sales force design.** Commit to determining the change that will be required to fully capitalize on the new organization's combined products, customers and talent. Stage the transition to the required strategy if necessary, but don't fail to get there.

3. **The painstaking attention to decision quality and connectivity throughout implementation design and rollout must be relentless—bordering on obsessive.** Anything less will fail to achieve an integrated sales organization that outperforms the individual pre-integration organizations. Here's how to make it happen:

   + **Manage for momentum while demanding rigor.** Leverage an executive-led governance model coupled with imbedded expert advisors to simultaneously drive transparency, urgency and high-quality decisions.
   + **Be both global and local.** Allow local markets to tailor sales force design, competency models, incentive programs and people selection based on unique local market considerations while driving the global adoption of best-practice methodologies, integration tools and desired guidelines.

+ **Optimize the first time.** Leverage the leading methodologies and tools to optimize sales force sizing, allocation and deployment during the integration. Don't allow a "rough cut" and then have to go through another major disruption soon after to get it right.

+ **Minimize unnecessary relationship disruption.** Design "balanced" territories and personnel assignments to maximize target account coverage while simultaneously minimizing customer relationship disruption. Analytics exist for both.

+ **Standardize customer engagement process(es), but stagger any significant selling approach advances by at least six months.** The priority during the integration phase is getting to an integrated and optimal sales force design, getting individuals placed into the right roles, and ensuring the right motivation systems and basic enablers. Attempts to "upskill" the sales force or move to advanced sales processes at this same time tend to get undermined by the magnitude of change.

+ **Cross every "t" and dot every "i" when it comes to people evaluation and selection.** Ensure a rigorous, fact-based and fully documented process for evaluating people and making selection and placement decisions. Regularly review and refine. Normalize for rating method and rigor variation.

+ **Double down on high-impact position decisions.** Consider panel interview processes for particularly high-impact positions such as first-line sales managers and key account managers. The investment will improve decisions while empowering these individuals to be effective in the new organization.

+ **Time the redesign of your compensation plan to the people evaluation and selection process, and consider interim components.** To attract talent to new roles, you need a compensation plan. Consider a period of "duplicative pay" to motivate careful relationship hand-offs and short-term MBOs to drive immediate high-priority activities and behaviors.

+ **Don't wait on IT.** Adopt interim and parallel-path solutions to address near-term sales operations needs. This is one place where waiting for the perfect solution can really hurt you. Interim IT solutions can work well to enable the organization quickly.

+ **Leverage onboarding and training sessions as a major change management opportunity.** Don't lose the chance to leverage these events to also win heart and minds.

Win the hearts and minds of first-line management. They will impact salespeople's perceptions and actions more than anyone else in the company.

4. **The change management program must proactively and comprehensively mitigate the major risks inherent in sales force integrations.** Key aspects for achieving this success factor include:

   + **Win the hearts and minds of first-line management.** They will impact salespeople's perceptions and actions more than anyone else in the company.
   + **Institute programs to protect current business.** Use interim motivation and reward tactics to ensure that salespeople don't become distracted from existing business during the transition period.
   + **Script and monitor proactive account hand-offs.** Design and closely manage rigorous and proactive processes, tools and motivators to minimize disruption for customers.
   + **Reassure high performers.** Put interim retention tactics in place to reassure top performers of their future roles and earning potential.
   + **Move fast (while ensuring quality).** The longer the transition takes, the longer the sales force will be distracted, customers will be anxious, and competitors will have the opportunity to poach.

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

The implications for senior leaders responsible for merger success are multifold. Given the infrequency and unique success requirements of large-scale mergers, the leadership team needs to be asking themselves some key questions: Do we have the expertise internally? Do we have the capabilities to quickly determine the best approach to integration? Can we objectively evaluate talent and integrate disparate cultures? Can we keep the sales force productive and the customers satisfied throughout the integration and rollout?

Sales force integration needs to be highlighted as a critical success factor for M&A, and a crucial area of focus to achieve revenue synergies. 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. Sales force integrations must then be designed to achieve revenue synergies, implemented for impact and managed for risk. Only in this way will companies minimize transition risks and costs, and arrive at the sales force strategy and execution capability necessary to beat the low odds of M&A success—where one plus one is, indeed, greater than two.

A Tale of Two Sales Forces

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 in order to minimize transition costs and ensure continuity of business. While both would now report to a single vice president, the basic structure, sizing and deployment of each would remain essentially unchanged.

Leadership believed 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. However, 18 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 that the decision to merge had been a bad one. Furthermore, competitors were starting to significantly threaten key relationships. After some reflection, senior leadership recognized that they had gotten the sales force integration wrong.

As a first step towards recovery, the company initiated a rigorous study to fully assess the sales force design required to most cost-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 determine the most cost-effective option with the best prospects for successful execution. (See figure 5.)

REDESIGNED CUSTOMER COVERAGE MAP

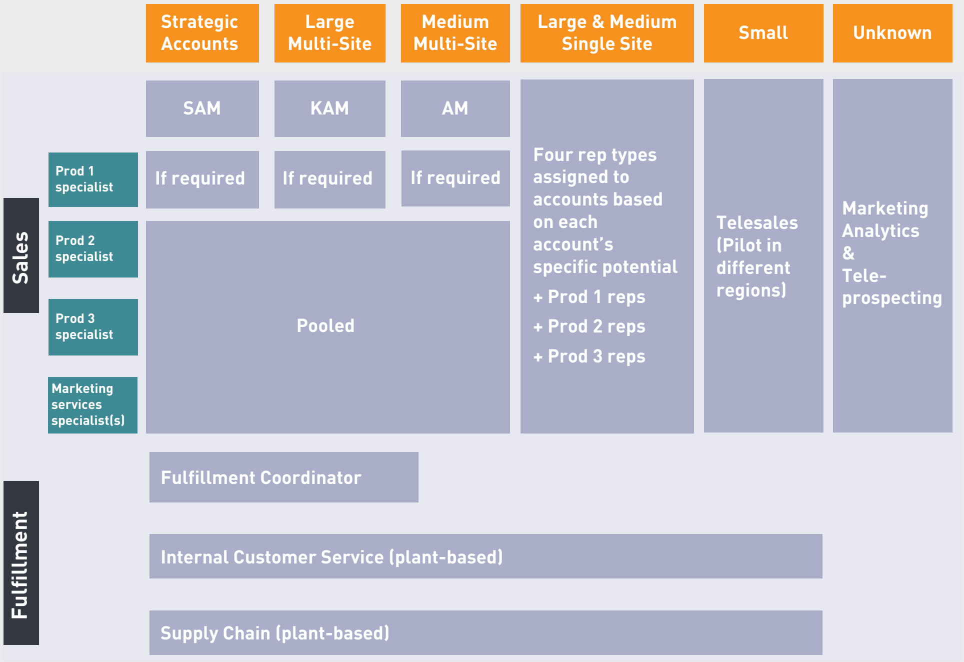


Figure 5: As a first step towards recovery, the company initiated a rigorous sales force design study. Alternative sales models were developed and carefully analyzed to determine the most cost-effective option.

The resulting sales force structure reorganized the ownership of sales roles, products and service responsibilities, and account types. 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. (See figure 6.)

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 the successful execution of the implementation plan, and to help ensure alignment between work streams.

SAMPLE IMPLEMENTATION PLAN

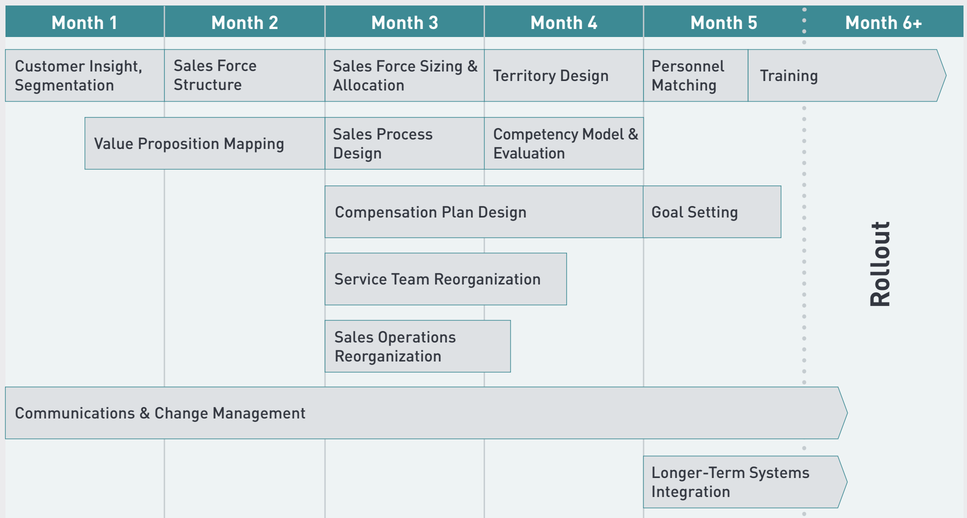


Figure 6: Leadership developed detailed work plans for each implementation issue. These work plans were integrated into a comprehensive implementation plan and governance model.

The implementation plan's timing balanced the need for a rapid transition with the need for quality decisions.

Analytical methodologies and tools were leveraged for sales force sizing and territory design, allowing 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 customer relationship disruption.

A detailed competency model was developed for all new positions and used to assess current salesperson competencies. Historical performance ratings for salespeople 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 a strong match of skills to responsibilities while continuing to minimize disruptions to customer relationships, home locations and reporting relationships.

Analytical methods and tools also 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 ongoing account data, pipeline tracking and reporting.

First-line sales managers were privately "brought into the tent" well in advance of the communication of the new strategy to the sales force to ensure better decision making on key sales force implementation issues, and to garner their buy-in and commitment.

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

The methodological and holistic approach to sales integration enabled the combined organization to rollout the new combined organization within six months of the acquisition. This enabled the new company to leverage the full combined portfolio, drive a "one company" approach, and minimize customer disruption. In the end, the combined company grew at a higher rate than the individual companies would have by leveraging customer relationships to more effectively cross-sell the portfolio and delivering an improved customer experience through a consistent engagement approach. An interesting by-product of the experience was a new level of executive respect for the degree of complexity and skills required to integrate two sales forces and maximize sales force effectiveness.

About the Authors

Rodolfo Luzardo is a principal based in ZS's Chicago office with expertise in B-to-B commercial strategy and transformation. He focuses on large-scale commercial transformations relating to go-to-market strategy, sales effectiveness initiatives and integrations, and pricing optimization. Rodolfo has broad industry exposure spanning specialty chemical, industrial, basic materials, distribution, retail and private equity. Prior to consulting, he worked in investment banking, mergers and acquisitions, and private equity.

Mike Moorman is managing principal of ZS's sales business area and leader of the firm's B-to-B commercial strategy and transformation practice. His experience spans a diverse range of sales models including global, strategic and key accounts management, generalist and specialist field sales, indirect channels, and inside sales. Mike has worked extensively with clients in the life sciences, high-tech, financial services, travel and transportation, industrial products, energy, business services, consumer products, and media and advertising industries. He has supported some of the largest and most complex sales integrations in the past two decades.

About ZS

ZS is the world's largest firm focused exclusively on helping companies improve overall performance and grow revenue and market share, through end-to-end sales and marketing solutions—from customer insights and strategy to analytics, operations and technology. More than 5,000 ZS professionals in 22 offices worldwide draw on deep industry and domain expertise to deliver impact for clients across multiple industries. To learn more, visit www.zs.com or follow us on Twitter and LinkedIn.

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