M&A Brand Strategies

Getting the name right can help a transaction stay on focus post close

By Denise Lee Yohn

It's looking like the recent uptick in mergers and acquisitions will continue through 2010. As business leaders reinvigorate their growth strategies, many are using the precious nuts they squirreled away during the long winter of 2009 to acquire less-resourced companies. Others are revisiting the line that separates their core business from non-core and determining what they are going to divest in order to focus their strategies.

All of this activity raises questions about how best to manage the brands involved in M&A transactions. Some leaders allow the financial parameters of a deal to dictate brand strategy, with the buyer's brand name prevailing over that of the target. Others may apply the "law firm" approach to naming the new entity, simply adding new names to existing ones. In either case, convenience, not brand optimization, seems to be the m.o. In fact, recent research revealed that corporate brand strategy was a low or moderate priority consideration during negotiations in two-thirds of 200+ recent deals.

Selecting the right strategy for a newly-combined brand portfolio is a critical decision that many fail to get right. One need look no further than the branding mishaps of AT&T/Cingular's back-and-forth a few years ago or the current cumbersome and confusing Bank of America/Merrill Lynch set-up to recognize that brand decision-making can impact the outcomes of M&A.

Ever since KPMG reported in 1999 that more than 8 out of every 10 deals fail to create shareholder value, much attention has been given to how to improve the success rate. To date, brand strategy may have often been overlooked – but it is nonetheless a powerful lever in not only supporting the M&A objectives, but also in adding to the value created by the deal.

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More than a simple naming decision, a new brand serves as a signal — a signal that not only serves as a message to be communicated, but also as marching orders to be executed. The new brand actually designates the newly combined entity and drives it.

In reflecting the corporate leaders' thinking behind the transaction and their expectations for the corporation's future identity, the new name can have far-reaching impact. For investors, it points to where the value creation is likely to be derived; it also indicates what value will be delivered to customers and suggests who owns the customer relationships, or at least what customers can generally expect in future interactions. Internally, the new name may indicate if the intent is to integrate assets and capabilities into a single operating system or remain separate. It may even suggest the values that will define the corporate culture going forward.

When it comes to identifying the right name(s) for the post-merger entity, there are several basic options to choose from. Companies can create brand new name, assume the name of one of the organizations or maintain both names either together or separately.

These options can be laid out on a continuum between how tightly or loosely the leaders want to integrate the two entities. On one end is a very tight integration, with fresh new goals, systems, culture, etc., emerging out of the transaction. On the other end is a very loose integration with very little changing for the two companies. Different naming options exist at different points on the continuum.

At the tight integration end of the continuum, a brand new name is called for. The new name signals the new future created by the combination. Back in 1997, the name Diageo was selected by then CEO John McGrath to send a strong signal that the new corporation formed from GrandMet and Guinness would embrace its new global status (the name Diageo combines the Latin word for day, dies, and the Greek word for world, geo). Similarly Verizon was the name chosen for the corporation that combined Nynex and Bell Atlantic into a completely different enterprise.

Next on the continuum is the naming strategy that promotes one of the companies over the other. The intent of this approach is also to integrate the two entities and drive them with a single name, but unlike the previous option, the name of one of the parties is adopted as the name for the newly combined organization.

Sometimes this approach is used when there's a clear "winner" in the deal. When US Airways and America West merged, the commonly held view was that the deal was a victory for US Airways and that was the name which was kept. Other times the prevailing name is chosen based on brand equity. Such was the case in the DHL/Airborne Express merger. DHL enjoyed stronger awareness and affinity than the less-developed Airborne Express, so the DHL name was applied across the board. In either case the integration is tight but one of the companies enjoys the perception, if not the reality, of having led the change more.

Further down on the continuum, the naming approach for a looser integration involves keeping both of the previous names but joining them somehow. In a "merger of equals," the two names might simply be juxtaposed in a co-branded approach. FedEx and Kinko's became FedEx/Kinko's — same with Morgan Stanley Dean Witter, and more recently Morgan Stanley Smith Barney. Usually such an approach signifies the belief that the companies are contributing equal, but different, value to the merger and that value is closely tied to the brand names. As such, the integration is looser than in the options above.

Use of two names together can also be accomplished through endorser branding. In this approach, the more established brand serves as an endorsement for the other, lending it credibility or assuring a level of quality. This tack is more common in acquisitions than in mergers, as exemplified when the home networking company Linksys was acquired by Cisco and "Linksys by Cisco" was selected as the moniker for the new division. The approach is also frequently used by corporations with broad corporate portfolios like TravelersGroup of the early '90's in which the name of each company, Salomon Smith Barney, Primerica Financial Services, Commercial Credit, etc. was accompanied by the line, "A Member of TravelersGroup."

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Both of these dual-name approaches are sometimes used as transition strategies. That is, the long-term plan may be to adopt one of the names over the other, but company leaders forego making such a dramatic change upfront in order to allay the concerns of all parties involved and increase the likelihood of their eventual acceptance of the combination. For example, the aforementioned FedEx/Kinko's is now FedEx Office. The company felt comfortable dropping the Kinko's name after the combined name had served its purpose of raising awareness of FedEx's new wide range of services. The integration and naming were closely synced.

At the loose integration end of the continuum, the corporation may continue to use the two names -- no brand name change may be implemented. If the corporation has the resources and inclination to manage the two brands separately and no confusion or other detriment to each other is likely to result, it may make sense to forego a change in naming strategy. Acer and Gateway provide an example of how this approach can be successful when different channels and customer segments are targeted by two brands that end up as a single corporation.

Similarly, if such little integration is planned that the current and future operations of the entities, despite being shared, are intended to remain distinct, then there is no need to adopt a different brand name(s). When GE acquired NBC in 1986, there was no intention to create synergies among the different operating units and so it made sense to continue to operate them under separate, unrelated names.

Ultimately the objective of any deal is to maximize shareholder value. In the same way, the objective of any post-M&A brand naming strategy should be to maximize the full value of the brands.

In order to do this, business leaders must first understand the range of options, and then determine the desired level of integration. In plotting where the new organization will sit on the integration continuum described above, the appropriate brand naming strategy becomes apparent. And, as the strategy is implemented, the brand serves as a tool to indicate and facilitate the desired integration.

By inextricably linking brand strategy with the business strategy, the likelihood of a successful merger or acquisition increases – as does shareholder value.

Denise Lee Yohn has been teaching companies how to operationalize their brands to grow their businesses for over 20 years. Read more by Denise at www.deniseleeyohn.com/resources.html.