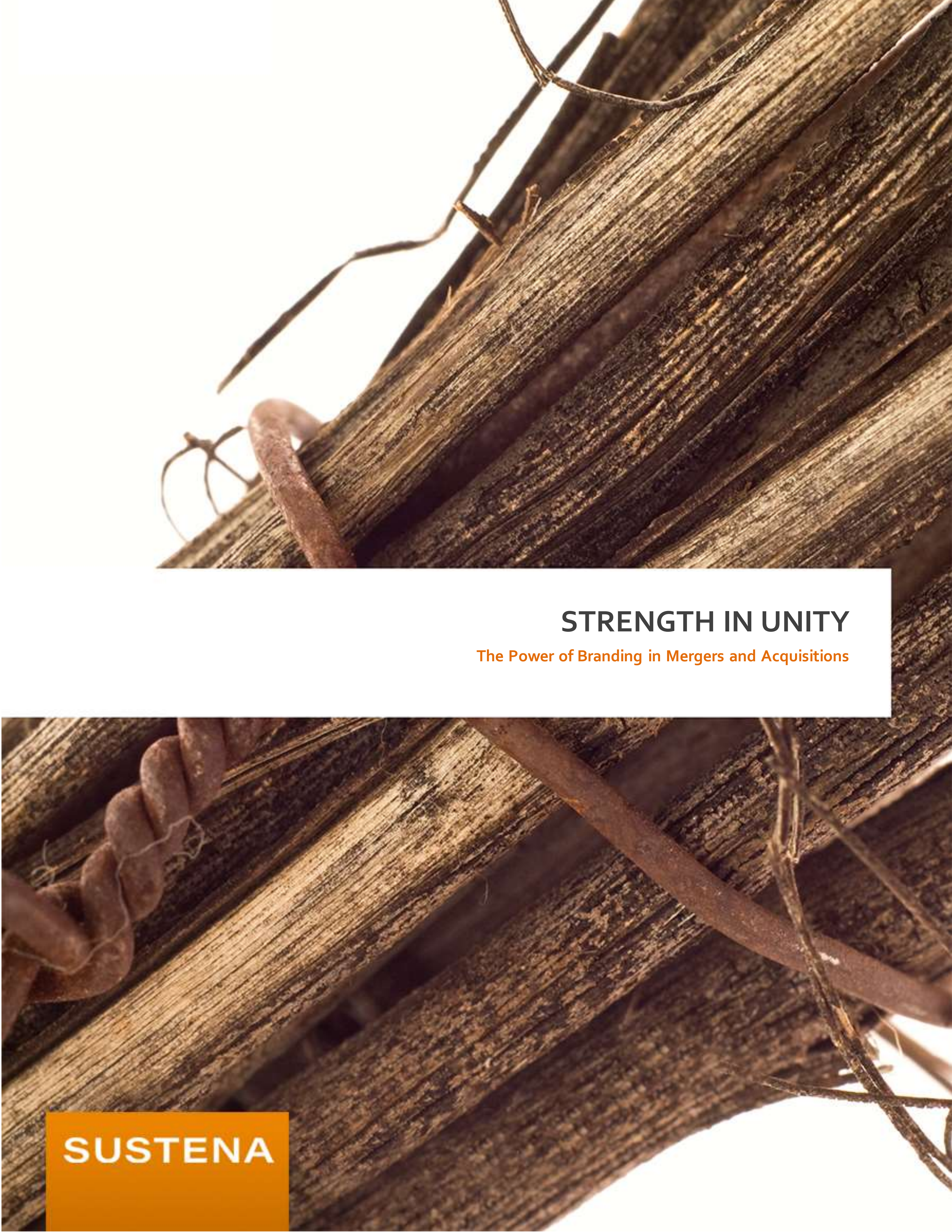

STRENGTH IN UNITY

The Power of Branding in Mergers and Acquisitions

SUSTENA

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THE CHALLENGES OF M&A

While mergers and acquisitions continue to transform businesses and change industries, the success rate for M&A transactions is surprisingly low. According to Harvard Business Review, "companies spend more than $2 trillion on acquisitions every year. Yet study after study puts the failure rate of mergers and acquisitions somewhere between 70% and 90%."

Assuming that an M&A transaction adds value and the plan to bring two or more businesses together is thoughtful and properly paced, any M&A deal will still face a multitude of hurdles to overcome in order to succeed. Often the most difficult (and overlooked) obstacle is the 'human element': how this transaction will affect the people who come to work each day and identify with being a part of a business and a brand. These are the people who will make the merger or acquisition work on a daily basis.

A thoughtfully considered brand strategy and communications program can greatly influence the success of a merger or acquisition. Whether the combined companies will celebrate one brand, form a hybrid brand, or create a new brand, senior leaders need to value branding this new enterprise as being equally important as their reason for coming together. Brands affect our work experience every day, and harnessing the power and loyalty of a brand is necessary to maximize the competitive edge for companies as they pursue their M&A strategy.

COMMON MISTAKES IN M&A

The fact that most mergers and acquisitions fail begs the question – why do they fail? What are the issues that lead to failure in M&A?

Generally, M&A activity has three main drivers:

- Increase the company's market share
- To expand current products and services

- Acquire a new business model to transform or supplement the current model

There are many considerations to mergers and acquisitions than the terms of the agreement, but without a thoughtful brand strategy and communications program, the merger will struggle to achieve its original goals.

Each of these drivers requires a unique strategy for communicating the change in the business to internal audiences (employees, management, strategic partners) as well as external audiences (current and potential clients, investors, and analysts).

1. **Remember the Strategic Vision and Goals for the M&A**

It's common for companies to lose sight of the big picture: why are we doing this in the first place?

2. **Don't Prioritize Ops and Finance over Cultural Needs**

The financial and operational considerations of any merger or acquisition are paramount, but equally important are the brand and cultural issues. There must be a plan in place to help employees understand the impact of change and to make them all feel welcome in the merged entity.

Other related and vital elements are: How will the brand be affected by the merger? Will the company name, logo, or market positioning and messaging need to evolve? Or will a completely new brand best fit the company's strategy?

3. **Be Mindful Not to Underestimate the Emotions of M&A**

These transactions are emotional for all involved because they bring change and uncertainty. Over time, employees and clients build an emotional tie to a brand. Employees identify themselves and their work with the brand, and clients relate the service they receive as well as the contacts they make to the company's brand.

More often than not, at least one of the brands involved in any merger will change. The coupling of this identity shift with other more concrete changes such as reorganization, evolution of services, and transitions in leadership can elicit a powerful emotional response. The answer to addressing both sets of changes is a clear communications strategy.

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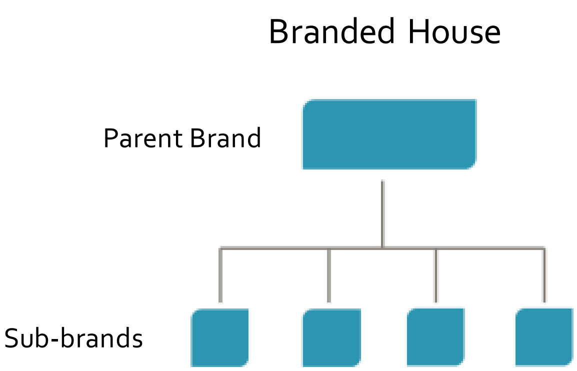
BRAND ARCHITECTURE IN M&A

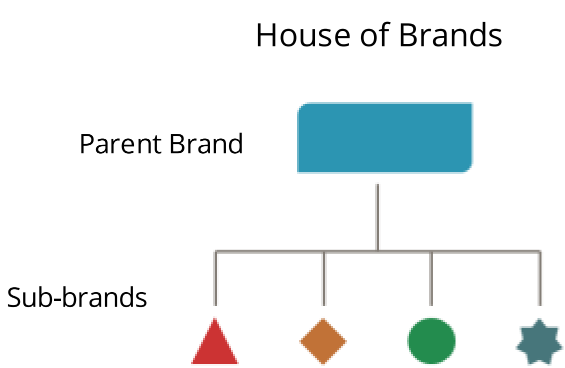
Part of the overall strategy of any M&A activity should include considering how the brand or brands will be organized after the transaction is completed. Brand architecture defines the structure of a brand within an organization and how various sub-brands relate to one another. Creating a brand architecture that aligns with the strategic vision of the combined organization is crucial to setting up the business for long-term success because the architecture will become the framework for how people think of and relate to a company internally and externally.

There are two primary models for brand architecture: a Branded House and a House of Brands.



Branded House
This model structures all parts of the organization under one unified brand (e.g. GE is the parent brand of GE Capital, GE Healthcare, GE Transportation etc.).

In a merger or acquisition, occasionally the best strategy for the newly merged businesses is to keep the brands as they are. One example of using such a brand architecture would be Zappos.com, an online footwear and apparel distributor, which was acquired by internet retail giant Amazon.com. By keeping the brands separate, Zappos continues to take advantage of Amazon's vast distribution network, while maintaining its own unique culture and brand equity.



A House of Brands architecture is often used by large holding companies such as P&G, Unilever, and Berkshire Hathaway. Looking at Berkshire Hathaway as an example, the company is involved in businesses as diverse as the Acme Brick Company to Fruit of the Loom to GEICO. It would be difficult to put these very different businesses under one monolithic brand name and tell a comprehensive story of why an underwear manufacturer also sells bricks and insurance.

By maintaining distinctive brands under the corporate umbrella of Berkshire Hathaway, each business can tell its own unique story while benefitting from the financial backing of Berkshire Hathaway's diverse portfolio. One subtle but important detail of this model is the decision of how prominent to make the relationship between the holding company and its brands. Berkshire Hathaway does not leave any visible evidence of its ownership on the websites of consumer brands such as Fruit of the Loom, but on the website of industrial manufacturer Marmon Group, the company logo includes the tagline "A Berkshire Hathaway Company".

An organization's brand architecture can change or evolve over time as the business and brand develop, but these changes should be infrequent and deliberate or else the market will be confused about the nature of the business and what it is they do.

House of Brands

This structure more loosely connects the different parts of the organization, allowing more independence for sub-entities to maintain brands that are unique from the parent (e.g. P&G is the parent brand of Gillette, Old Spice, Tide, Duracell etc.).

There are three common variations of a Branded House architecture in M&A:

<u>Absorb the Weaker Brand into the Stronger</u>

Sometimes one business clearly has more brand equity than the other, and both companies can benefit by embracing the stronger of the two brands. This can happen when the overarching goal is to expand market share through acquiring customers or when a company is acquired to expand the service line of an existing company. An example in the B2B world would be the acquisition of the technology and business processing provider ACS by Xerox. After the merger the ACS brand was slowly phased out and Xerox worked to leverage its widely recognized brand and legacy as a business technology provider to expand its capabilities and move into the outsourcing arena using ACS's infrastructure and customer base.

However, the acquiring company's brand should not always prevail. When NationsBank acquired BankAmerica, it was decided that BankAmerica held more brand equity with the newly merged bank's target audiences. That strategic decision led the NationsBank brand to be phased out and the new organization was renamed Bank of America. An interesting point in this case is that the organization adopted a slightly modified

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name, changing from BankAmerica to Bank of America, thereby signifying the change within the organization while maintaining the brand's recognition and equity.

Form a Hybrid Brand

Another type of Branded House architecture is the creation of a hybrid brand – fusing the best aspects of both brands into one. A hybrid brand can be a good compromise to preserve the brand equity of both companies, while still signifying the change in the business resulting from their merger. An excellent B2B example is Towers Watson. Formed from the merger of former competitors Towers Perrin and Watson Wyatt, the new brand is now one of the largest providers of risk management and human resource consulting. Creating a hybrid brand can be very complex as the companies must consider the strategic implications of how they will combine the names, visual identities, marketplace positioning, and messaging of the former brands.

Form a New Brand

In some cases, the best way to capitalize on the changes to the business resulting from an M&A transaction is the creation of a completely new brand. This option often best suits mergers or acquisitions that fundamentally change the strategy of the business, allowing the new brand to signify a major break from the old businesses. You might recall the phone carrier Bell Atlantic acquired rival GTE in a deal estimated at $52 billion. Bell Atlantic's customer base was heavily concentrated on the east coast, while GTE's customers were spread widely across the country, and a new corporate name and brand helped unify these two providers and propel them to become the telecom giant that is Verizon.

An organization's brand architecture can change or evolve over time as the business and brand develop, but these changes should be infrequent and deliberate or else the market will be confused about the nature of the business and what it is they do.

One of the greatest challenges of recreating or evolving a brand following a merger or acquisition is transferring the brand equity of the previous brands into the new entity. The approach and process must be carefully planned and well executed to meet the needs of many different stakeholders in this type of transaction.

COMMUNICATING BRAND TRANSITION IN M&A

It is important to communicate clearly to all stakeholders what the merger means for them. This outreach should be strategically planned and targeted, describing the reasons for the merger or acquisition and the value it adds while thoughtfully addressing each audience's concerns.

After deciding how the brand(s) will be restructured following the M&A, it is important to consider how these changes will affect internal and external audiences. How will employees and strategic partners feel about the changes to the brand(s)? What will clients, prospects and investors think? Most importantly, how can the upside of the merger be conveyed while addressing the concerns of all the parties involved?

One of the greatest challenges companies face following a M&A deal is how to phase out an existing brand. More than likely the "sun-setting" brand will have built some degree of recognition and equity in the marketplace as well as an emotional tie to employees and customers; hence, this process needs to be handled very carefully. There are two key factors to help mitigate potential turmoil and set up the new (or surviving) brand of the combined organization for success: well-timed and clear communication.

Timing is important to ease internal and external audiences into the new brand and avoid feelings of disruption. Sometimes the best strategy is a transitional period for the brands as they move toward their ultimate position within the merged organization's brand architecture. One example of such a transition is IBM and Kenexa. Kenexa, a provider in recruitment process outsourcing (RPO) and talent management solutions was acquired by IBM to increase its presence in this growing market. For a time, the Kenexa website used a visual identity similar to the IBM website, leveraging IBM's "Smarter Planet" positioning with the message "A Smarter Workforce makes Smarter Business", and included the transitional tagline "an IBM Company" locked up with its logo. But several years later, the Kenexa brand was officially absorbed into IBM's brand as "IBM Smarter Workforce".

In conjunction with proper timing, it is important to communicate clearly to all stakeholders in the business what the merger means for them. This communication should be strategically planned and targeted, describing the reasons for the deal and the value it adds while thoughtfully addressing each audience's concerns.

For clients, this could mean expanded services, more competitive prices, and/or the resources of a larger company while maintaining the same level of customer service and concern for their unique business needs. For employees, it could mean new opportunities and the prestige of a new and larger organization while addressing concerns about their role in the newly merged business. Investors might want to understand the strategic advantage the transaction brings and be assured that the new organization will not suffer from the organizational challenges often associated with merging two businesses together. It is also important to communicate with these audiences through the right channels, whether this is email, a personal phone call or announcements on LinkedIn, Facebook or on the corporate website.

When it comes to M&A, it is not enough to create a strategy for the future of the brands: there must also be a framework for how to communicate it both internally and to the market.

THE BOTTOM LINE FOR BRANDING IN M&A

Put simply, the value of branding in M&A is that it increases the likelihood the merger will succeed and positions the business to maximize the competitive advantage gained from the deal.

In conclusion, what is the ultimate value to your business of including brand considerations into your M&A planning?

Put simply, the value of branding in M&A is that it increases the likelihood the merger will succeed and positions the business to maximize the competitive advantage gained from the deal. A thoughtful brand strategy during a merger provides clarity to all those affected by the deal and avoids the otherwise inevitable confusion that would follow. Audiences both internally and externally, including employees, senior leadership, investors, clients, prospects and influencers, all want to understand the strategic value of the merger – Why do this? What is the benefit to clients? How will it affect the company and its positioning in the marketplace?

Part of the reason for this need for clarity is emotional, particularly for employees and current clients. As they interact with the brand over the years, coming to work every day or purchasing products and/or services, they build a relationship with the brand, become familiar with it and form expectations of what it means in terms of service, culture and quality.

So whether the merger means the brand will radically change, or moderately evolve, there is always a threat of confusion and

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misunderstanding as well as an opportunity for renewed strategic clarity. Clients and employees want to understand the change and why it is being done. They also want to understand how it will impact them directly. For employees, will it mean new opportunities for growth and advancement or personnel cuts? For clients, will it mean new or improved services or a disruption in their current service? It is important to the future success of the business that these concerns are addressed clearly and carefully, while conveying the positive upside the merger brings.

In addition to avoiding potential confusion, thoughtful branding in M&A positions the new business to reach its full potential. The merger was done to add value to the business, but to capitalize on this change, it's important that the market understands what the new value proposition for the business is. Articulating this for the new organization requires both internal and client research on their perceptions of the businesses coming together, while keeping in mind senior leadership's strategic vision and direction for the company. With this insight, the new brand can be properly structured and positioned with messages that are consistent and resonate with prospective clients.

Branding in M&A is an opportunity for leveraging a company's inorganic growth to maximize its new potential for organic growth. After investing so much in the future of the company, it should be a priority to ensure that investment is put to good use.

ABOUT SUSTENA
We drive strategic growth by leveraging our expertise in brand development, sales enablement and go-to-market planning and deployment.

Brand Development
Deliberately positioning organizations in their marketplace, developing differentiated core and targeted messages and ensuring their visual brand is both compelling and aligned with this strategic foundation.

Sales Enablement
Deliberate and ongoing sales processes that equip all client-facing teams with the ability to systematically identify, qualify and communicate to the right decision makers, with the right needs, at the right time.

Go-to-Market
Planning and deploying an aligned approach to attract, engage and nurture targeted prospects, provide essential insights to shorten sales cycles and increase overall market awareness.

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Under Brenna's leadership, Sustena Group's multi-disciplinary teams fulfill a wide range of strategic and creative go-to-market assignments for their clients – from developing new brands for innovative businesses to repositioning large organizations to compete more effectively in complex marketplaces. Brenna has been instrumental in reshaping, repositioning and deploying existing brands as well as inventing, positioning, and creating new ones.

Sample clients include: Accenture, Capgemini, Exult, Fidelity, Genpact, Hewitt, Lazard, Mercer, Pinstripe, RiverStone and WNS. She has also had extensive experience in working with many private equity firms: Accretive LLC, Altaris Capital, Baird Capital Partners, Carrick Capital Partners, GCI, General Atlantic Partners, Health Enterprise Partners, Pritzker Group and Warburg Pincus.

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Stephen is a thoughtful and meticulous strategist and project leader who loves tinkering with language and ideas. He excels at analyzing research to uncover key business insights and then bringing them to life in clearly articulated prose.

Past clients include: Acclara Solutions, Applied Pathways, Comer Education Campus, eOriginal, Entercoms, Greystone, NYC Rescue Mission, OnProcess Technology, UtmostU and Vitalyst as well as private equity firms including Carrick Capital Partners and Pritzker Group.