FTI CONSULTING

Realizing Revenue Synergies

The Revenue Synergy Challenge

Revenue synergies are often considered to be the most elusive aspect of merger and acquisition ("M&A") transactions. Even disciplined serial acquirers have acknowledged that while they typically meet or exceed cost synergy targets, a smaller fraction of their deals can claim to achieve expected revenue synergies.

Senior executives are often reluctant to include aggressive revenue synergies in valuation, which is typically attributable to low confidence in estimating, capturing or executing synergies that are dependent on external/market factors. We have found that developing a standard framework for revenue synergies, grading synergy opportunities, risk-adjusting uncertainties and market conditions can lead to quick hits and minimize execution risks.

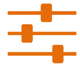
Revenue synergies are also dependent on variables requiring new skills, methods, products or services, channels or even a new customer value proposition. Entrenched in these attributes are external factors, such as competitor responses, customer adoption of the product, pricing and mechanics of the deal itself.

The number of functions involved in delivering a revenue synergy, such as cross-selling of products, is complex and requires involvement from sales, marketing, service, products, customer experience and pricing, thereby breaking down the conventional logic centered around functional integration successful in delivering cost synergies.

> "Our corporate development team is very skeptical of revenue synergies. We find it to be an uphill battle to convince the C-suite on any deal centered on revenue synergies."
>
> Senior Vice President, Corporate Development
> Global Telecom Company

Top Issues With Revenue Synergies

- Actual revenue synergies are often not incremental to the target's standalone plan or the acquirer's run rate
- Commercial due diligence often overestimates the total available market ("TAM") and potential for revenue synergies; speed of execution is not factored in
- Combined products, solutions and technologies are introduced late or not at all
- Pricing is an afterthought, customers do not adopt and competitors respond with aggressive pricing that catches the acquirer off-guard amid integration efforts
- Execution issues resulting from slower hiring and higher sales attrition prolong the ramp-up phases
- Collaboration within the acquirer on inbound synergies takes a long time to initiate
- Integration Management Office ("IMO") configurations, playbooks, key performance indicators ("KPIs"), metrics and reporting are all built for consolidation mergers from the 1990s and 2000s and are highly tailored to cost synergy execution



Understanding Revenue Levers

Achieving revenue synergies hinges on certain key levers that need to be executed in specific sequence to minimize risks and maximize value. We categorize them into enabling, alignment, acceleration and innovation levers.

Enabling Levers

Revenue growth needs a solid platform built on the principle of sound integration, avoiding surprises and laying the foundation for execution by day one. Typical items of focus for day one during transactions involving revenue synergy are ensuring talent retention, protection of key intellectual property ("IP"), organization design, stability of information technology ("IT") systems and quote to cash process. In addition to the enabling levers, ongoing efforts need to be applied to the primary levers of revenue generation, including brand, channels, products and customer segments.

Alignment Levers

Acquisitions are rarely done to switch brands — they are mostly undertaken to fill or strengthen capability gaps within existing portfolios. Having a pervasive brand strategy ensures the company is aligned on this execution. The brand elevation for the combined entity should be the primary goal and organizations should not get caught up in misguided efforts to preserve the acquired company's brand beyond a certain point in time. Such efforts can be a large drain on resources in functions that should be driving growth, and can also cause widespread confusion for customers. Products and channels must change quickly to fit the brand strategy so that it can lay a platform for growth.

Clearly, customers are central to any revenue growth strategy and no organization can achieve revenue synergies without explicitly considering them. Each customer or account that is lost or diminished makes it that much more difficult to attain revenue synergies. Maintaining transparency with customers, articulating the value proposition early and unambiguously, not overselling, keeping performance high and integrating customer-related activities while this infrastructure is in place are core to the integration strategy.

One critical activity that should be undertaken upfront is to design safety nets for customers at flight risk. These are typically customers affected negatively by changes in policies, operational processes or systems that tend to downgrade their experiences with the company. The safety net can be a set of activities that include promotions, targeted incentives, exception management protocols and executive level coverage.

One critical activity that should be undertaken upfront is to design safety nets for customers at flight risk.

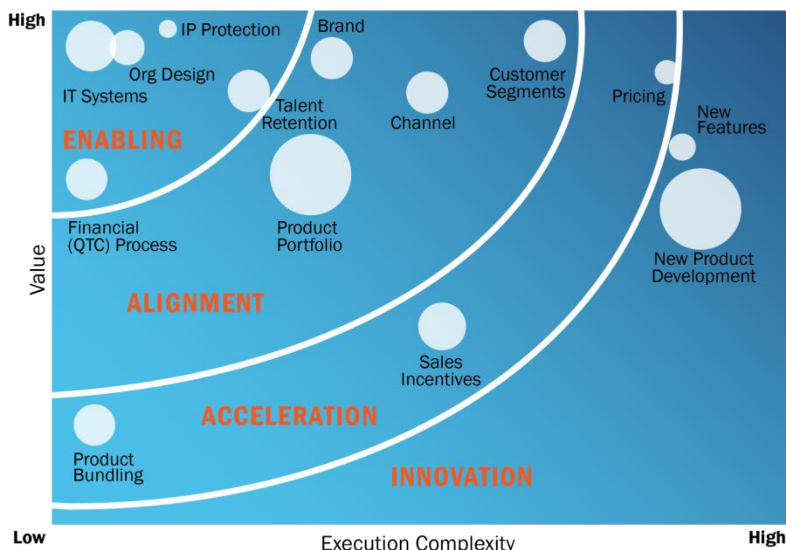
Incentivizing the sales force to retain customers is also critical to success. A favorable outcome of effective channel integration is to generate a combination of pull and push.

Channels must reach customers in the most efficient and effective way; they can be an integral part of the customer experience. Many times in M&A, acquiring new channels and integrating them is a critical goal. Channels need to be in harmony with brands and products. The alignment between sales, marketing, channels, products and customer segments is the only way to capture revenue synergies. This needs to be done quickly once the basic functions and infrastructure are in place and products are rationalized and mapped to the right channels in line with the brand strategy.

Products must fit the overall portfolio and align with the brand strategy. This would include brand names, packaging and "look and feel," all of which impact the customer experience. Having a framework to identify, position, integrate and communicate on products and their value propositions early on is a key to success. Duplicate and competing products must be rationalized and the sales force must clearly understand the value drivers and the alignment in the new product portfolio. Integrating and mapping the right products to the right channels is vital to realize cross-selling and up-selling opportunities by hitting the key targeted customer segments.

While alignment is critical, culture should not be underestimated. Culture at a high level can be defined as "the way of doing things." Every M&A transaction and subsequent integration entails a shift in culture, as it needs to be aligned with the vision and goals of the organization and its leadership. M&A executives must recognize the culture needed to drive this shift and must recognize the appropriate organizational design and incentives that will streamline the right behaviors with the desired results. M&A often tends to identify cultural similarities but tends to overlook cultural differences, which can make integration efforts more challenging than anticipated.

EXHIBIT 1



Source: FTI Consulting

Circle size represents approximate cost to achieve

The alignment of primary levers is key to value creation through revenue synergies. Value creation through alignment is feasible even when companies avoid full integration. It is about putting the most profitable products into the right customer segments, using the most efficient channels where the brand has the best positioning. But there is also the converse outcome and everything in between. Forward momentum can be achieved by just focusing on getting the alignment right.

Acceleration Levers

Accelerating revenue momentum by leveraging bundled products and services, adjusting pricing to enhance customer penetration or profitability and implementing sales incentives to drive desired behaviors around cross-selling and up-selling. Acceleration of revenue should follow alignment — typical successes achieved by pulling these levers is cross-selling products, increased sales coverage, enhanced reach into under-penetrated customers and new pricing structures that offer more value to customers.

Innovation Levers

Given that there is new feature development and also new product development, developing new avenues of revenue growth by integrating product roadmaps, creating market entry plans, identifying areas of competitive differentiation and anticipating customer needs and areas of growth are necessary. While new product or feature innovation is on a parallel track, it can only be built on sound execution of the alignment and acceleration layers. The ongoing dialogue and communication channel between product and market-facing teams is important to factor in the voice of the customer.

Conclusion

While alignment drives 80 percent of the value, the enabling levers need to provide the right foundation for it and accelerators are required to continue the momentum. Innovation levers could result in large leaps to the company's sales trajectory if it is built on sound execution of the other revenue levers.

In addition, the IMO cannot yield optimal results when configured functionally during transactions involving revenue synergies. A cross functional, value-driver approach is the best direction to take when drawing up and executing revenue synergies.

Nitin Kumar
Senior Managing Director
+1 408 915 8627
nitin.kumar@fticonsulting.com

About FTI Consulting M&A Integration Practice

Business leaders and M&A executives do not need to face today's challenges alone. FTI Consulting is a leading advisor to companies across the technology and industrial products sectors. Our experts provide guidance to companies, their executives, equity holders and/or creditors throughout all stages of a company's life cycle. We provide strategic, financial and operational advice with hands-on implementation for business model innovation and transformation, mergers acquisitions, divestitures, due diligence, integration and separation within our clients.

The views expressed herein are those of the author(s) and not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals.

About FTI Consulting

FTI Consulting is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

www.fticonsulting.com

©2016 FTI Consulting, Inc. All rights reserved.