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Sales channel integration after mergers and acquisitions: A methodological approach for avoiding common pitfalls

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Abstract

This article addresses the integration of sales channels after mergers and acquisitions (M&A) by appraising the strengths, weaknesses, and biases associated with the four most common frameworks for evaluating sales channels (sales management, historical performance, strategic fit, and customer choice) for their appropriateness in a post-M&A context. The authors develop a methodological approach that uses a balanced-scorecard framework to guide managers through the sales channel integration process, and then apply this approach to the merger of two industrial firms' sales organizations across 21 territories. In so doing, they reveal various pitfalls and propose and test some analytical corrections. Longitudinal performance data support comparisons across the different evaluative frameworks; in particular, the sales management and customer choice frameworks provide the most insight into channel partners' post-integration performance. The results support the premise that channel integration can be improved by accounting for factors unique to the M&A context and using an approach that triangulates multiple perspectives.

Keywords: Joint ventures; Mergers and acquisitions; Manufacturers' representatives; Affiliation bias; Sales channels; Balanced-scorecard

1. Introduction

The strategic role of mergers and acquisitions (M&A) has long been acknowledged (Hennessy, 1978; Stern, 1967), particularly since M&A activity has exceeded the trillion-dollar annual mark in U.S. industrial markets (Coy, Thornton, Arndt, & Grow, 2005). Because industrial sales channels or intermediaries provide 20–50% of sales revenues for many business-to-business firms (Abele, Caesar, & John, 2003) and the success of M&As depends on successful integration (Capron & Hulland, 1999), many firms face the challenge of optimally integrating their sales channels after a merger or acquisition. Channel integration is especially critical because terminated channel partners have relationships with and detailed information about existing customers and because poor channel decisions result in weak partners and provide competitors a superior channel to market. Furthermore, channel decisions are difficult to reverse, the cost of changing partners is high (e.g., due to lost sales during the transition period and the additional training required for new channel partners), and channel partnerships typically last a long time (Abele et al., 2003; Weiss & Anderson, 1992). The difficulty of successfully integrating sales organizations after a merger has been well documented in the trade press, which attributes numerous problems and negative results to poor channel selection and integration decisions (e.g., Madell & Piller, 2000; Sutherland & Turner, 2003). One common pitfall, favoritism or affiliation bias, has been recognized across many aspects of post-M&A integration resulting in poor performance (McBeath & Bacha, 2001). For example, the acquisition of WordPerfect Inc. by Novell resulted in affiliation-related staff clashes that crippled the merger, leading to Novell's decision to sell the newly acquired business (Clark, 1996).

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However, research literature provides little guidance regarding this important and increasingly prevalent business need to integrate sales organizations (Rangan, Zoltners, & Becker, 1986). Whereas it sheds some light on the best methods for selecting channel partners (Johnston & Cooper, 1981; Weiss & Anderson, 1992), managing sales channels (Mehta, Rosenbloom, & Anderson, 2000; Rangan, Menezes, & Maier, 1992), and handling M&A (Capron & Hulland, 1999; Mallette, Fowler, & Hayes, 2003), it provides little insight into integrating sales channels *after* M&A. Moreover, generalizing from these approaches to the M&A context can be troublesome due to its unique characteristics, including (1) separate sales and marketing organizations; (2) organizations that have only a partial knowledge of customers, products, and channels; (3) the tendency of premerger affiliations or bias to overwhelm other decision criteria; and (4) the need for rapid decisions in an often politically charged environment. Overall, the literature provides limited insight into a frequently confronted business decision that has long-term financial ramifications whose many problems and pitfalls the business community already recognizes.

Therefore, the research objectives of this study are to develop and test a methodological approach for optimally selecting and integrating sales channels after an M&A while avoiding some common pitfalls. The proposed framework and process take a "balanced-scorecard" approach (Kaplan & Norton, 1996) and integrate four different sales channel evaluative perspectives identified in the literature. The inputs from multiple perspectives (i.e., salesforce, financial performance, business objectives, customers) in a balanced-scorecard framework support a triangulation across different aspects of the sales channels, help promote organizational learning, and may minimize the impact of some problems unique to the M&A context (e.g., Brinberg & Hirschman, 1986; Chandy, 2003). The process outlined herein also attempts to minimize conflict among participants, which can result in reduced motivation (Covin, Sightler, Kolenko, & Tudor, 1996; Walsh, 1989) and protracted legal issues (Mohr, Fisher, & Nevin, 1999; Weiss & Anderson, 1992).

We organize this article as follows: First, we review the applicable literature to appraise the appropriateness of existing sales channel evaluative frameworks and identify any problems or pitfalls associated with them in a post-M&A context. Second, we outline our balanced-scorecard channel selection and integration framework and process, including the modifications needed to minimize context-specific biases. Third, we test the framework and process with an analysis of an acquisition in the industrial market and subsequent sales channel integration across 21 territories that used the proposed methodology. The analyses include an evaluation of post-acquisition longitudinal performance across the different evaluative frameworks. Fourth, we present the key findings, managerial implications, limitations, and future research directions.

2. Literature review

In his seminal work on the resource-based view (RBV), Wernerfelt (1984) articulated the strategic role a firm's resources play in sustaining competitive advantage and noted that attractive resources can be acquired through M&A. In this sense, sales channels represent critical organizational resources (Barney, 1991), or market-based assets, according to Srivastava, Shervani, and Fahey's (1998) terminology, that drive long-term profitability because they link a firm to its customers. If, in line with the RBV, we perceive sales channels as market-based resources that directly affect post-M&A profitability, then both the M&A and sales and marketing literature may provide insight into the practice, problems, and potential approaches for the successful integration of sales channels after a merger or acquisition.

In the M&A literature, the most frequently encountered cause of a failure to achieve financial objectives is a problematic integration (Capron & Hulland, 1999; McBeath & Bacha, 2001). Poor integration decisions often alienate customers and demotivate sales organizations, which leads to low morale and high turnover (Madell & Piller, 2000; Mallette et al., 2003). McBeath and Bacha (2001) argue that one company typically will be perceived as the dominant player during consolidation and resource redeployment decisions, which may introduce self-serving biases and lead to intraorganizational hostility, mistrust, or turf battles, all of which undermine employee morale and limit the intraorganizational learning that is needed for a successful integration (Mallette et al., 2003). Examples of M&A failure due to integration problems abound in the popular press and business news. After its recent acquisition of PeopleSoft, Oracle acknowledged that merging the two sales organizations represented its biggest "integration risk" and could result in significant losses of customers and revenue (Bank, 2004). Post-merger integration problems also have been deemed responsible for the drop (1998 to 2002) in Daimler–Chrysler's market value by $60 billion (Epstein, 2004). Available statistics from examples such as these indicate that, on average, acquirers have less than a 50% chance of success in M&A ventures (Pritchett, Robinson, & Clarkson, 1997). To guide firms in overcoming these problems, the business press has offered many general guidelines, including a planning process that integrates the process, people, and technology; the gradual introduction of corporate culture to the acquired firm; dedicated integration task forces; and cultivating a trusting teamwork environment (Miller, 1994; Pritchett, 1987; Pritchett et al., 1997). Although somewhat helpful, these general M&A guidelines provide little specific direction for the selection or integration of sales channels.

In contrast, marketing literature offers detailed guidance regarding the process of selecting sales channels but little advice directed specifically at the post-M&A context (Rangan et al., 1986). However, Weber and Dholakia (2000) outline a pre-M&A process that uses marketing resources to identify acquisition candidates that will generate superior synergistic benefits. Reviewing the sales channel selection literature suggests it can be distilled into four different frameworks (for a summary, see Table 1): (1) sales management (e.g., Mehta, Dubinsky, & Anderson, 2002; Weiss & Anderson, 1992); (2) historical performance (e.g., Abele et al., 2003; Agency Sales, 1990); (3) strategic fit (e.g., Novick, 1995; Rao, Mahajan, & Varaiya, 1991); and (4) customer choice (e.g., Becker & Flamer, 1997; Rangan et al., 1992). We evaluate the strengths and weaknesses of each of these frameworks for their use in the M&A context in the next section.