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Including Marketing Synergy in Acquisition Analysis:

A Step-Wise Approach

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Merger and Acquisition fever continues. Whereas the M & A boom of the 1980s was driven largely by financial considerations, resulting in many leveraged buyouts and hostile takeovers, more of today's mergers and acquisitions are friendly and are motivated by strategic profit goals. Reflecting this transition, marketing synergy has become a more relevant factor in determining the ultimate success of contemporary mergers and acquisitions. This article reviews an empirically tested step-wise approach for identifying, valuing, and realizing opportunities for marketing synergy related to proposed or consummated acquisitions. The approach focuses upon analyzing marketing consolidations in strategically driven, complementary mergers and acquisitions. *© 2000 Elsevier Science Inc. All rights reserved.*

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INTRODUCTION

Leveraged by technology and readily available capital, global overcapacity has developed in steel, paper, chemicals, airline seats, cars, commodities, livestock, telecommunications, financial services, and many other industries. This overcapacity has caused intensive price competition and a new drive for efficiency through consolidation. Companies in affected industries feel they will be left behind if they do not either quickly join forces with competitors or vertically integrate. High stock values have

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In today's more strategically motivated mergers, marketing synergy is a more critical determinant of merger success or failure.

created abundant currency with which to finance these new deals.[1] The result has been an explosion in worldwide merger and acquisition (M & A) activity. The total value of worldwide mergers in 1998 was $2.489 trillion, up 54% from 1997, while in the U.S., the total value rose an astounding 78% to $1.613 trillion according to Securities Data Co. [1]. Between 1991 and 1998, the annual value of mergers in the U.S. increased more than tenfold (Figure 1).

Strategic Mergers

While varying in specifics, the motives behind today's mergers have several factors in common. They tend to be strategic in nature, to be friendly deals, and to usually join companies in related businesses. The typical purpose is to increase profits by reducing costs (through achieving economies of scale and slashing overlapping operations) and boosting revenues (through adding new products and expanding market reach). These strategic motives contrast with financially motivated consolidations that were more typical in the 1980s [2, 3]. Given this transition to more strategically motivated consolidations, marketing synergy is becoming a more critical determinant of merger success or failure. Unfortunately, however, systematic assessment of prospective marketing synergies is too seldom included in the formal merger evaluation process. One reason for this continuing oversight is the shortage of acceptable tools and measurement standards. The approach reviewed in this article attempts to help address this shortcoming.

[1] For example, stock transactions accounted for roughly two-thirds of the deals in 1998, up from less than one-tenth 10 years earlier [4]. For a discussion of the trends in M & A activity over the past 20 years, see references [2, 3, 4].

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Many Disappointing Mergers

In sharp contrast with intended goals, mergers and acquisitions have frequently resulted in market-share losses, skimpier profits, and, in the long run, less money for shareholders. For example, one study of 150 mergers with values greater than $500 million in the 1990s by Mercer Management concluded that "50% were failures" when judged by their effect on stockholder wealth after three years. Evaluation of mergers from 1990 to 1995 showed that 69% of companies making either no acquisitions or making acquisitions worth less than $5 million outperformed their respective S&P industry indices, while only 58% of companies making acquisitions of over $5 million did better than their industry indices [5]. A study by Sirower, summarized in his book, *The Synergy Trap* [2], found that of 168 deals analyzed, roughly two-thirds destroyed value for shareholders. The study concludes that companies too often think they can generate synergy faster and in greater amounts than is really possible. With the inflated prices of many deals now being consummated [6], both merger stakes and associated risks are quickly rising.

While the causes of the merger disappointments are diverse, integration problems are a factor common to many disappointing mergers [2, 5]. A typical mistake is to assume that skills honed in one business can be readily applied to another. Another critical error is to assume that

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