Branding During M&A: Beating the Odds

**The context:**
Recent research suggests that the majority of mergers and acquisitions end up destroying rather than creating value. Brands are often core assets within M&A deals, but a carefully thought-out brand strategy and its implications are often not prioritized in the process.

**Key insights:**
- A clear and well-laid-out brand strategy is vital for a smooth transition during M&A and for the greatest chance of success post deal.
- A range of strategies exist, each of which has multiple sub-variations. Companies can subsume one brand into another, combine the entities, create something entirely new or allow each brand to continue unchanged.
- Regardless of which approach you take, M&A is a great opportunity to clarify and strengthen your company’s brand and what you want it to mean for customers, employees and investors.

Despite their popularity, most estimates suggest that at least 60% of mergers and acquisitions end up destroying rather than creating or maintaining shareholder value. The results of these failed deals range from large write-downs, an exodus of talent, rapid subsequent divestiture of the acquired company or even bankruptcy. While there are numerous reasons for the failures, one key factor is often the lack of a carefully considered and effective brand strategy for the new entity. There are a number of options, including merging the two businesses, creating something completely new or letting each company operate independently. These are crucial decisions on which the success of the merger and acquisition rests.

**How can you beat the odds with your merger or acquisition?**

In this paper, we will discuss the centrality of branding to successful M&A, considering the various strategies for what to do with the new entity based on the needs of key stakeholders, including customers, investors and employees. We will highlight examples of each approach and how to consider what might be right for you.
The Opportunity

Branding is often neglected during the M&A process in favor of financial, operational and logistical concerns. When companies do consider branding it is often after the merger, and as a way to deal with challenges rather than prevent them. That’s a big mistake. A clear brand strategy can make the transition much smoother and provide useful opportunities to deliver a strong message internally and externally about the value of the combined entity. The branding decisions communicate strategic intent, offering timely and clear signals to key stakeholders that keep the relationship strong and valued.

Mergers can be challenging and lead to confusion and resentment; take the opportunity to improve on strengths and carefully develop and refine the message of the brand(s) moving forward. When the branding decisions are made after the fact, it is often too late: damage to employee morale, customer satisfaction and the valuation of the company has already happened. Instead, companies should make key decisions heading into the merger, asking what to keep, what to get rid of, what to combine and what to create from scratch.

The Options

Most mergers tend to choose one of two options: either subsuming the target company into the brand of the acquirer, or allowing each brand to continue as if independent. While there are advantages to these approaches, they are often used because they are the easiest rather than the most effective, and their particular disadvantages are not considered in enough depth. Other options may be more effective and better serve the specific companies in question.

During a merger, companies have four broad branding options with multiple variations within each option (we follow here the basic framework established by Ettenson and Knowles, 2006). They can subsume one brand into another (Back the Stronger Brand), blend the two companies together (Blend), create something entirely new (New Brand) or allow each company to operate as before, perhaps with some slight operational streamlining (No Change). There are advantages and disadvantages to each approach, and it is vital for the company to carefully consider which option might be best for them, based on key factors including the existing brand equity of the target and the acquiring brands, employee engagement in each, market positioning, visual identity and customer perceptions and experience.

Wells Fargo & Norwest

The Wells Fargo/Norwest bank merger in 1998 took a creative approach to choosing one brand after an acquisition. Although Norwest was the bigger entity, Wells Fargo had stronger brand equity. The transaction was carefully situated as a “merger of equals,” sending the signal that both sides would benefit from the approach. The decision to use the smaller brand’s name helped ease tensions that the merger was forced on Wells Fargo, and avoided a winner/loser mentality.
Strengths and Weaknesses of Each Approach

“Backing the Stronger Brand” brings with it considerable advantages when a strong company is acquiring a weaker one (‘Standard’ variation), or when a company with high reputational capital is taken over by a company with weaker brand equity (‘Reverse’ variation). This helps position the merger or acquisition as an upgrade, which can generate excitement among employees and boost the sense of value for customers. But there are also risks in establishing a kind of winner/loser mentality; employee morale may suffer, creating tension between the two entities that can make the transition less smooth.

Sometimes companies temporarily combine names before fully backing the stronger brand (‘Temporary’ variation). Such an approach requires two sets of brand changes so is usually not recommended, but it can occasionally make sense in order to signal a united future while retaining, at least temporarily, a sense of identity for each company.

More powerfully, companies can communicate their commitment to a new brighter future by taking the opportunity to update the stronger brand (‘Updated’ variation). This is often a good way to balance messages of both continuity and change. This obviously sets up expectations of some kind of new start, and if these

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expectations are not met through changes or improvements to the brand experience there is likely to be predictable cynicism from customers and/or employees. However, under circumstances of genuine change this approach can increase the chances of post-merger success.

Sometimes transitioning brands can take significant time. When US Airways acquired American Airlines, the CEO of US Airways remained in place to lead the combined organization under the American Airlines brand, clearly the stronger brand of the two. Transitioning all elements of the customer experience, from reservation systems to frequent flyer programs to the look and feel of the planes themselves was a monumental effort. Updating the American Airlines visual branding provided a way to further communicate the overall change at an appropriate time in the transition.

Organizations can also emphasize the values of the target brand, paying attention to the culture of the employees and gesturing towards it. While it might be a small signal, it sends the message that there will be some change on both sides while maintaining overall continuity and sticking with what works.

The “Blend” approach, in which names or brand identities are merged, indicates that the best of both companies will be leveraged going forward, combining competencies and discarding weaknesses on each side. This can be done in multiple ways. An obvious method is simply to combine names (‘Combo’ variation). Although this appears simple, it can often create challenges as it often misses the opportunity to help truly define a new future and can seem like executives just smashed two companies together without really figuring out who will be in charge moving forward.

One variation is to combine names but introduce a new symbol or visual identity (‘Updated’ variation). This sends a stronger message of change for the future, but needs to be accompanied by a clear message of why the change will be good—the flip side is that existing customers may be concerned with an enforced change or a perceived reduction in competition. Alternatively, the name of one company can be combined with the symbol of another (‘Best of Both’ variation). An example of this is the United merger with Continental Airlines. Where a corporate symbol carries strong emotional connections with employees or customers this can be an effective way to retain some of the acquired company’s identity.
A final variation within the Blend approach involves retaining the name and visual identity of the target company, but with the addition of the name of the lead company as an endorsement (‘Endorsement’ variation). This can signal the extra reassurance of a powerful parent company now standing behind the acquired brand, and is a common brand strategy for acquisitions where the target company retains its market presence with the additional benefit of greater scale, resources or reputation that the parent provides.

All of the Blend variations, to varying degrees, attempt to avoid a clear winner/loser mentality, which helps with employee and corporate integration. It gives companies an opportunity to build on the familiar but break with what might not be working, indicating a shared future based on combined strengths and assets. However, it can also result in confusion as to what the values of the new entity are, and whether it is really one company with one clear leadership structure. Companies must be wary of stakeholders who have strong negative feelings towards one of the entities that they may have avoided in the past. A strong brand that signals that the new company really is new will help those who have negative brand associations that might transfer to the new entity.

Companies can also embrace a merger as an opportunity to shake things up and create an entirely new vision for the combined entity. An example of this is Bell Atlantic and Nynex becoming Verizon. The “New Brand” approach requires the greatest planning and the most resources. It’s a risk: both companies are leaving behind their well-known and possibly positive brand associations in favor of something new. It’s a big and bold move, signaling that both companies are transformed through their partnership and are therefore able to promise and achieve more than they could do on their own. There is great payoff to this approach, but only if companies can actually deliver on their promise. This means ensuring that all employees share the conviction for the new brand message and are prepared to effectively communicate and deliver it.

Finally, the “No Change” option is in many ways the easiest, with fewest branding implications. Care still has to be taken not to duplicate resources in order to maximize the efficiencies of the merger. In some cases, this approach is the right one, if the brands are highly disparate or equally successful or targeting entirely different market segments. Some companies like Campbell Soup Company have a large and diverse set of brands, and they acquire additional ones to add to their market share or to enter faster-growing categories. While they may integrate some aspects of branding, these targets tend to operate mostly autonomously to the market and gain cost or distribution efficiencies on the back end. But companies still must communicate why they have undertaken this merger and manage the expectations of their stakeholders that little will change.

Bell Atlantic & Nynex

When telecommunications companies Bell Atlantic and Nynex merged in 2000, they chose a bold new direction for the combined entity. Now called Verizon, the new name was derived from “veritas,” the Latin word for truth, and “horizon.” The “v” also signals vertical integration, speaking to the combined strengths of the two companies and their new, expansive potential. The name was chosen from amongst 8500 options, and the company spent over $300 million on marketing; their initial planning and strong vision helped make the partnership a highly successful merger.
Seize the Opportunity

There is a lot to consider during a merger or acquisition. A clear and well-articulated brand strategy will help you develop a plan for the new entity that will keep the transition smooth and send the right signals to key stakeholders. It is vital to keep branding in mind as you value both the target and the acquired brand, which will help you leverage the new assets and create value going forward. Depending on existing brand perceptions and the vision for the combined entity, a merger might be the ideal time to introduce an entirely new brand architecture to bring clarity to the market and even potentially help deal with any cultural differences between the two companies. A coherent brand strategy can signal that the two brands are much stronger together than each was alone, and might help deal with resentment that stakeholders might have for one or the other of the original brands.

Be sure to keep your message consistent and communicate it clearly and effectively to employees, customers and investors. Gaining a deeper understanding of existing brand perceptions and the nature of the brand experience of both brands through research before any merger is complete will help guide brand strategy decisions.

As you plan your brand strategy for the new entities, think about how to build on existing strengths and emphasize continuity in the midst of change. A well-constructed brand strategy not only improves the odds for a successful merger and acquisition, it will make your brand better, stronger and more powerful. ■

If you’re interested in learning more about this topic and our insight, please call us at 610.940.9030 or visit www.baileybrandconsulting.com

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Selected sources
1. Alan Lewis and Dan McKone, 2016, "So Many M&A Deals Fail Because Companies Overlook This Simple Strategy," HBR, https://hbr.org/2016/05/so-many-ma-deals-fail-because-companies-overlook-this-simple-strategy

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