Deloitte M&A Views podcast:
Synergy success: Hitting your revenue targets

Transcript

Greg: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions (M&A). I'm Greg Jarrett. And today we’re discussing revenue synergies in acquisitions, as they're expected to increasingly play a huge role in achieving overall deal synergy across industries. We're joined today by Nik Chickermane and Iain Bamford, two principals from Deloitte's M&A practice, who lead the sales and marketing team that focuses on driving revenue synergy and go-to-market transformation.

Greg: Nik, let's get started with you. It's no secret to anybody that M&A deal volume has really surged in the past few years. Companies are looking at M&A as a driver for revenue growth. Let's talk more specifically, now, about revenue synergies in acquisitions and how targets for such may be achieved.

Nik: What we are seeing is that global M&A deal volume has just surged over the past three to five years. And it's no secret that a big driver of this surge is that more companies are using acquisitions to drive inorganic growth. And they're doing that by acquiring new customers or products or entering new markets. And they’re trying to drive as much revenue synergy as possible with what their current capabilities and offerings are. Now, it's ironic that even though many companies are using acquisitions by growth, what we are seeing is that successful revenue synergy capture continues to remain quite elusive. In fact, what we have found in our latest research is that almost 75 percent of the companies did not achieve the revenue synergies or the long-term growth targets that they're desiring in the first place as they sign the deal. But what I would say is that achieving revenue synergies is quite often difficult, but it's not impossible. And it can certainly be achieved with the right rigor and the right approach.

Greg: Thanks, Nik. I hear what you are saying, difficult but not impossible. So, I'm wondering, what are some of the ways that companies can increase the odds of success? Iain, maybe you can weigh in on this one.

Iain: There are success factors to consider, the first being what we call pursuing the low-hanging fruit. Companies that did actually hit their revenue synergy targets aggressively tend to pursue nearer-term tangible synergy opportunities, which is really about showing momentum and progress as quickly as possible—which is typically really important for internal audiences and for investors. And when we say that, we're talking about things like cross-selling to existing customers, leveraging distribution channels that are already there to sell new products, and using those as early opportunities to show progress and momentum in the market.

Another thing that we saw in the research was that while these are common approaches for larger firms, smaller firms seem to tend to focus on more complex ways of pursuing revenue synergies, like going after totally new customer sets or adopting a completely new route to market or go-to-market model, which tends to be riskier and more complex. It can also take a lot longer to execute.

Greg: And Nik, how about from your point of view? Anything to add?

Nik: Yeah, thanks Greg. I can jump in with a couple more ideas. Because what we have seen is that the successful companies who achieve the desired revenue synergies tend to pursue more types of revenue synergies for a given deal. And what I mean by that is that there is just an inherent risk in any individual revenue synergy initiative. And what successful companies are doing is trying to diversify that risk by creating a virtual cycle of what we call growth-enabled opportunities. And what that really does is increase the odds of meeting targets. We do believe that there are a lot of strategic choice points around understanding where the market opportunities lie, which is really where you play, and what unified go-to-market strategy or channel mix is, which is how you win.

And on the other hand, what we have seen companies who are not very successful in driving revenue synergies do is they're focusing their efforts on just a handful of initiatives. What that's really doing is increasing their risk of not meeting these targets. Since, again, there are fewer opportunities. And if you don't create the right capabilities to achieve it, you might not be able to have the revenue synergies materialize in the same way.

Greg: So Iain, looking ahead, long-term seems to be key?

Iain: Yes, absolutely. That's another good point, Greg. And, you know, another key differentiator that we do see is a real focus on long-term innovation. So you're really thinking deeply about the initiatives that are going to drive that next wave of value creation after you've hit those quick wins and figuring out what investments you need to make early, what seeds you need to plant to realize those longer term opportunities. What we see too often is companies focusing, probably excessively, on the near-term only and on cost priorities and then seeing their growth stagnate over the long term because those seeds weren't planted early.

You know, what we're talking about here are fairly complex things like overhauling product portfolios, redesigning how they service customers, coming up with new and different go-to-market models, etc. So these are things that require more thought up front, more innovation up front, but bear fruit over the longer term.

Greg: Gentlemen, as I'm listening to our conversation here, I think back to a few episodes ago. We were talking about data analytics in M&A. And if ever, Iain, I heard a place where data analytics could be a critical factor in determining revenue synergies, this is it.

Iain: Yes, Greg. I'll definitely agree with that. In fact, I think data analytics has always been critical in M&A. And on the Deloitte side, we've invested fairly heavily in analytics capabilities around things like predictive cross-selling and analyzing sales performance and customer sentiment that all play into this discussion about revenue synergies.

I would say that the one thing that we've seen change over the last few years is while relevant and accurate structured data from internal databases, CRM systems, etc., has always been really important—and is being fairly widely used, I'd say—what's increasingly becoming a differentiator is how to combine that with unstructured data from things like social media and market trend data to differentiate in terms of the insights you can derive around customers and their performance and the different revenue synergy opportunities.

Greg: Nik, is there anything that you can add to help our listeners as they think more about planning for revenue synergies?

Nik: Yeah, Greg, a couple of things. First of all, I think companies do need to start getting a firm commitment in their pre-close synergy efforts of what the growth targets look like and how they're going to go achieve the targets. But, I would say, it's really trying to create actionable plans before deal close. And what I mean by that is the ideal scenario is to get your revenue synergy plans in place by deal close. So the moment the deal closes you can start executing on that growth and try to front load as much of that as possible.

And then finally, taking—as we discussed before—a portfolio view of your revenue synergy initiatives. And what that would help acquirers on is blending the short-term quick wins along with the longer-term innovation or product plays. And to me, those are some of the most important ingredients for driving revenue synergy success.

Greg: I'm Greg Jarrett. Thanks for listening to Deloitte M&A Views, sponsored by Deloitte's M&A Institute. For more information around insurance M&A, download the latest report at www.deloitte.com/us/insurance-ma-outlook. We also release new podcasts regularly, and if you subscribe, you won't miss a single one. To stay connected and receive more information on Deloitte's M&A service offerings, visit www.deloitte.com/us/MAsubscribe, and follow us on Twitter @DeloitteMnA. Until next time.