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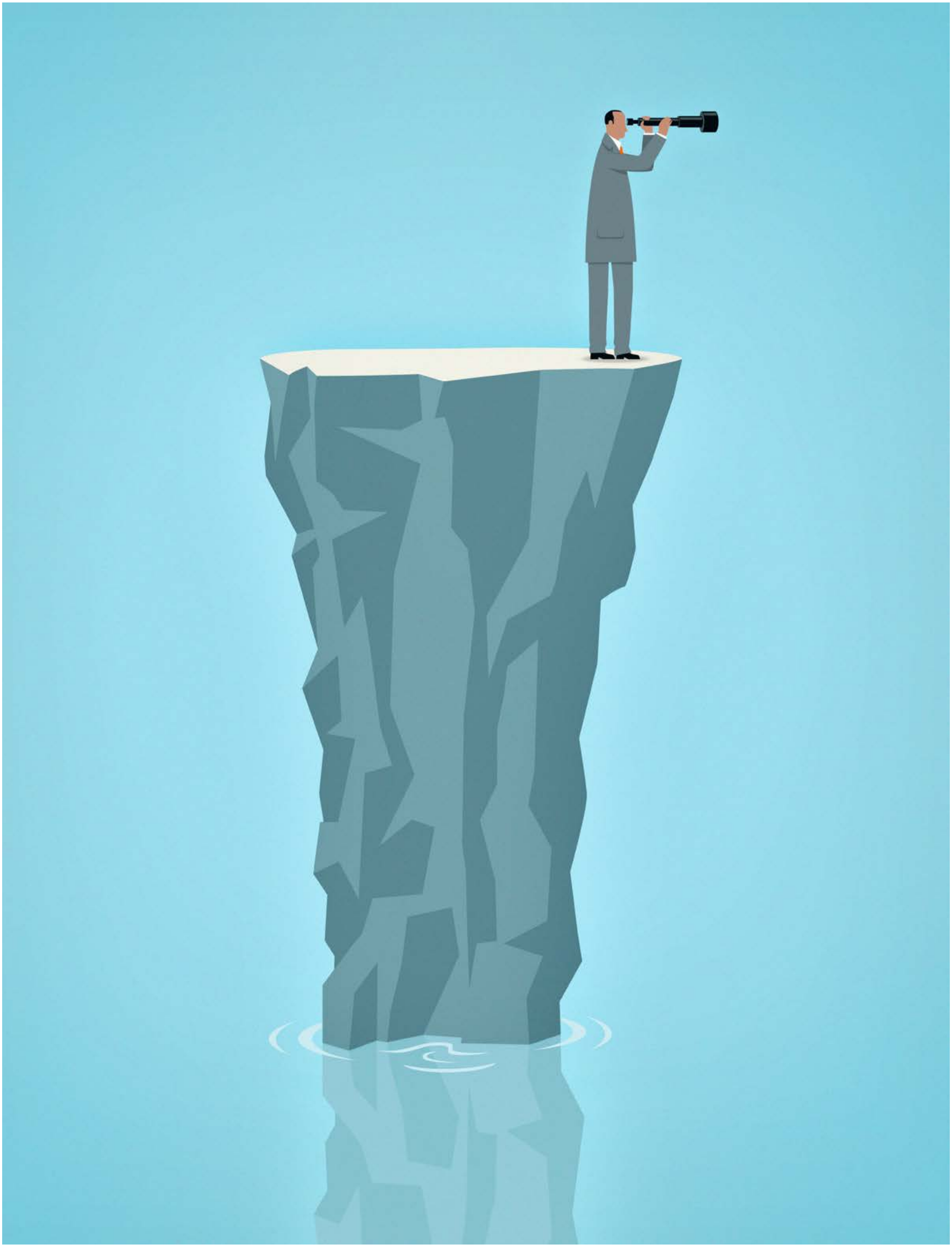
Revenue synergies in acquisitions

In search of the Holy Grail

M&A Institute



In search of the Holy Grail

Although most deal synergies are anticipated to come from revenue,[1] few acquirers actually achieve more than 80 percent of their target

Global M&A deal volume has surged in recent years—in 2016 alone, global M&A deal value was a whopping USD $4.4 trillion from approximately 45,000 deals.[2] What's driving these deals? In many cases, companies are looking for revenue growth. In a previous Deloitte survey of 528 executives engaged, respondents indicated that nearly 60 percent of the deal synergies they were seeking were anticipated to come from revenue rather than cost sources. Capturing revenue synergies ranked second on the list of top concerns for acquirers.[3]

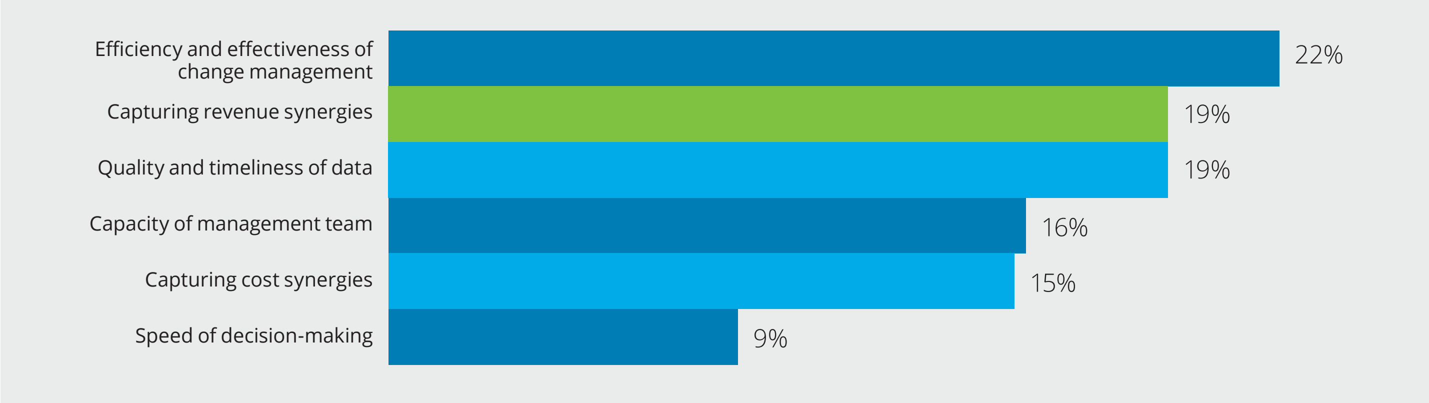
How is the pursuit of revenue synergies working out? With less than a quarter of acquirers reporting that they are substantially meeting their goals, there is clearly room for improvement.[4] Although revenue synergies are assumed to be riskier to achieve, what is surprising is the extremely low percentage of acquirers who have cracked the code to achieve revenues synergies. At the same time, some acquirers have demonstrated the ability to follow leading practices in achieving revenue synergy. What are those leaders doing that others aren't?

In this report, we identify several of the strategies and practices adopted by leaders—those companies that are consistently able to meet their targets for revenue synergy through deal making. They include:

- Casting a wide net when identifying revenue synergy initiatives
- Executing quickly on immediate opportunities for quick wins
- Leading with innovation
- Using data and analytics to drive actionable insights
- Planning for commercial integration early with dedicated resources

Achieving revenue synergy is often difficult—but it's far from impossible, as these leaders have shown. Inside, we take a closer look at the current state of revenue synergy in M&A—and how to increase the odds of success, based on the approaches taken by some of the companies with a proven track record.

What is your company's top concern in a new acquisition?

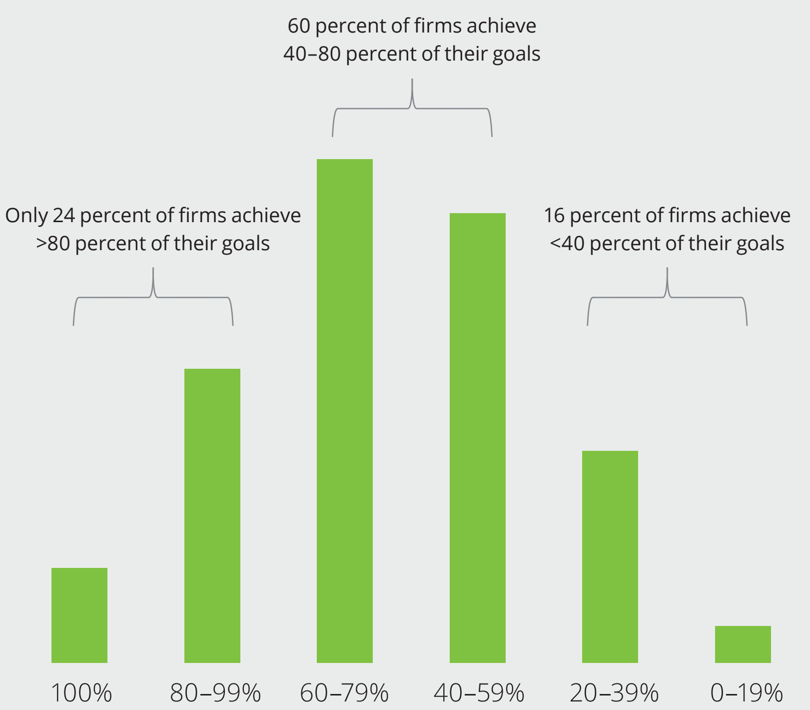


Success is elusive—but not for everyone

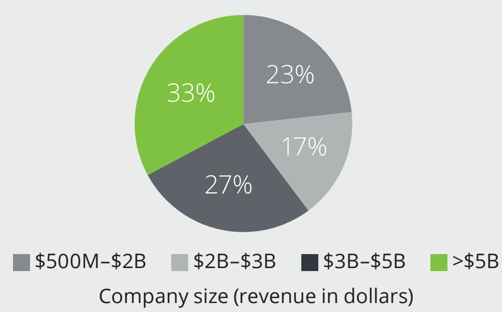
Nearly a quarter of acquirers are able to achieve at least 80 percent of their revenue synergy targets

Our survey suggests that a small group of "Leader" firms—less than a quarter of those surveyed—are successful in reaching at least 80 percent of their revenue synergy objectives. On the other hand, some "Laggards" consistently come up short—16 percent regularly achieve less than 40 percent of their targets. Leaders tend to be larger in size, with 33 percent of the highest achievers having more than $5B in revenue, compared with only 12 percent of all other respondents. This size relationship is important to the scope of synergy opportunity for a deal, as discussed more below. Ultimately, taking a portfolio view of revenue synergies—one that combines short-term quick wins and longer-term innovation—may be an ingredient for revenue synergy success.

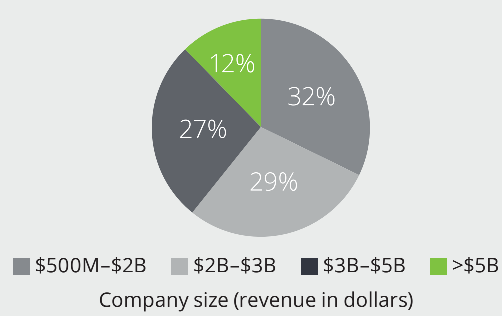
Percent of revenue synergy target achieved



Over 80 percent of target realized



Less than 80 percent of target realized



Critical success factors

Five actions that may help enable revenue synergy capture

1 **Pursue the low-hanging fruit**

a. Align around cross-selling and channels
b. Enforce efficient decision making on goals, mindful of operating model implications

2 **Cast a wide net**

a. Pursue multiple types of synergy initiatives to increase chances of success
b. Lead change management activities across both organizations
c. Enlist customers, partners, and other key stakeholders in guiding and informing key decisions

3 **Lead with innovation**

a. Invest ambitiously in growth opportunities with long-term potential
b. Balance near-term and long-term synergy initiatives
c. Lay the foundation for go-to-market transformation

4 **Dig into the data details**

a. Use quality data to drive analytics-driven insights
b. Establish and empower a dedicated integration team
c. Budget for success and incentivize teams

5 **Plan the work, work the plan**

a. Plan for pre-close synergy and clean room activities
b. Activate integration teams with commercial analytics capabilities
c. Remain focused on targets

Pursue the low-hanging fruit

Leaders tend to aggressively pursue near-term, tangible synergy opportunities

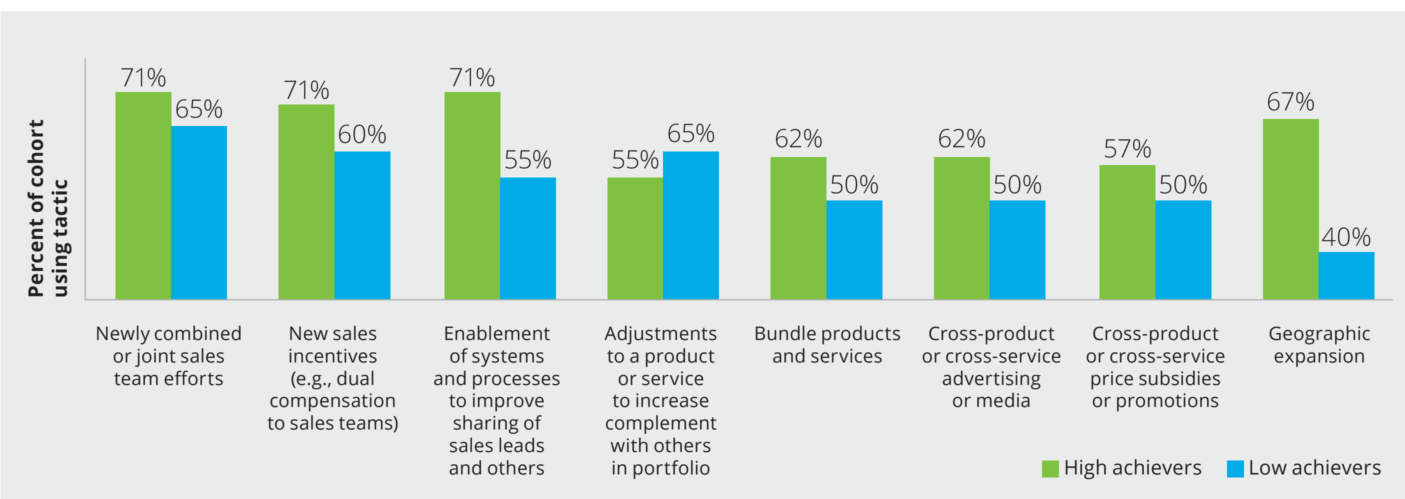
"Our near-term focus is almost entirely on cross-selling accounts and opportunities across product distribution channels for the different lines of business."

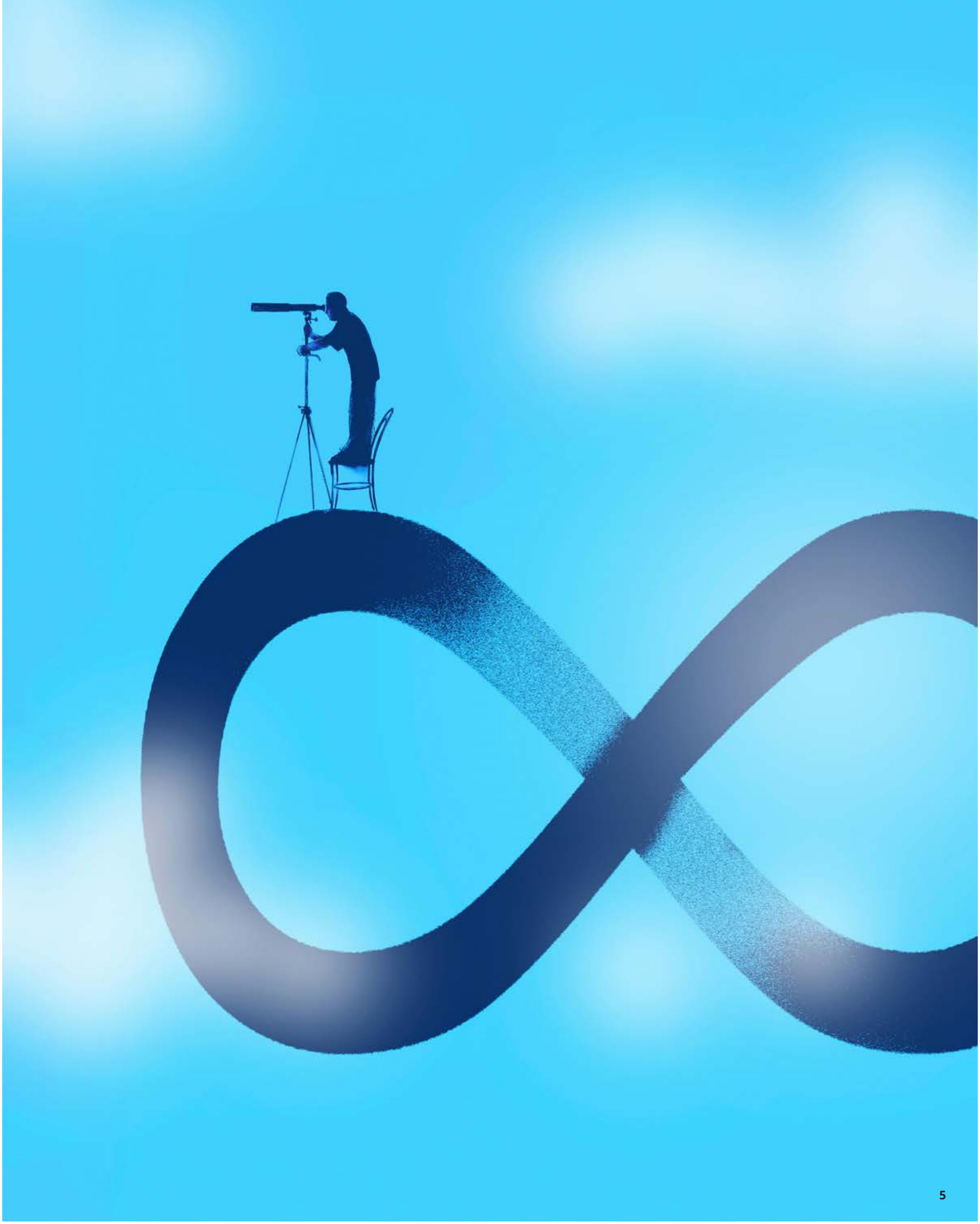
—SVP Corporate Development, global financial services (serial acquirer)

Between our hands-on experience with clients, and our database that catalogs thousands of transactions, we have determined that more than 40 percent of revenue synergies come from cross-selling—and our survey respondents agree. They identified cross-selling and the ability to share distribution channels in existing markets as the two easiest synergy opportunities and best ways to achieve quick wins for future momentum.

Perhaps surprisingly, however, not all acquirers pursue cross-selling and shared distribution channel activities equally aggressively. Cross-selling and sharing distribution channels are primary tactics for larger firms, but other firms tend to rely on more difficult ways to pursue revenue synergy (such as accessing completely new customers), likely risking their overall success. Front-line systems, new incentives, and sales teams made up of personnel from both legacy organizations combined are three of the most common tactics used by firms to pursue cross-selling. Still, for any such initiative, making early determinations about where to focus in order to achieve growth, as well as identifying new operating models, can accelerate synergy pursuits.

What cross-selling tactics are most commonly used?





Cast a wide net

Leaders often pursue multiple synergy initiatives in parallel, enhancing their chances of success

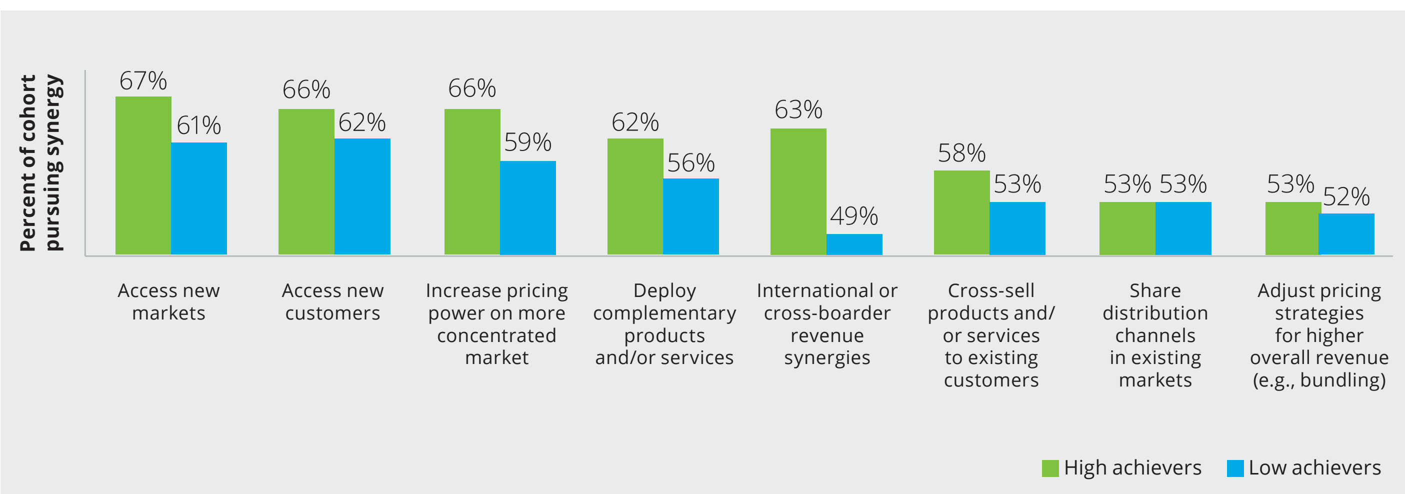
"We look for many singles and doubles on revenue synergy, instead of one home run."

—VP of Strategy, global technology firm

Leaders tend to pursue more types of revenue synergies for a given deal. Given the risk inherent in any individual revenue synergy initiative, this type of diversification can create a virtuous cycle of growth-enabled opportunity expansion—increasing the odds of meeting targets. Developing such a broad portfolio of revenue synergy opportunities increases the importance of engaging a variety of relevant stakeholders, from key customer accounts to existing and potential new commercial partners to enablers in the supply chain.

Meanwhile, Laggards tend to focus their efforts on only a handful of initiatives, often those connected to more limited pre-deal planning. This increases the risk of not meeting their targets, since there are fewer other opportunities to compensate if a particular initiative does not materialize.

What types of synergies are most commonly pursued?



Lead with innovation

Leaders maintain long-term innovation priorities to pursue the largest growth opportunities from a deal

"In some cases, the acquired business loses its 'secret sauce' during the integration, as it conforms with the acquirer's way of doing things, and then starts to stagnate. If there is a focus on what will really drive value and innovation early on, then this stagnation can be avoided by laying the right long-term foundation."

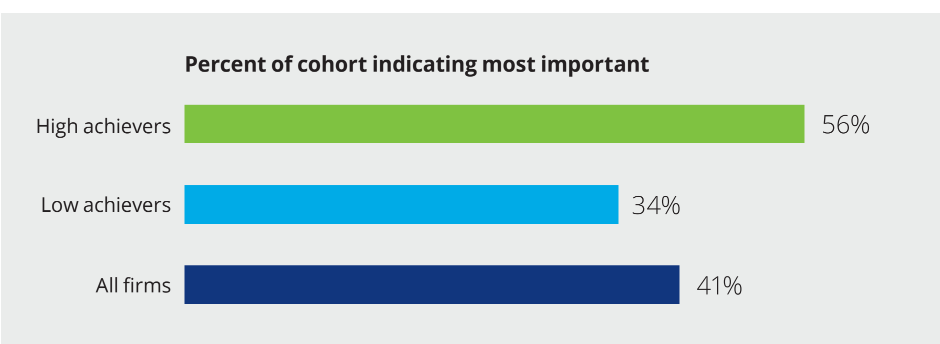
—VP Product Development, multinational manufacturer

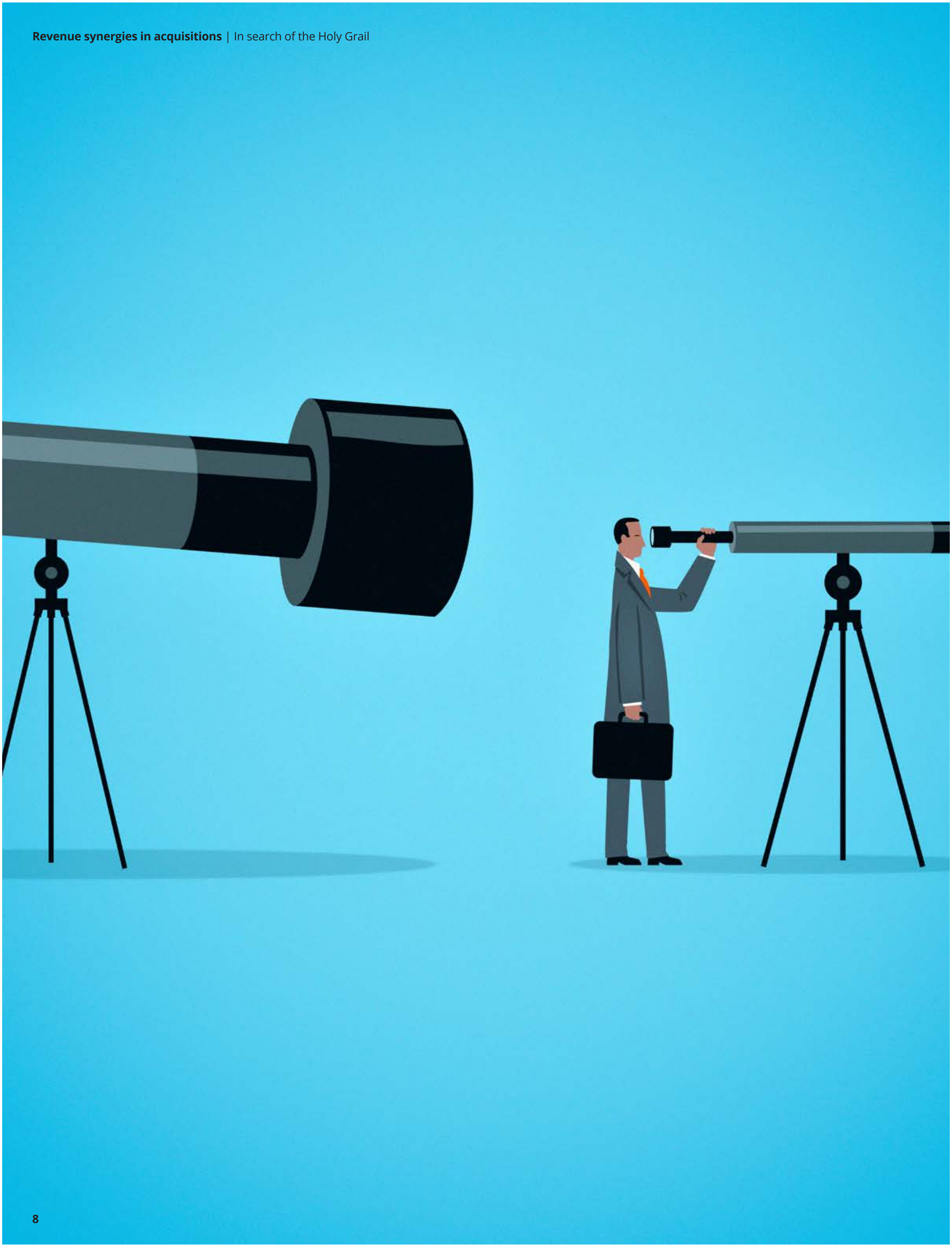
Truly outsized and sustainable growth from deals, just as with organic growth efforts, often comes from long-term innovation in the products and services that a firm offers. Combining IP, collaborating on new products, and integrating other technology capabilities to develop valuable solution-oriented revenue offerings are just a few of the high-level synergy opportunities dependent on such long-term, cross-organizational efforts.

The most successful firms clearly define these innovation priorities and use them as planning inputs (56 percent of Leaders, compared with only 34 percent of Laggards).

Meanwhile, Leaders are able to pursue shorter-term initiatives for revenue synergy, such as cross selling and sharing existing distribution channels, as described above, but maintain longer-term ambitions at the same time. This balanced portfolio of initiatives improves Leaders' ability to capture value from their business of today, while driving larger value by way of the business of the future. Whether linked to the overhaul of product portfolios, redesign of service delivery, or transformation of a go-to-market approach, keeping innovation as a top priority appears to be a hallmark of organizations that are able to attain their revenue synergy goals.

Are innovation priorities clearly defined and used as key inputs for growth plans?





Driven by data

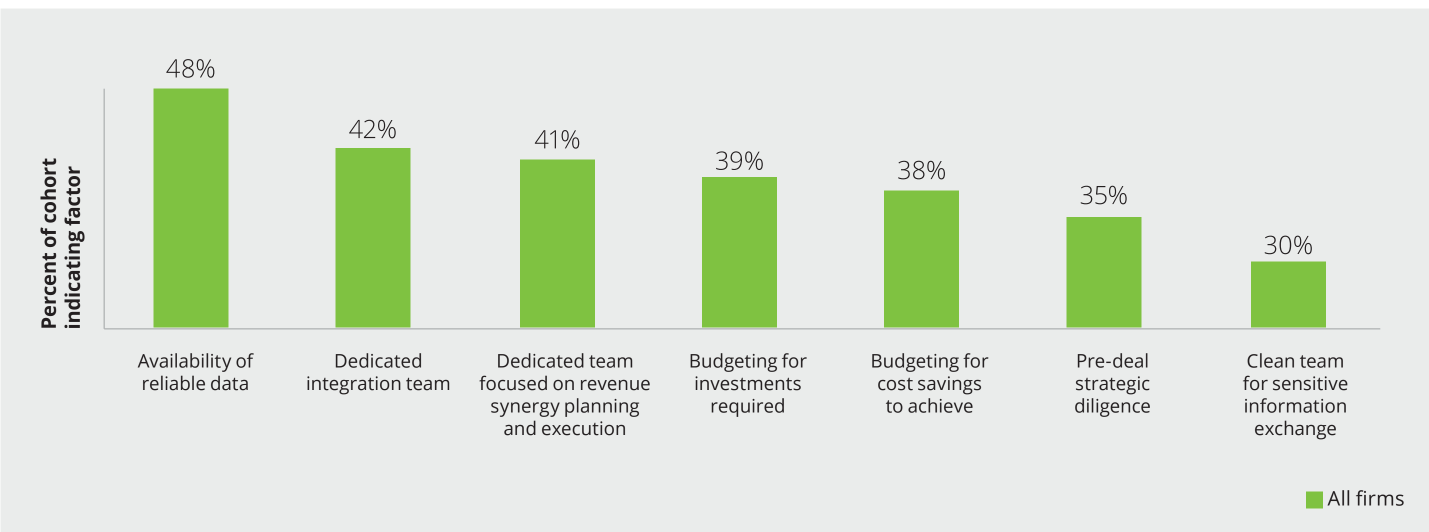
Analytics capabilities can deliver smarter insights to guide stronger revenue synergy outcomes

What are the most critical factors in pursuing revenue synergies? When asked, survey respondents point to information and talent. In fact, they are in virtual consensus in their views that reliable data, along with dedicated integration teams, are of primary importance when it comes to both planning and executing revenue synergy initiatives. Relevant, accurate information from structured data sources in customer segments, account metrics, product performance, and other commercial operations appears to be critical in identifying valuable revenue synergy opportunities. But crunching the numbers is rarely as simple as it may seem.

Deal makers who rely heavily on data value their ability to interpret unstructured data to cultivate insights that can help them assess new revenue opportunities. For examples, non-traditional sources of data such as blog posts, social media, and other rising customer sentiment forums are fast becoming critical assets in limiting customer attrition, prioritizing revenue synergy initiatives, and monitoring the success of value capture tactics. Especially in environments in which multiple acquisitions maybe occurring simultaneously or in succession, it's possible to continuously gather valuable data. From there, artificial intelligence support systems focused on analytics can help improve the odds of success in future deals, as the organization continues to build more robust predictive modeling capabilities to support future M&A activities.

The process of using data and analytics can begin as early as pre-deal clean room activities. As more transactions take place, these capabilities can be augmented with new data and experiences. Just as important, companies can begin to expand outward, using data-driven insights to focus on new areas such as spurring organic growth from the newly combined businesses.

What are the top three most critical success factors for achieving revenue strategies?



Plan the work, work the plan

Leaders are meticulous, early planners

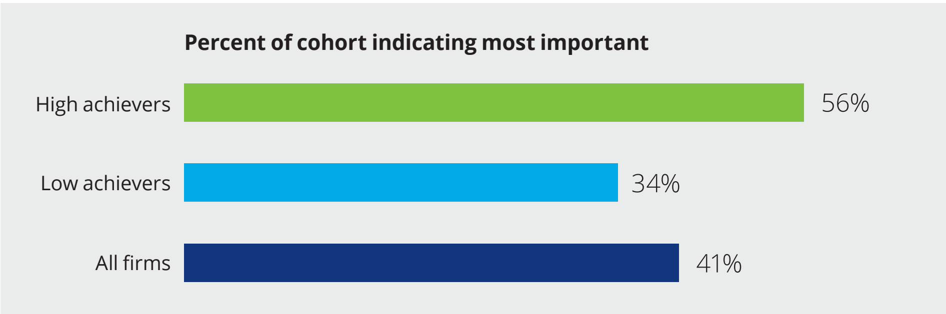
"From the moment we announce a deal, we establish a dedicated PMO with a relentless focus on synergies. And we incorporate targets into the op plan to ensure teams are incentivized to deliver on them."

—SVP Business Development, global pharma (serial acquirer)

We found that Leaders often have actionable plans before closing the deal and stand ready to accelerate them from legal Day 1. More than half had such plans within 60 days of the merger at most—if not before closing. Leaders also seem to have a firm commitment to their pre-close synergy targets. Unlike other acquirers, Leaders were much less likely to go back and adjust their pre-close targets, with only 25 percent revising their revenue synergy goal within a year of closing the deal (compared with 43 percent of low achievers). They also seem to place a greater emphasis on deploying and supporting dedicated integration teams.

Leaders also benefit from having these accretive revenue growth plans set in place early, then integrated into the full deal execution timeline. Often, Leaders can take advantage of pre-close clean room environments, using deep commercial analytics to drive revenue synergy planning. Disciplined pursuit, tracking, and reporting helps ensure these long-term innovation opportunities come to fruition through the merger.

Are innovation priorities clearly defined and used as key inputs for growth plans?



Synergy strategy

Although successful revenue synergy capture continues to remain elusive for three quarters of the firms we surveyed, some seem to have cracked the code on what it takes to be successful. Pursuing more types of synergy initiatives, enabling cross-selling, keeping long-term innovation as a priority, planning early with available data, and establishing dedicated integration teams—in the long run, some combination of these (or all of the above) have proven to be instrumental in delivering the desired synergy targets.

If you'd like to know how these approaches could work as part of your M&A strategy, we should talk.

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Endnotes

1. *Deloitte M&A Trends 2016*, Corporate Acquirer Respondents (n=528)
2. *S&P Global Market Intelligence*
3. *Deloitte M&A Trends 2016,* Corporate Acquirer Respondents (n=528)
4. Refers to achieving more than 80 percent of revenue synergy target

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