Increase your odds of M&A success with brand architecture

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Increase your odds of M&A success with brand architecture

After a recession-induced lull, merger and acquisition activity is picking up once again. Many businesses are sitting on mountains of cash—Bloomberg estimates that the top 1,000 companies worldwide have almost $3 trillion among them—and they're in "use it or lose it" mode. The temptation to acquire other brands to speed growth will be tough to resist.

Despite its continuing popularity, M&A has a terrible track record. Reviews find that the chance of an acquisition increasing shareholder value is no better than a flip of the coin.[1]

A solid brand architecture plan can greatly improve these odds. The better defined the brand architecture strategy, the more likely a company will be to keep brand top of mind during the deal, value an acquisition appropriately, and have an effective plan in place to leverage the new brand assets.

Early, continued, and focused consideration of brand during the deal can go a long way toward making sure that you create value rather than destroy it when acquiring other brands.

The havoc that brand acquisitions wreak—and how to avoid it

Why focus on brand architecture? Three brand-related factors create M&A problems that cannot be ignored.

1. Brands are often a big part of shareholder value. Brand contribution varies from business to business but can be over 50 percent in the case of marketing heavyweights like Coca-Cola, McDonald's, and Disney.[2]

2. Brands are difficult to value. We've all heard the adage about not being able to manage what you can't measure. Well, brand value is very difficult to measure, so it's likely to get less attention than tangible assets without some structured intervention.

3. Brand value is driven by who owns the brand and what they do with it. Once a brand is acquired, its value will rise or fall depending on how the acquiring company manages it. The acquiring company could do a lot better.

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A different version of this article is forthcoming in *Admap* magazine in 2011. warc.com/admap

1 Zachary R. Mider, "M&A Losers in $10 Trillion Deal Binge Led by McClatchy, Sprint," *Bloomberg Businessweek* (13 August 2010). businessweek.com/news/2010-08-13/m-a-losers-in-10-trillion-deal-binge-led-by-mcclatchy-sprint.html

2 "Brand Valuation" in *Brands and Branding*, The Economist series (Bloomberg Press, 2003). faculty.haas.berkeley.edu/villas/mba299m/financial_value.pdf

A house of brands

P&G

Procter & Gamble is an example of a "house of brands" company; it manages many product brands with little or no reference to the P&G parent company.

It could do worse. It may find opportunities to launch better products, provide better service, or enhance the customer experience. Conversely, it could decide to discontinue the brand and throw away all its equity.

A brand architecture plan keeps brand front and center during the acquisition process and provides the evaluative framework that helps assess the potential value of an acquired brand.

How will the acquired brand fit in your portfolio? What will its role be? How will it be positioned in relation to your other brands? And how will you add brand value?

The brand architecture perspective

The challenges of building value from acquired brands depend on the brand architecture you already have in place.

If you have a portfolio of product brands, a new one can be slotted into it fairly easily. But if you go to market under one company brand, acquisitions can be much more difficult to manage.

House of brands

At one end of the brand architecture spectrum are the "house of brands" companies. Procter & Gamble is the exemplar of this type, with many, many product brands independent of each other, targeting different customers across multiple product categories from pet food to toothpaste.

There's Ariel, Crest, Duracell, Head & Shoulders, and Pringles. And that's just five of its billion-dollar brands; P&G has 23 in all.

From a structural perspective, the house of brands architecture is the most accommodating for acquisitions. Product brands can be slotted into position in the portfolio alongside the brands already there. P&G itself has successfully absorbed a steady diet of new brands, building up its pet food business by acquiring Iams and Natura Pet Products and its personal care business with the acquisition of Gillette.

The challenge for a house of brands company is to manage and control the overall number of brands in the portfolio. At some point, the costs of managing a complex portfolio start to outweigh the benefits that each single brand can deliver. That's why P&G, Unilever, and other packaged-goods companies have been aggressively divesting or even shutting down brands over the past few years. They've realized that focusing on fewer, more powerful brands is more effective.

Operationally, the question is whether the acquiring company can provide new opportunities for a brand to flourish. In the case of P&G, acquired brands are joining the preeminent consumer packaged goods marketer, with all the value-added opportunities that entails. The acquired brands benefit not only from P&G's marketing expertise, but also from increased distribution (both domestically and overseas), state-of-the-art R&D, and sales and marketing efficiencies (such as participation in P&G's BrandSaver coupon program).

A branded house

Consulting

Accenture Interactive
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Business Process Management
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Enterprise Performance Management
Finance and Performance Management
Human Resources Management
International Development
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Mobility
Process and Innovation Performance
Risk Management
Service Management
Strategy Consulting
Supply Chain Management
Sustainability
Talent and Organization Performance
Workforce Performance Management

Technology

Accenture & Cisco Business Group
Accenture Software
Analytics
Application Modernization
Application Portfolio Optimization
Avanade
Business Intelligence
Cloud Services
Data Center Technology & Operations
Data Management and Architecture
Global Delivery and Sourcing
Human Capital Management Solutions
Information Management
IT Strategy and Transformation
Microsoft Solutions
Mobility
Network Technology
Open Source Solutions
Oracle Solutions
Performance Engineering
Portals and Content Management
SAP Solutions
Security Solutions
Service Oriented Architecture
Smart Grid Solutions
Software as a Service
Sustainability
Systems Integration Consulting
Technology Consulting
Workplace Technology and Collaboration

Outsourcing

Application Outsourcing
Infrastructure Outsourcing
Business Process Outsourcing
Bundled Outsourcing
Customer Contact BPO
Finance and Accounting BPO
HR BPO
Learning BPO
Procurement BPO
Supply Chain BPO
Custom BPO
Health Administration BPO
Insurance BPO
Navitaire
Utilities BPO

The ultimate test of whether P&G's shareholder value increases following an acquisition depends on what P&G pays for it. It's certainly possible for P&G to overpay for an acquisition but it starts from a favorable position. The chances are high that it's going to be able to add value over and above what the previous owner was able to deliver and over and above what other bidders might be able to generate as well. Brands that fit into the P&G portfolio are likely to deliver more in that environment than almost anywhere else.

But you don't have to be the size of P&G to find brand value through acquisition. Diamond Foods, a fast-growing company based in San Francisco, recently made a number of strategic acquisitions including Pop Secret and Kettle Foods. Diamond has taken advantage of the existing distribution and retail partnerships of these acquisitions to extend the reach of Emerald Nuts and other brands already in its portfolio.

All this is not to say that acquisitions are always smooth sailing for house of brands companies. There may be challenges related to knowledge transfer, lost expertise, or product overlap, for example. And smaller companies acquiring brands from a larger firm's divestiture may have less infrastructure in sales, marketing, and R&D to support the acquired property, which can erode brand value.

Branded house

At the other end of the brand architecture spectrum are "branded house" companies. These use a single master brand to cover a portfolio of products and services that can be bundled in different configurations to serve different needs. Accenture and UPS typify this model.

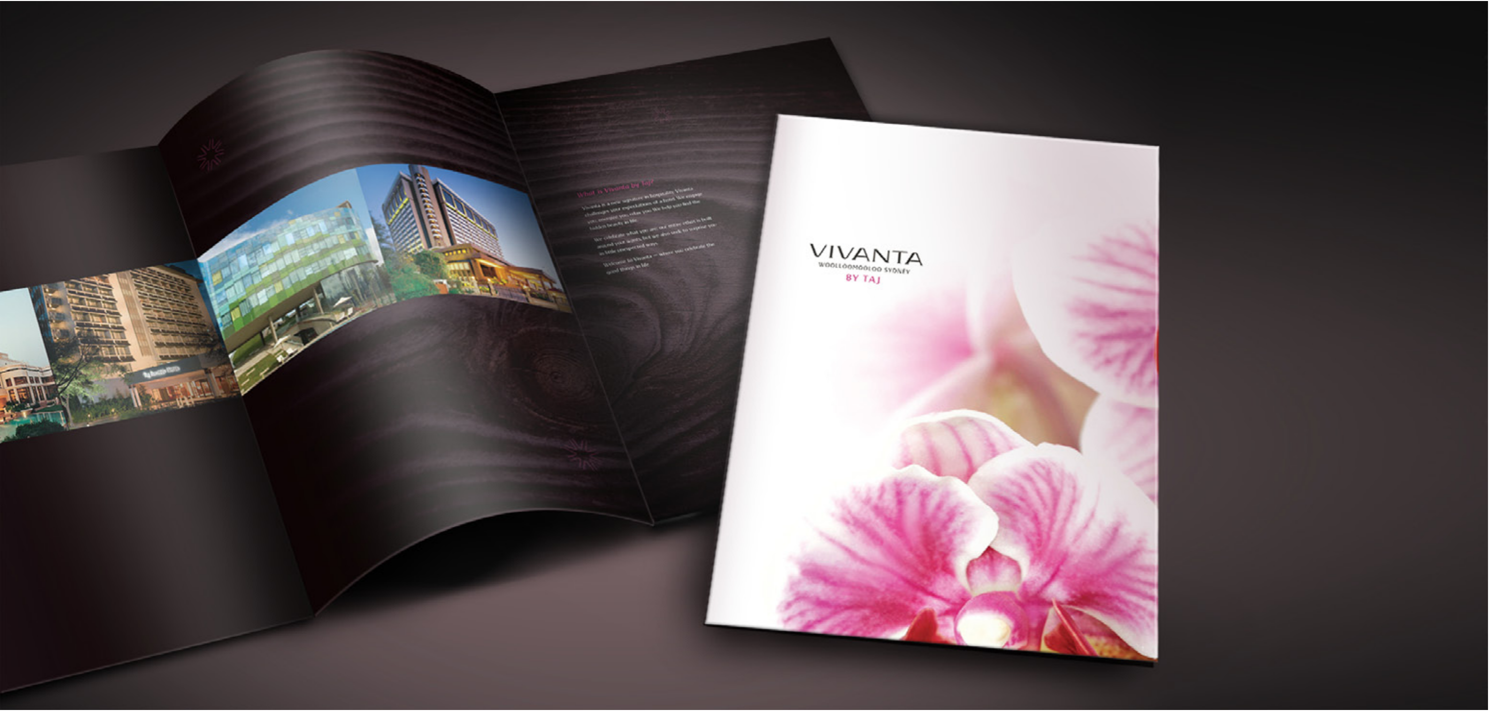
Branded houses are inherently hostile toward acquired brands, tending to fold them under the master brand umbrella. The cost of the acquired brand may even be a total loss—not an ideal basis for generating shareholder returns. But with thoughtful and deliberate action, at least some if not all of an acquired brand's equity can be transferred to the new owner.

Equity transfer is more than just wishful thinking. Customers value brands based on their experiences with a company over time. If the company brand changes but the salespeople, the experience, and the products and services remain the same, customers are far more likely to accept a new brand. You'd like them to believe it's nothing more than a name change, meaning that equity has been successfully transferred.

To make this a reality, branded house companies need a transition strategy. The sales and customer service teams, your frontline troops, must be fully prepped and able to reassure customers that products and service will be maintained (or, even better, improved). The marketing team, meanwhile, handles the transition from a communications perspective so that customers aren't confused or left in the dark about the brand change.

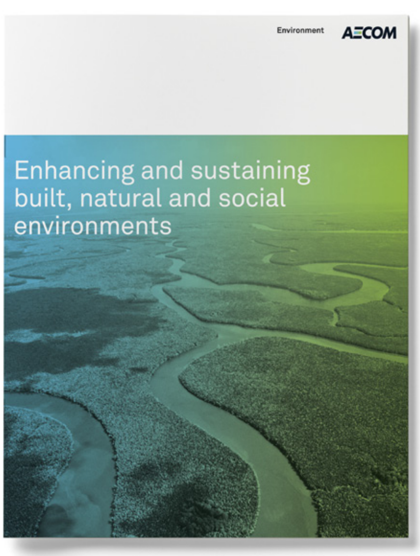
AECOM, which provides technical services for large-scale infrastructure projects, had until recently gone to market as 21 different operating

Branded house companies, like Accenture, use a single master brand to cover a portfolio of products and services.



ABOVE: In the hotel sector, where Taj is well established, Tata's acquisitions get as much Taj as possible.

BELOW: AECOM moved to a branded house model as a unified approach to take better advantage of global opportunities.



companies worldwide, most of them acquisitions with reputation in specific disciplines. But as the market expanded and demand increased, AECOM needed a more unified approach to take advantage of global opportunities. Based on a new, compelling brand positioning, AECOM was able to consolidate all 21 brands and establish itself as a global leader in its industry.

Especially in B2B businesses with well-managed customer relationships, a brand's transition can be accomplished quickly. But if the equity of an acquired brand is high, the acquiring company has no reputation in the business space, or some other risk is identified, a slower transition is advisable. This builds trust and gives customers confidence that the new owners will manage the business at least as well as the previous ones did.

Branded house companies do have one advantage in M&A: The cost-reducing and benefit-building opportunities of an acquisition are easier in a single-branded entity. Whereas a house of brands will need separate management for each business, a branded house will be able to consolidate. Often, it will use the acquired products and services to enhance existing business, an efficient and value-building approach. If branded house companies can mitigate their inherent structural disadvantages and recognize cost-saving and benefit-building opportunities available, they are still well positioned to increase shareholder value.

The fuzzier middle

Most brand architectures fall somewhere between the two ends of the spectrum. Nestlé endorses most of its products with its company brand. Marriott uses its company name as the lead brand on some of its hotels, places it in an endorsement position on others (Courtyard by Marriott), and omits it entirely on its luxury properties (Ritz-Carlton).

This naturally complicates acquisitions. Companies at either end of the brand architecture spectrum are clear about how they will treat an acquired brand. Companies in the middle of the spectrum must make a decision. Should the acquired brand be eliminated? Kept? Endorsed?

Tata, the fast-growing Indian business group, is a prime example of just how complicated things can get. Tata group has more than 90 operating companies in seven business sectors: communications and information technology, engineering, materials, services, energy, consumer products, and chemicals. For each of its businesses, it must decide how closely to associate the Tata brand with the products or services. In its Jaguar/Land Rover acquisition, there is minimal Tata endorsement. In its Tetley acquisition, the name changed to Tata Global Beverages, though the tea bags are still called Tetley to retain the equity there. In the hotel sector, where Taj is well established, Tata's acquisitions get as much Taj as possible—Taj Boston (formerly a Ritz-Carlton), Taj Campton Place—with a few exceptions like The Pierre (a Taj Hotel) with specific existing equity.

Companies that develop a systematic approach and a well-articulated brand architecture strategy will find it easier to decide what to do with an acquired brand. Without such a strategy,

they are likely to base decisions on a limited perspective or a single variable (such as the brand equity valuation). They may end up with a house of brands strategy by default because they never considered the advantages of consolidation. Or they may waste valuable time trying to determine how to treat an acquisition.

Tips for M&A success

What makes M&A so often a "win the battle, lose the war" situation is that brand, a large and volatile component of a company's overall value, is not kept front and center during the deal process. Here are three tips to raise its profile.

1. Develop a robust, well-articulated brand architecture strategy. A brand architecture strategy is not a cure-all that will guarantee added shareholder value, but it can definitely help. A clear strategy means everyone will know how to treat an acquisition, so its value is less likely to be squandered.

2. Value brands based on their worth to you. Make sure that your acquisition offer reflects the brand's value in light of how you will use it. What opportunities do you have to build brand value? How can you increase benefits or reduce costs?

3. Plan, plan, plan. Have a transition plan ready to implement as soon as the deal closes. The speed, efficiency, and effectiveness of brand integration are critical: You don't want acquired brands to be in limbo, wasting time, money, and effort. To get your new brands adding value quickly requires a clear, step-by-step plan of action for everyone involved.

Diamond Foods follows the house of brands model to take advantage of acquired brands' equity, distribution, and retail partnerships.

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