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3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

Post-Merger Pricing: The Secret to Successful Integration

Experience shows that the success of mergers and integration hinges on one key factor: pricing. Post-merger pricing strategies and the reinforcement of pricing power can mean the difference between the successful creation of a new company and a very expensive failure. In this article, the author outlines the key factors for a successful post-merger price integration. Author Stefan Herr is a Partner at Simon-Kucher & Partners (stefan.herr@simon-kucher.com or +49 228 9843 202).

Your merger/acquisition has been announced: What's next? Will your vision for the integrated result of two formerly separate companies, let's call it NewCo, become reality in the near future? Will volume gains be on target? Will customers remain loyal? Can your sales force avoid internal turmoil during the integration? What strategies will prevent prices from being dragged down? How will you secure top-line growth?

In this article, we will outline a new approach to the complex challenges of integration that ensure acquisitions result in lasting success. **Behind every successful business integration there are untapped margins. There is a lot more at stake than the usual cost synergies.**

Synergy is the magic word in every merger or acquisition. Cost synergies, found in economies of scale, purchasing, shared efforts in R&D, logistics efficiencies, overheads, etc., are usually easy to achieve. Revenue synergies, however, are harder to realize, but their impact on the NewCo's global economic success, certainly in terms of opportunities or risks, can be much stronger.

Smart integration leads to pricing power

Once a merger/acquisition is completed, most NewCos tend to become embroiled in internal issues such as scenarios for restructuring the new business. However, the real challenges for top-line growth lie elsewhere. If at the end of the integration process the number of customers has decreased massively, the negotiated prices are lower, or the product mix has shifted toward lower-value products, then the acquisition can be considered unsuccessful.

Experience shows that success (i.e. the creation of tangible value) hinges on one major factor: the reinforcement of pricing power. In other words, the company must be able to make customers accept higher prices or, at least, avoid decreases by holding on to existing price levels.

Unfortunately, very few companies manage to achieve real revenue synergies in the two years following the acquisition. It's a difficult task. As soon as the deal is publicly announced, customers — even the most loyal ones — will try to renegotiate contracts. They will try to drive prices down to the better of their two current contracts, 'cherry picking' the best prices from each vendor. Customers and competitors alike will attempt to take advantage of the post-merger vacuum effect in which sales forces are worrying about their jobs and sales management of both companies can be tied up in endless integration meetings.

Key factors for a successful post-merger price integration

Customers: Minimize the risk of business erosion

From the very beginning it is crucial to keep the risk of customer losses under control by:

- Employing methods to avoid any downward migration of prices
- Identifying problematic price differences
- Giving priority to both high-value and loyal customers
- Acquiring and deploying effective monitoring tools

Products: Pick the best out of both offers

Product offers must be pooled and consistently positioned. It would be a major mistake to simply set both portfolios side by side and maintain prices. Rather, it is more effective to:

- Conduct a thorough analysis of the target positioning for each segment
- Understand customers' willingness to pay
- Ensure consistency between price and performance levels
- Introduce common price level KPIs

Process: Drive the sales force differently

The integration period provides a unique opportunity to create positive competition among the sales forces. Additionally, innovative methods can be used to motivate and lead newly formed sales teams. The ultimate goal is to strengthen the NewCo's pricing power by:

- Identifying the best performing sales reps and securing their loyalty
- Boosting internal competition and spreading best practices
- Introducing price defense as a sales force target
- Tracking changes with relevant KPIs
- Aligning sales goals/targets

Conclusion

The integration of two companies is a unique opportunity to boost margins, yet very few companies manage to successfully take advantage of this opportunity. A CEO of a Fortune 500 company has recently commented: "If the NewCo hasn't gained any pricing power by the end of the integration process, then the project can be considered as a failure."