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Merging the Brands and Branding the Merger

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Merging the Brands and Branding the Merger

When one company acquires another, executives have 10 distinct options for the corporate rebranding. Selecting the right strategy can set forth a compelling vision for the combined entity and send important signals to employees and the outside world.

Richard Ettenson and Jonathan Knowles

The urge to merge among companies has increased in recent years. High-profile deals like Bank of America Corp.'s $36 billion acquisition of credit-card issuer MBNA Corp. might have garnered the front-page headlines, but such blockbusters represent just a small proportion of overall activity. In fact, the total worldwide value of mergers and acquisitions topped $2.7 trillion in 2005, a 38% increase over the previous year. And based on current levels of deal making, that figure is expected to rise again in 2006, with further annual increases of 10% to 15% estimated beyond that. But the track record of M&As has hardly been stellar: More often than not, such deals end up destroying, instead of creating value for the companies involved.

A big part of the problem is that of all the myriad complex decisions that senior executives make before and during a merger, one is mandatory and critical but often given short shrift: the branding of the new corporate entity. That can be a huge blunder. With no solid brand platform to work from, company integration will often be mismanaged, and communications to key constituencies will necessarily suffer. In the worst of situations, the relationship between the two organizations becomes contentious; promised synergies remain elusive; employees become distrustful and disgruntled; and customers grow cynical and dissatisfied.

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About the Research

Using the Securities Data Co. database, we studied all mergers and acquisitions completed since 1995 with a transaction value exceeding $250 million (sample size: 207 mergers). Contact was made with each company, and a brief, structured interview was conducted with senior managers who participated in, or were knowledgeable about, the corporate brand strategy that resulted from their company's M&A. Each interview focused on two issues: (1) the importance of corporate brand considerations during the M&A negotiations and (2) the corporate brand strategy that resulted from the merger.

Two key results emerged. First, corporate brand strategy was not an important component of most companies' M&A deliberations. In fact, in nearly two-thirds of the M&As studied, corporate brand strategy received only low or moderate priority during negotiations. Second, when branding the new company, management had a strong bias toward a nomenclature of expediency. Specifically, in nearly 64% of the cases, the corporate brand strategy was one of the following: Either the target company name and symbol disappeared immediately (that is, the equity of the target corporate brand was eliminated) or the two corporate identities continued to exist independently (that is, the new entity failed to leverage any potential increase in brand equity). We also found companies using, albeit to a much lesser degree, eight other branding strategies, each with specific pros and cons.

It doesn't have to be that way. When handled properly, a corporate re-branding can play a critical role in communicating strategic intent and ensuring that a productive relationship is maintained and enhanced with three key constituencies: employees, customers and the investment community (shareholders, analysts, institutional investors and others). Each of these relationships is critical to a deal's success and must be managed during the course of, and subsequent to, the M&A transaction. Simply put, the branding decision provides a singular opportunity for executives to leverage both firms' corporate brands, set forth a new and compelling vision for the combined entity and, perhaps most importantly, send definitive and timely signals to employees and the outside world.

A Valuable (but Often Squandered) Opportunity

To investigate why that valuable opportunity is often squandered, we studied more than 200 M&As that have occurred since 1995, each with a transaction value exceeding $250 million (see "About the Research".) In nearly two-thirds of those deals, brand strategy was deemed to have low-to-moderate priority in pre-merger discussions. That lack of urgency meant that the new corporate brand that ultimately did emerge from the merger announcement was likely to be suboptimal, often reflecting a muddled process driven by short-term goals, ego or horse-trading in the final stages of the negotiations.

Consider the merger of US Airways Inc. and America West Airlines. During the negotiations, executives decided to retire the America West brand. Strategically, that made sense because the new air carrier would have an enhanced national and international network of routes beyond that conveyed by the moniker America West. In its place, though, the merged airline was introduced as US Airways. That was probably not the best choice because not only did it create a winner/loser mentality inside the new organization (in which teamwork and cooperation had become essential), it also signaled that little had changed with US Airways — a missed opportunity because the airline had not exactly garnered a glowing reputation of being "best of breed" among domestic carriers.

Our research reveals that, in many cases, the corporate brand strategy receives serious attention only after a deal is approved or the merger is announced. Under such circumstances, the re-branding becomes part of a post-acquisition cleanup in which the driving question for marketing executives is, "How are we now going to make this deal work?" But by then, it may be too late, especially if employee morale, customer satisfaction and the new entity's share price have already plunged.

Interestingly, current due-diligence processes during M&A negotiations are extremely adept at assessing tangible assets (such as property, plant, equipment and working capital) and certain of the more concrete forms of intangible assets (such as contract rights and patents). But the softer forms of intangibles (such as brands, employee and customer good will, and corporate reputation) are another matter. With intangible assets representing close to 80% of the value of the Standard & Poor's 500, it is vital for the due-diligence process to include a comprehensive analysis of intangibles that encompasses relational assets (such as brands) as well as the more obvious forms of intellectual property (such as copyrights and patents). Of course, many executives realize the importance of dealing with corporate branding issues early on, but despite their best intentions, they often have difficulty doing so because of the lack of a comprehensive tool to guide their thinking.

To address that, we have developed a framework that considers the full range of branding options available along with the upsides and downsides of each with respect to three important constituencies: employees, customers and investors. Conventional wisdom suggests that only a handful of branding alternatives exist for an M&A: adopt one brand, create some combination of the two brands, go with something entirely new or change nothing. But our own work reveals that there are, in fact, at least 10 possibilities, some representing different but important variants (see "Different Strategies for Branding a Merger").

The 10 strategies offer different solutions for how best to utilize the brands (both the names and/or visual identities) of the lead company (the acquirer) and target firm (the acquired). Each of those choices has important implications for employees, customers and the investment community. An important feature of our framework is that its approach is consistent with the mindset inherent among executives negotiating a merger or acquisition. Central to any early discussions are the key questions about how to meld the two organizations — that is, what to keep, what to discard, what to blend and what to create as new. These same considerations are at the core of our framework.

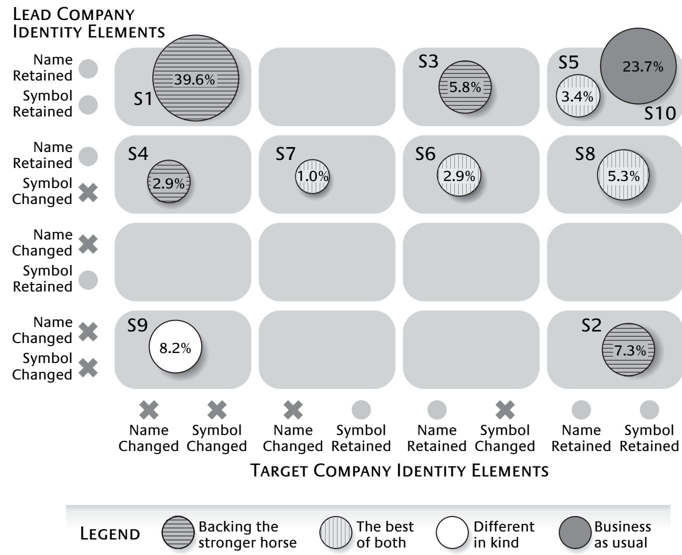
Our research revealed that two of the 10 strategies are dominant: Either the target brand disappears altogether (strategy 1) or both companies' brands continue to exist independently in unchanged form (strategy 10). These two options account for nearly two-thirds of the deals studied. Although the two strategies are clearly appropriate in certain M&A circumstances, we question whether they each merit the frequency observed. Could their popularity be merely the result of their expediency and simplicity (specifically, their solution of adopt the lead brand or change nothing)? If that's the case, we maintain that the selection of a new corporate brand should instead be an important matter of strategic intent, ensuring that the merger is signaling the right message to the right audiences.

The 10 strategies can be grouped into four main categories that communicate fundamentally different things to customers, employees and investors. Those messages can be characterized in the following way: (1) This deal is a merger and we are adopting the stronger brand (called "backing the stronger horse"), (2) this deal is a merger and we are adopting the best of both brands (called the "best of both"), (3) this deal is a transformational merger and we are creating a new brand (called "different in kind"), and (4) this deal is simply a portfolio transaction, and no brand changes will occur (called "business as usual").

The first three categories are intended to exploit some form of synergy between the relational assets of the lead and target companies (primarily with respect to their employee and customer bases). Thus, they require decisions about the specific type of rebranding that best communicates that synergy.

The right signals should be sent from the moment the merger is announced through to the subsequent and often lengthy process of integrating the two companies. Unlike the first three categories, the last category ("business as usual") does not require decisions about which of the existing equities of the acquiring and target companies will carry forward into the new corporate brand. A closer look at the four categories highlights crucial differences among them, including descriptions of important variations.

Different Strategies for Branding a Merger



Backing the Stronger Horse

The key signal that should be communicated with this strategy is the various benefits to scale and presence that can best be achieved through the adoption of a single, well-known, unified identity across the merged companies. (See "'Backing the Stronger Horse' Strategies," pp. 44-45.) That message can be very effective in industries that are consolidating or that offer significant opportunities for bundling previously discrete products and services.

In the most common "backing the stronger horse" approach, representing nearly 40% of the total number of M&As studied, the merged entity adopts the name and symbol of the lead company (strategy 1). The appeal of this approach (which might be one reason for its popularity) is its relative simplicity: The name and symbol of the target firm are simply replaced by those of the lead company. Examples include Bank of America's acquisition of Fleet Bank and DHL's purchase of Airborne Express. Employees, customers and investors all receive the same strong and unmistakable message: After the transaction, the acquiring company will be in charge.

In addition to simplicity and expediency, strategy 1 has other potential advantages. When the lead company clearly has a stronger reputation, the merger can be positioned as an upgrade for the employees and customers of the less prestigious brand. Thus, Verizon Communications dropped the MCI brand and Dow Chemical shelved the Union Carbide moniker. Employees of the target company may also view the merger as an expansion of their career opportunities, while customers might perceive certain advantages to dealing with a larger company. AT&T, for example, has touted that its merger with BellSouth will make it

A strategy that permits the equity of the weaker brand to be absorbed gradually by the stronger brand gives both companies' constituencies time to adjust, cushioning the loss of the weaker brand.

the world's undisputed leader in the communications market.

But strategy 1 also has significant drawbacks. Perhaps most notable, it sends a strong message that the merger has a winner and a loser. (That will be true to varying degrees with all the "backing the stronger horse" approaches.) In addition, although the strategy is relatively straightforward to execute, the equity of the discarded brand can be difficult to write off completely, particularly when that asset is what made the acquisition so attractive in the first place. Hewlett-Packard Co.'s purchase of Compaq Computer Corp., for instance, led to heated board discussions debating the wisdom of jettisoning an estimated $25 billion in Compaq brand value and resulted in the maintenance of the Compaq brand for selective retail use.

Strategy 1 can also severely damage the morale of the target company's employees, who must not only adjust to the disappearance of their firm and but also adapt to the lead company's culture. Not surprisingly, such workers typically report that they feel less valued and more vulnerable after the merger. And customers are also affected. A recent national study revealed that half of all mergers still generate significant dissatisfaction from customers even two years after completion of the transaction. Because customers of the target firm never actually chose to switch, they can often experience a perceived loss of control and fear that they will have no voice within the new company. They might also worry whether their history and relationship with their former company will be understood and honored.

Sometimes, the more appropriate brand to back is that of the target firm (strategy 2). Examples include Allied Signal's purchase of Honeywell and Manulife Financial's acquisition of John Hancock Financial Services. Strategy 2 has a significant advantage over strategy 1 in that it can mitigate the severity of the winner/loser dynamic. Although the management and culture of the acquiring company is obviously in control, the target firm's name is above the door. That creates the opportunity to portray the merger as melding the operational capabilities of the acquirer with the customer-relationship assets of the target. When that's the case, customers of both the lead and target companies are likely to be more satisfied post-merger. On the downside, strategy 2 can result in confusion over who actually won in the deal. In fact, that question is commonly posed by employees of both companies. Lead-company workers might feel particularly disenfranchised as they wonder how the target firm achieved such lofty status.

Another possibility is to have the lead and target companies share a combined corporate name for a specified period, generally one to two years (strategy 3). After that transition time, the new organization adopts the name and symbol of the stronger brand (typically the lead company). Examples include UBS's merger with PaineWebber and Medtronic's acquisition of Midas Rex.

Strategy 3 can be an effective way to signal a shared future for the two companies while maintaining a sense of identity and pride for each organization's employees (which is particularly important for those at the target firm). The strategy also permits the equity of the weaker brand to be absorbed gradually by the stronger brand, and it gives both companies' constituencies time to adjust, cushioning the blow of the loss of the weaker brand. The transition period allows greater continuity of customer relationships while enabling the gradual transfer of loyalty to the future brand. But strategy 3 is not without its downsides. Perhaps most notable, is that it incurs significant costs for the two rebrandings (first for the transition period and then for the eventual identity) and requires discipline for managing the complex, multistage evolution to a single brand.

The final option in the "backing the stronger horse" category involves adopting the corporate name of one of the companies (typically the lead one) but adding a new symbol and logotype (strategy 4). Examples include Sprint's merger with Nextel and Humana's acquisition of UnitedHealth Group. The goal here is to create a new visual identity for a well-known and recognized brand that signals a fresh beginning for the company. (In that respect, strategy 4 can be thought of as a diluted form of the "different in kind" approach, to be discussed later.)

When managed properly, strategy 4 can be highly effective in delivering a simultaneous message about both continuity and change. Employees of the lead company will appreciate the familiar moniker, while workers at the target firm will feel reassured that the acquirer is making some concessions, which could then encourage them to contribute to the culture and focus of the merged organization. For customers of the lead company, strategy 4 sends strong signals that business will continue as before while also creating expectations for something new and different. Customers of the target company, however, will need to be reassured that their history and past relationships will be honored (similar to the situation under strategy 1).

The main challenge is that strategy 4 sets up expectations of a

One objective is to maintain multiple brands in order to maximize market share. When Yellow Transportation acquired Roadway Express, the new entity's visual identity combined colors of the two parties.

new beginning. Consequently, it must be accompanied by substantive changes in the culture and behavior of the acquiring company. Otherwise, employees of the target company are likely to foster resentment (the new symbol being portrayed as a superficial and disingenuous attempt at appeasement), and customers could become cynical that the new identity is just lipstick on a pig.

Best of Both

The main message with this strategy is that each company is contributing significantly to the future of the merged entity. (See "Best of Both Strategies," pp. 46-47.) To communicate that, one option is the straightforward agglomeration of both companies' names and visual identities (strategy 5). Examples include Molson Coors Brewing Co. and DaimlerChrysler Corp. Strategy 5 is intended to communicate unequivocally that the two companies are moving ahead together and will share a combined future with many things remaining as they had been for both employees and customers. Although the merger-of-equals theme is a frequent proclamation at many M&A announcements, the post-transaction reality of most deals is quite different. But the signal inherent in strategy 5 (and in strategy 6, to be discussed next) is that executives are serious about that message.

Unlike the "backing the stronger horse" approaches, which target the three key constituencies equally, strategy 5 is geared primarily toward employees and investors (as well as business partners, such as suppliers and distributors). The message is one of combined corporate strength and enhanced competencies. In contrast, customers are often largely unaffected because the agglomerated name is used only at the corporate level. After the DaimlerChrysler merger, for example, the customer-facing brands — Mercedes-Benz, Chrysler, Jeep and Dodge — were maintained as separate entities. Thus, from the customer viewpoint, strategy 5 might appear to be indistinguishable from strategy 10 (to be discussed later).

One objective under strategy 5 is to maintain multiple brands in order to maximize overall market share. For instance, when Yellow Transportation Corp. acquired Roadway Express Inc. to create the U.S.'s third-largest transportation services provider, the new corporate entity was named Yellow Roadway, and it had a visual identity that combined the colors of the two parties. Even then, the new company still maintained both the Yellow Transportation and Roadway Express brands. As CEO Bill Zollars remarked, "Nothing is to change at the customer interface."

Although it might appear to be a safe option in the "best of both" category, strategy 5 may actually have the least going for it. The challenge for executives is that post-merger, strategy 5 can complicate or even sabotage the opportunity to define the new entity's values and identity. Questions of integration, synergy and strategy often loom: Is this truly one company, and if so who's in charge? Investors may also be skeptical as to whether a new, compelling and promising future can be created simply by combining corporate names and visual identities. As one executive who has been involved in a merger that employed this strategy says, "It feels like someone has moved into my house versus something new and better has been created."

Because of those shortcomings, our belief is that companies should consider other, bolder, "best of both" approaches that leverage many of the advantages of strategy 5 while providing additional upsides. For instance, one option is to combine the names of both companies but adopt a new symbol and logotype to signal significant change and a new vision (strategy 6). Examples include ConocoPhillips Co. and BNP Paribas. By using a new symbol for the combined company, strategy 6 sends a stronger and more forward-looking message than strategy 5. The new company communicates a vision and possibilities not previously available to either of the merged corporations. Employees will interpret the combined names to signify that "we are in this together," and the new symbol signals a new vision, culture and future. For customers of both companies, the combined names enable a connection to the familiar, while the new symbol signals a break from the past and a fresh start — in short, things will be different.

On the downside, customers often express concerns about a perceived reduction in power. As one such customer puts it, "For me, the merger has imposed a loss of choice and a loss of voice." Similarly, as with the "backing the stronger horse" approaches, customers sometimes resent the enforced switch: "How is it that

Backing the Stronger Horse: Strategy 1

The new organization adopts the visual identity of the lead company. As an example, when DHL acquired Airborne Express it discarded the Airborne brand.

	Benefits	Challenges
Employees	• Target-firm employees gain the clout and visibility of a larger organization. They also have a chance to begin a new career or start over without leaving the firm.	• A winner/loser perception is created. • Both lead and target employees can face extreme disruptions. • Target employees have to adjust to another culture and different group dynamics.
Customers	• There's no ambiguity — customers know with whom they are dealing. • Customers of the target firm may enjoy benefits of dealing with a larger company.	• Customers feel a loss of control — no choice, no voice. • Target customers might perceive they've been forced to switch to another company. They may also fear that their history and relationships will be lost or ignored. • Service companies may experience tremendous disruption because their corporate brand is often their face to the marketplace.
Investment Community	• Strong and clear communication is sent to the financial markets about who's in charge.	• Does the elimination of target corporate equity make strategic sense? • Investor fears regarding the integration risks and customer migration must be addressed.

Backing the Stronger Horse: Strategy 2

The lead company adopts the visual identity of the target firm as when Allied Signal, upon acquiring Honeywell, discarded the Allied Signal brand in favor of Honeywell.

	Benefits	Challenges
Employees	• Neither side feels like it lost. The lead company adopts the target's name but retains its culture. Target employees feel empowered by the strong connection to their brand.	• Lead employees might feel humbled, questioning how the target firm achieved such lofty status. • Confusion could reign as to who actually won, resulting in operational and cultural uncertainty with the lead company thinking it was in the driver's seat.
Customers	• Target firm's customers feel that they can continue doing business with little change. • If the customer equity of the target firm is stronger, that will enhance the relationships of the lead company's customers.	• The lead company's customers might be confused and disenfranchised — "I thought the company I did business with won!" • Expectations of target customers that nothing much has changed could lead to their becoming spooked by operational changes as the target firm switches over to the lead company's systems.
Investment Community	• Lead company's shareholders can leverage the target firm's brand. • A strong signal is sent of thorough due diligence and executive realism that eliminating the lead-firm equity is best for shareholder value.	• Lead company's shareholders might feel devalued — they thought they had won. • Investors might experience more confusion than clarity — who's really in charge?

I end up doing business with a company I never selected — and may have actually avoided?" Furthermore, because there is now just one company where two previously existed, the perception of less competition could instill a fear of higher prices. All these challenges need to be managed with effective pre- and post-transaction communications to the customers of both compa-

Backing the Stronger Horse: Strategy 3

The lead and target companies share a combined corporate name for a specified transition period, after which the new organization adopts the name and symbol of the lead company. For example, Medtronic and Midas Rex temporarily adopted the name Medtronic Midas Rex.

	Benefits	Challenges
Employees	• Employees have time to adjust. • The signal is of a shared future, at least in the near term, with operational changes likely to be gradual.	• Employees could become confused (and resentful) if they are unclear whether the deal was a merger or an acquisition. •Target employees could be less motivated to adapt to the new company culture.
Customers	• Customers can gradually get used to the new company while maintaining emotional connection to the old. • Some aspects of business as usual are signaled.	• Confusion could grow —"Who am I doing business with and has anything changed?" • Does a temporary name combination bring about a new and compelling promise?
Investment Community	• Transition phase helps investment community have a connection to the familiar. • The risks of talent and customer exodus are lower.	• Two expensive changes in visual identity are necessary. • The approach might signal indecision.

Backing the Stronger Horse: Strategy 4

The new organization adopts the name of the lead company but with a new symbol. For instance, when Humana acquired UnitedHealth Group, it discarded the United Health Group brand and created a new symbol for Humana.

	Benefits	Challenges
Employees	• Both lead and target employees feel that the merger signals a new chapter. • Target employees feel encouraged that the lead company is making concessions. • Two signals are sent: business as usual and a fresh start.	• Target employees feel they made the biggest concession. They could also cynically view the visual change as a superficial attempt at appeasement.
Customers	• A connection with the familiar and a new beginning are established. • Expectations of something new are heightened.	• The new symbol diminishes brand recognition of the lead company's products. • The target firm's brand recognition is eliminated.
Investment Community	• The company in charge is clearly established. • New symbol signals a new beginning for the company.	• Two familiar things are lost: the target firm's name and the symbol of the lead company. • Is a new symbol alone sufficient to deliver on the expectations of a new beginning?

nies. For investors, strategies 5 and 6 can leave lingering doubts about the realization of the synergies upon which the rationale for the merger was based. As one investment analyst asks, "Does one plus one equal three or something less than two?"

In summary, strategies 5 and 6 both avoid the winner/loser perception inherent in the "backing the stronger horse" approaches, but they carry two additional and significant risks: loss of differentiation and lack of integration. The first risk arises from concerns that the equity of both corporate brands might be diluted through their combination. Prior to the transaction, each company may have positioned itself as different, compelling and unique, and that differentiation could be lost in the merger. The second risk is that strategies 5 and 6 might fail to communicate unity and instead legitimize the survival of two cultures, thereby serving as a constant reminder that the merger is the product of two independent parts.

An underused alternative is for the merged entity to adopt the name of one of the companies (usually that of the acquirer) and the symbol of the other (strategy 7). This combination is an elegant way of communicating a new, shared future while, at the

Best of Both: Strategy 5

The new organization combines the visual identities of the lead and target companies. With the Morgan Stanley acquisition of Dean Witter, for example, the companies combined the names and visual identities of both firms.

	Benefits	Challenges
Employees	• Both sets of employees feel equal and valued. • The message is of a truly shared future and vision with preservation of the familiar.	• Defining the new organization's values and identity becomes that much more difficult. • Can real synergies be created simply by combining names?
Customers	• Customers are comfortable that the products of both companies will remain as before, and they have some level of confidence that their preferred alternative still exists.	• Customers who had previously avoided the other company could have perceptions of forced switching. • Does simply combining names bring about a new and compelling promise?
Investment Community	• The investment community receives signals of a strong cooperative partnership, in which the best of both companies will be leveraged.	• The approach may signal indecision in the negotiations — Was this simply an easy way out versus being decisive? • The investment community could become concerned about operational conflict (Who runs the shop and who will make decisions?) and strategic uncertainty (Where is the new organization going from here?).

Best of Both: Strategy 6

The new organization combines the names of the lead and target companies with a new symbol. Conoco, for instance, combined names with Phillips 66, becoming ConocoPhillips, but created a new visual identity.

	Benefits	Challenges
Employees	• Employees of both companies recognize a new chapter and feel that they are in it together. • Familiar names maintain a sense of identity; A new symbol brings the promise of a new culture. • The message is that the change will leverage each company's strengths and overcome their weaknesses.	• Employees of both companies could become anxious — How new and different will things be? • Can management conflict be avoided when familiar ties are broken? • Employees could feel like "someone else has moved into my house."
Customers	• The strategy signals connection with the familiar as well as a new promise. • New symbol signals a fresh start — Things will improve.	• Customers who had previously avoided the other company could perceive that they were forced to switch. They could experience loss of control and loss of choice. • Will lower competition result in higher prices?
Investment Community	• The strategy signals cooperation and a stronger organization. • New visual identity connects with the familiar while announcing the start of a new chapter.	• Does one plus one equal three or something less than two? • Equity of both brands may be diluted.

same time, acknowledging in a direct manner the value that each party has brought to the table. Examples include UBS (which adopted the keys symbol of Swiss Bank) and Boeing (which adopted the aeronautic swoosh of McDonnell Douglas).

A strength of strategy 7 is that, although a company's name is the dominant element in the identity of that organization, the corporate symbol often evokes strong emotions among employees and customers. Thus, the strategy leverages a familiar and emotional connection while providing employees and customers of the target firm time to adjust to their new company and name. This approach offers a powerful way to transfer to the merged entity the loyalty that the target company built. At the same time,

Best of Both: Strategy 7

The new organization adopts an identity that combines the name and/or visual elements of the lead and target companies. A good example of this is when Boeing added the McDonnell Douglas symbol to its brand, but discarded the name.

	Benefits	Challenges
Employees	• The strategy signals a new chapter for both companies while showing respect for heritage and mitigating the perception of a winner/loser in the deal.	• Employees could become resentful if the promise of a new organizational culture is not realized.
Customers	• Customers feel that their business relationship still exists based on the name or symbol remaining. • Customer expectations are raised for the new company as people expect the best of both merged companies.	• Brand confusion could occur — Does the familiar symbol fit with a different corporate name? • Customers could see power going to the company whose name appears first.
Investment Community	• The best parts of each company are preserved and enhanced. • The strategy communicates a new beginning.	• Shareholders could be left uncertain as to the success of the integration.

Best of Both: Strategy 8

The lead company uses its corporate brand as a "silent partner" or endorser of the target's visual identity. For example, Accor hotels endorsed its acquisition, Red Roof Inns, by placing its own name on the existing Red Roof logo.

	Benefits	Challenges
Employees	• Brand equity and visibility of the target brand are maintained. • The status of the target brand can be enhanced if the lead brand adds additional prestige or credibility. • The strategy signals a new future but with the target firm still enjoying significant autonomy.	• Target firm might still be prominent, but are there new operational strategies and a new culture? • If there's no major shift in culture or strategy, why make the change? • The change might be seen as a superficial imposition of a faraway partner with little value to add.
Customers	• At best, customers are reassured — A significant parent now stands behind the target firm with the possibility of preferred access to the other companies within the portfolio. At worse, customers view the change as irrelevant.	• Is the equity of the endorser brand known, and does it make sense to blend it with the target brand?
Investment Community	• The portfolio of the lead (endorsing) company is further diversified.	• Is the combination of brands an additive effect or a dilution of brand equity? • Brand ambiguity might arise.

strategy 7 leaves no doubt to investors about the intention to integrate the businesses, all while mitigating feelings of a winner/loser mind-set. For these reasons, strategy 7 can, under the right circumstances, offer the advantages of the "best of both" and "backing the stronger horse" options.

The final strategy in the "best of both" category involves one company (usually the acquirer) acting as a junior partner or endorser of the visual identity of the other corporation (strategy 8). An example is JPMorgan Chase & Co.'s acquisition of BankOne Corp., in which the JPMorgan Chase brand was used as a subheading on all BankOne materials. To be effective, the endorser brand should be well known, and it needs to add value for the target brand's audiences rather than simply acting as a mark of ownership. Following a merger with Nextel Communications Inc., for instance, Sprint Corp. wisely used "Together with Nextel" as an endorsement line, absorbing some of the good will associated with the Nextel brand and its push-to-talk technology. The goal is for the endorsing brand to add credibility or prestige to the target brand, all while leaving its own existing equity undiminished.

For employees, strategy 8 can lead to the sense of belonging to a larger group with new career opportunities. Customers can also

Different in Kind: Strategy 9

The new organization adopts both a new name and symbol as seen when Bell Atlantic's merger with Nynex lead to the creation of a new corporate entity in Verizon.

	Benefits	Challenges
Employees	• An unambiguous signal is sent that something new and transformational has been created. • Morale of both companies' employees can increase. • Internal opportunities are created.	• Employees could experience a sense of fear (the change eradicates the legacy and equity built up in their prior company) and a feeling that they must not have stood for much previously. • Implementation requires intensive resources.
Customers	• Strategy can signal a new beginning in a less-than-exciting category. • New brand can be perceived as a new option (even though there is a net reduction in choice). • New expectations are generated.	• Customers from both companies could become confused — Where are my services and products? • Skepticism could arise — Will any of the equities or associations from the previous corporate brands transfer to the new entity?
Investment Community	• A clean break is made from the past, all while embracing a new future. • New investors could become interested.	• The new entity has not leveraged any of the value present in the lead and target companies. • Strategy is costly to implement.

benefit with the reassurance of knowing that a strong parent now stands behind the acquired brand. On the downside, both employees and customers could fear that the arrangement is a prelude to the endorser imposing its operating requirements and corporate culture. Another inherent risk of strategy 8 (as well as for all "best of both" approaches) is that it can lead to brand dilution or, worse, brand confusion.

Different in Kind

Sometimes the best approach is to create an entirely new corporate identity (strategy 9). (See "Different in Kind Strategy.") A classic example here is Bell Atlantic's transformational merger with Nynex in 2000. To signal the formation of a new, completely different and cooperative business enterprise, executives selected the name Verizon, which links the idea of vertical integration and horizon.

Strategy 9 is perhaps the boldest approach, offering considerable upside if managed correctly. The strategy sends a powerful message to employees, customers and investors that the merger has created a business and an opportunity that is greater than could have been realized by either of the companies independently. The decision to create a new brand can signal, without equivocation, that the merger is a corporate transformation with a new vision and direction.

Consider the 1997 merger of Guinness and Grand Metropolitan, which brought together a portfolio of world-famous food and beverage brands, including Johnnie Walker, Smirnoff, Baileys, Burger King, Pillsbury and Häagen-Dazs (the latter three have subsequently been divested). The CEO, John McGrath, realized that even though the merger had created a truly global corporation, the mind-set of the two companies remained somewhat provincial. He therefore decided to use the new corporate brand Diageo to send a strong message that the merged organization would be deriving less than 10% of its revenue from the United Kingdom. Diageo is based on the Latin for day (dies) and the Greek for world (geo), expressing the fundamental unity of purpose of the merged company that, "every day, around the world, millions of people enjoy our brands."

But strategy 9 is probably the most resource-intensive of all the different approaches in terms of pre-merger planning and post-merger integration. As such, it is the most risky strategy, requiring an unwavering conviction for the need of a completely new brand. Inevitably, critics will question the wisdom of "writing off" the equity in both the lead and target brands. Consequently, executives must be certain that the new vision and ambition for the company merits the fundamental shift brought by a name change, and they must be prepared to deliver on the greater expectations of customers, employees and investors that the new identity will generate. Interestingly, many of the new corporate names of the past five years have tended to play it safe by making direct allusion to the merging businesses, for example, the choice of InBev as the name for the company formed by the merger of Interbrew and AmBev.

Business as Usual

For mergers that aren't predicated on synergy between the employee and customer bases of the two companies, the best option might be a business as usual approach (strategy 10). (See "'Business as Usual' Strategy.") The target company is absorbed into an existing portfolio and continues to operate as a largely

Business as Usual: Strategy 10

Post-merger, the lead and target corporate brands continue to exist independently. For instance, EDS acquired A.T. Kearney but permits the A.T. Kearney brand to exist separately from EDS.

	Benefits	Challenges
Employees	• A strong and unambiguous signal is sent: Business will continue as usual. • Employees of both companies keep their corporate culture with minimal or no disruption to current business practices. • Good will is built with the target firm — the lead company clearly sees value in the target brand.	• If there are no demonstrable or noticeable changes, was the M&A necessary? • Target employees might wonder whether they are now just cogs in the wheel of a large conglomerate. They could also be anxious about the amount of control the lead company will exert. • But if there's too much independence between parent and subsidiary, are opportunities for cross-selling being forsaken?
Customers	• Customers are comforted by the familiar, as they experience no change with the company with which they do business. • Some synergistic benefits could be offered.	• If there are no demonstrable changes, customers could question the M&A — was it just a financial or portfolio arrangement with no clear benefits for me? On the other hand, cross-selling of products could annoy customers.
Investment Community	• The deal rounds out the lead company's portfolio, helping make the business less volatile. It also offsets the lack of organic growth, adds value through synergies and offers opportunities for growth through cross-selling.	• Is the lead company overreaching in an unfamiliar or unattractive industry? • Does the M&A add value? Are there real synergies here? • Does the lead company have the bandwidth and resources to take on multiple brands and systems?

autonomous unit. These acquisitions can be thought of as portfolio transactions that serve a strategic, operating or financial purpose but do not substantially affect the employees and customers of the two companies. Notable examples include EDS and A.T. Kearney, and Procter & Gamble and Gillette.

Strategy 10 might involve some consolidation of support functions, supply chains or distribution channels, but the overall intent is to leave employees and customers largely unaffected. For this reason, the branding implications are limited. From just an investor perspective, the brand of the target company disappears. But from an employee and customer perspective, the target brand continues without significant or demonstrable change. Indeed, the explicit intent of strategy 10 is to maintain separate faces to the market in order to retain the customer and channel equity enjoyed by the two distinct brands.

AS THE LEVEL OF M&A ACTIVITY continues to increase, more and more executives involved in deals such as these will be hard-pressed to ensure that their transaction is among the minority that succeeds in creating value. We believe that the answer to this lies not in incremental improvements to existing practices but rather in the extension of the due-diligence process to include a class of assets (namely, corporate brands) that have hitherto been systematically overlooked.

In a typical M&A, the focus of the initial due diligence is on potential deal breakers — that is, any differences that would lead to the collapse of negotiations, such as a disagreement over the value of a certain business operation. During this time, relatively little attention is paid to deal makers — that is, those factors that will, post-merger, create value and enhance the likelihood of a smooth integration of the two organizations. Then, if no deal breakers are uncovered, the negotiations are likely to gain momentum, and the imperative for executives on both sides becomes close the deal. Having been largely ignored up to this point, corporate brand strategy again fails to get its due.

But that's a terrible missed opportunity, because the right brand strategy can play a crucial deal-making role in maintaining and enhancing productive relationships with three key constituencies: employees, customers and the investment community. Indeed, when executed effectively, a corporate brand strategy can greatly facilitate the merger of the two companies by sending the right signals to people both inside and outside the organization. For that to happen, though, executives need first to understand the full range of corporate brand options and then select the right strategy, taking into account the various pros and cons for each of those three constituencies.

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