The M&A Guide

for Professional Services Firms

STRATEGY, BRANDING AND MARKETING

Hinge®

The M&A Guide for Professional Services Firms: Strategy, Branding and Marketing

Published by Hinge
1851 Alexander Bell Drive, Suite 350
Reston, Virginia 20191

Design by Hinge.
Visit our website at www.hingemarketing.com

About this Guide

What is it?

An executive guide on the strategic, branding and marketing aspects of professional services mergers and acquisitions. This is *not* a manual on making deals or the financial mechanics of M&A transactions.

Why do I need it?

Mergers and acquisitions are a common growth strategy for professional services firms. This guide will prepare you for many of the challenges you may face.

Who is it for?

Professional services owners, executives and marketers. Whether you are considering M&A as part of your growth strategy, are about to undergo a merger or acquisition, or want to ensure the deal you just completed is a long-term success, this guide is for you.

Who is it from?

This guide was prepared by Hinge, a leader in branding and marketing for professional services firms.

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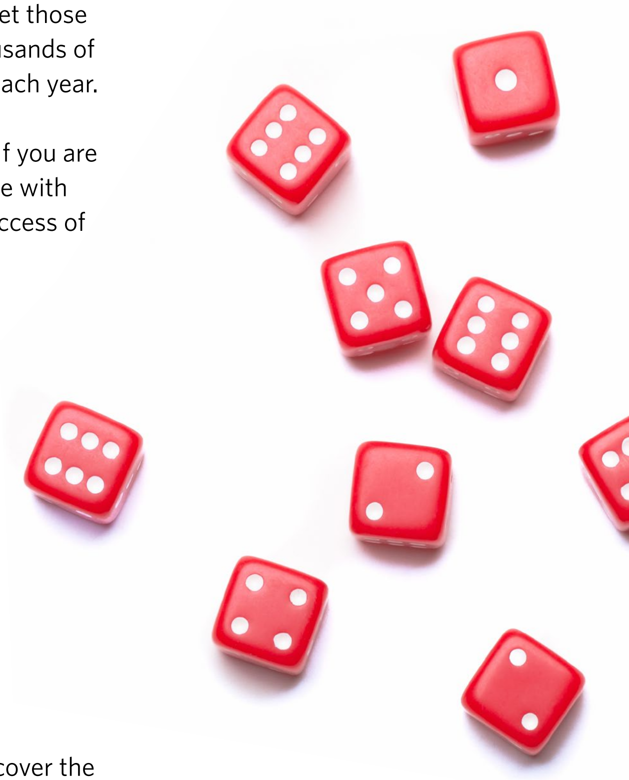
Introduction

If your professional services firm is considering, or in the process of, a merger or acquisition, you are embarking on a business journey with tremendous opportunities for growth and value creation—*and* a great deal of risk. Sadly, most of these integrations don't work out in the end. A study by KPMG found that 83% of acquisitions fail. *Harvard Business Journal* cites similar numbers. But don't let those statistics discourage you. Failure is not a foregone conclusion. In fact, thousands of professional services firms undergo successful mergers and acquisitions each year.

You can shift the odds in your favor, but you have to do the due diligence. If you are wondering what that means, you clearly aren't alone. Many deals are made with insufficient up-front scrutiny and without a detailed plan of attack. The success of *your* integration will hinge on your ability to carry out these critical tasks:

- Assess the M&A opportunity with a critical eye
- Determine that the two cultures are compatible
- Plan for your new positioning and brand
- Develop detailed integration, marketing and communications plans
- Evaluate the success of your integration along the way



Many mergers and acquisitions fail because one or both firms get caught up in the exciting possibilities of a deal and downplay clear obstacles or irreconcilable differences that doom it from the start.

We wrote this guide to give your deal every chance of success. While we cover the financial and legal aspects of M&A only superficially (you should seek out a qualified accountant and lawyer to advise you on the specifics of your situation), we lead you through the crucial strategy, culture and marketing issues and decisions you will encounter along the way.

What You'll Learn in this Guide

In Chapter 1, we discuss why you might, or might not, want to consider M&A as a part of your firm's growth strategy. Chapter 2 describes some of the most common ways a merger or acquisition can go sideways. And we include advice on how to avoid repeating those mistakes. Next, in Chapter 3, we explain why you should be thinking about the deal's implications on your brand from the very beginning—and what steps you should take to build consensus and launch your new brand. Chapter 4 explores ten ways you can measure the success of your integration, and why it's important to do so. We conclude this guide with a checklist (Chapter 5) of the salient tasks you need to address during your M&A journey.

We hope you find this guide helpful. It contains practical information and advice you can use to make your M&A experience a success.

Good luck!

The Hinge Team

CHAPTER 1:

Is M&A the Right Growth Strategy for Your Firm?

Mergers and acquisitions (M&As) have become a popular business strategy for companies that want to expand into new markets, attain a competitive edge, or acquire new technologies and skill sets. M&As are especially popular in the professional services space as a new generation of leaders take over management, the economy changes at a rapid pace, and the marketplace evolves.

So what is the impact of all these mergers? More importantly, does a merger or acquisition make sense for your firm?

At Hinge, we've studied the factors that drive premium valuations and high growth and have uncovered some facts that may surprise you.

Defining Terms: Merger vs. Acquisition

It's easy to confuse mergers and acquisitions. After all, more often than not they are summoned in tandem, like twins to the dinner table. But each of these terms refers to a specific legal situation. So it's important to get our terminology straight.

A **merger** occurs when two firms come together to create a new entity. While the resulting company may or may not retain the name of one of it progeniters, it's ownership is different and new stock must be issued. Typically, the new company is managed by members of both originating businesses.

An **acquisition** is the absorption of one firm into another. This can be either a consensual deal (for instance, a firm is sold to fulfill the owner's exit strategy) or a hostile takeover. An acquisition does not create a new entity, and the buyer usually assumes complete control over the acquired company.

Potential for Confusion

Be aware that people often use these terms loosely—and sometimes for political reasons. A company that acquires another in a hostile takeover, for instance, may refer to the activity as a "merger" because that word has fewer negative connotations than "acquisition."

Also be aware that mergers and acquisitions do not always produce traditional outcomes. For instance, it is not uncommon for both brands to emerge from the deal intact, and the general public may not even notice that a financial and structural transition has taken place behind the scenes. In some situations, each company may even keep its entire management team. By contrast, some hostile deals result in the complete dissolution of an acquired company (often to eliminate a competitor).

Strategic M&A: Seeking a Solution to a Business Problem

There are essentially two kinds of mergers and acquisitions: financial and strategic.

A financial merger or acquisition is pursued, as the name implies, for financial reasons—often as an investment or to generate some quick cash. In this guide, however, we are assuming that you are more interested in the second kind: a strategic merger or acquisition. (That said, many of the lessons in this guide apply to *any* integration of two companies.)

Strategic mergers and acquisitions solve a different set of business problems. For instance, an acquirer may be looking to introduce a new product line, add additional facilities, enter a new market, gain access to a new pool of customers, or secure new expertise and intellectual property. For professional services firms, a strategic M&A is often about building credibility, adding new expertise, or changing the balance of power in a particular market.

The outcome is a strategic merger or acquisition that yields value for both parties—at least in theory. The long-term success of the transaction depends on a variety of factors, many of which we will address in this guide.

So what does a strategic merger look like? Here's a good example:

> A few years back while we were researching firms that received unusually high valuations, one company caught our attention. It was a smaller firm that specializes in top-secret work and had deep experience with one of the intelligence agencies. This firm sold for an eye-popping 10 times revenue.
>
> When we asked the acquiring firm why they were willing to pay such a premium, their answer was simple. The target firm had "must-have" qualifications and contracts with a "must-have" client. Without these capabilities, the acquiring firm was at a significant disadvantage when competing for upcoming work. They understood that the long-term value of acquiring the firm was much greater than its premium purchase price.

That's a strategic merger.

But when is it advantageous to proceed with an aggressive growth strategy of mergers and acquisitions, rather than rely on disciplined organic growth?

For professional services firms, a strategic M&A is often about building credibility, adding new expertise, or changing the balance of power in a particular market.

When M&A Works as a Growth Strategy

Mergers and acquisitions make perfect sense in a variety of circumstances. Here are five situations in which mergers and acquisitions have proven useful as a growth strategy:

1. **Fills critical gaps in service offerings or client lists**
   Marketplace changes in response to external events or new laws and regulations can create a gap in a firm's services. This is a prime opportunity for a strategic merger or acquisition.

   After 9/11, for example, the national security and defense industries lacked the relevant skills to meet rapidly changing federal requirements. Companies quickly realized they would be sidelined if they couldn't provide the skills and experience to meet the new security demands. Firms with the requisite experience and relevant client lists suddenly found themselves attractive, strategically valuable acquisition targets.

2. **Efficient way to acquire talent and intellectual property**
   Many industries are experiencing an acute shortage of experienced professional staff. Cybersecurity, accounting, and engineering firms—to cite just a few examples—are scrambling to compete for scarce talent. M&A offers a clear way to address this common people problem.

   At the same time, many firms are looking for a way to win the client wars. And intellectual property (IP) has become the new arms race of modern business. IP is now actively bought and sold. For many companies, the acquisition of a firm and its IP is the quickest path to market dominance.

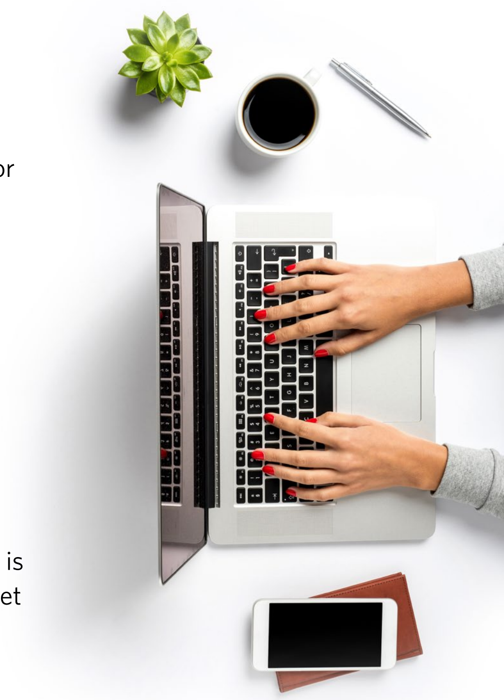
3. **Opportunity to leverage synergies**
   If carried out as part of a thoughtful growth strategy, a strategic merger or acquisition can deliver synergies and real value for both the acquired and the acquiring firm.

   There are two basic types of M&A-related synergies: cost and revenue.

   Cost synergies are financial savings produced by consolidating overlapping operations and resources in one entity. In a strategic M&A, a number of areas are suitable for cost-cutting, including redundant facilities, workforces, and business units. But cost synergies can also increase a firm's buying and negotiating power thanks to the new entity's larger budget and market clout.

Revenue synergies alter the competitive balance of power and create opportunities to change market dynamics, sell more products, or raise prices. Companies can take advantage of revenue synergies and make more money in many ways, including the following:

- Reduce competition
- Open new territories
- Access new markets (through newly acquired expertise, products, services, or capacity)
- Expand the customer base for cross-selling opportunities
- Develop sales opportunities by marketing complementary products or services.



4. Add a new business model

Many professional services firms are based on a billable-hours business model, but that is certainly not the only option. For example, some firms generate revenue on a fixed-fee basis or through performance incentives. Others may employ subscription models (popular in the software industry).

Of course, there can be more to a business model than how you are paid. A merger or acquisition can also introduce a new type of service. If you're considering a new business model, the easiest way to develop and test it out is to acquire a firm that's already using the model successfully. That way, you get a team that has already learned from its mistakes and knows how to deliver the model profitably.

5. Save time and long learning curves

In some cases, a strategic M&A can save you considerable time and money. Suppose you want to introduce a new service to your business. Your firm is fully capable of developing and delivering that service on its own, but it will take more time, money, and resources than you're willing to invest. It might be easier and more cost-effective to simply acquire the capability. Not only is this a practical and smart shortcut, you get a built-in customer base, to boot!

Five Terrible Reasons to Acquire or Merge with a Business

A merger or acquisition takes serious time, money and focus away from the companies' core missions. So it only makes sense to invest this level of effort if the combined entity will have more value than the two firms individually. If you expect a net-zero gain, then the deal isn't worth the trouble. As we describe above, you are looking for *synergy*—in which the combined firms generate exceptional value through greater efficiencies, heightened market power, or some other mechanism.

But many mergers and acquisitions are driven by motivations that have nothing to do with finding synergies. Below are five M&A strategies that are very like to end badly:

1. **You Want to Diversify Risk**
   There is nothing wrong with diversifying risk, *per se*. But it's probably not the best reason to acquire a business. Why not? First of all, diversification is not a value-enhancement strategy; it is a risk management strategy. And as we've mentioned before, M&A is a high-risk activity, so you aren't exactly lowering your firm's exposure to danger. Second, diversification without a clear brand strategy could damage your positioning. The more your firm moves away from specialization, the less distinctive it becomes. Buyers prefer specialists, and they are willing to pay a premium for them. So why would you move toward the low-value, generalist, commodity-hawking center?

2. **You Have Excess Cash**
   So your pockets are on *fire* from all that cash. Why not buy a company that will help you generate even more red-hot green? Whoa, there! Just because you have the *means* is no reason you have to find an excuse to use it. Better to have a great reason first, then figure out how to fund it. Apple is one of the most cash-rich companies in the world, yet it makes acquisitions very judiciously. When Apple decides to buy a company, it has a long-term strategy for doing so, and the overall business almost always comes out stronger and more competitive for it.

3. **A Competitor Just Bought a Firm**
   Call it envy or keeping up with the Joneses—buying a business to keep pace with a rival is rarely a formula for success. It's reactive and non-strategic. And it makes you far more likely to acquire a firm for the wrong reasons and without doing the methodical due diligence that uncovers deal-killing flaws. You will be much better off setting your own course and letting competitors worry about *you*, instead.

You are looking for *synergy*—in which the combined firms generate exceptional value through greater efficiencies, heightened market power, or some other mechanism.

4. **You Want to Keep a Competitor from Acquiring a Firm**
   Unless you are buying a business to kill it off (which is often a weak strategy because it doesn't generate revenue), pre-emptive acquisitions are almost always a bad idea. Because you are trying to nab the prize before someone else does, impatience is likely to override prudence and caution. And you probably aren't chasing the deal for its strategic value or because there is a powerful synergy with the other firm—instead, you are doing it as a defensive move. The stars in this scenario couldn't be better aligned for an epic fail.

5. **You Have a Really Good Feeling About It**
   It may sound crazy, but many firms pursue a deal for no better reason than, "it seems like the right move." If that sounds like *your* management team, stop right there. Gut feelings are no substitute for sound strategy, careful planning, and meticulous investigation. M&A is not a trial marriage with a quick-divorce option. Real people's livelihoods are at stake, and a misstep can drain your reputation and treasure with alarming speed.

CHAPTER 2:

Why Mergers and Acquisitions Fail

Like any business growth strategy, M&A comes with inherent risks. In fact, a half-baked acquisition can create major operational headaches, damage your reputation and stop growth in its tracks.

According to *Harvard Business Review*, between 70% and 90% of acquisitions are failures. That's a sobering statistic. And you don't have to think too hard to find examples. Remember HP's disastrous acquisition of Autonomy? Or Microsoft's purchase of Nokia's phone business? But those were giant, multi-billion-dollar plays that attempted to integrate multi-national corporations.

Smaller deals—such as a consulting firm that acquires a similar organization in another city—are somewhat more likely to work out in the end. Cherry Bekaert, an accounting firm based in Richmond, Virginia, has grown into one of the Southeast's largest firms by acquiring small local practices over time. The strategy has worked because the companies they acquired were operated by accountants like themselves. The cultures were not all that different and the deals benefited everyone.

But even these smaller-scale transactions can be risky. In this chapter, we will explore five common ways that mergers and acquisitions fall apart. If you decide an M&A strategy is right for your firm, these examples may help you avoid some of the mistakes others have made.

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Point of Failure 1: A Clash of Cultures

Take two established businesses with unique cultures and mash them together. What do you get? Often, you get distrust and hard feelings. Reconciling significant differences in culture can be tough.

Take Bank of America's acquisition of Merrill Lynch a few years ago. The two cultures couldn't have been more different: a southern, traditional retail bank on one side; a fast-paced New York ethos on the other. While the two institutions are still together today, there were mighty struggles along the way. Many valuable professionals walked out the door rather than adapt to a radically different culture. So what can you do to avoid this poisonous problem?

First, both sides need to acknowledge that ensuring a good fit is vital. Try to understand where each firm's motivation comes from. Fast growth? Employee happiness? Delighting the client? If these two worldviews aren't compatible, chances are the whole thing won't work out.

Second, talk about what a merged culture might look like—and how you might express this in your employer brand. (Your employer brand is the subset of your company brand that speaks to prospective hires.) Be realistic and see if you can develop a model that will suit both sides.

Third, do some research. Hire an experienced third party to assess your cultures and the marketplace they will be serving together. What values do the two cultures share, and where do they diverge? Are their clientele similar, or vastly different? Do they deliver services and address client grievances in similar ways? What expectations do employees have about their roles, compensation models, professional development, and workplace environments?

Finally, put the right incentives in place to make the merger appealing to employees on both sides. For instance, these incentives might be built around achieving certain growth or client satisfaction objectives.

Try to understand where each firm's motivation comes from. If these two worldviews aren't compatible, chances are the whole thing won't work out.

Point of Failure 2: Differentiation Dilution

When considering a merger or acquisition, identify what makes each firm so attractive. What makes them unique? If either firm has a strong differentiation strategy, there is a good chance that it's going to take a hit after the merger. Why? Because great differentiation demands sacrifice—eliminating non-core services and audience segments.

The payoff, of course, is the strong reputation you can build within a narrow niche—and the higher fees you can command. Chances are, the other firm involved in your deal serves a somewhat different market or offers a different set of services.

Now, this isn't necessarily a problem—as part of a thoughtful strategy, adding complementary services or audiences can make all the sense in the world. But you want to be sure you won't destroy the thing that makes you special in the process.

Point of Failure 3: Undermining the Brand

It's not unusual for two firms that offer distinct services or brands to join forces. The rationale usually goes something like this: "Together, we become stronger and better—a new entity that is so much more than the sum of our parts. Our (very different) clients will come to value the exceptional synergies created by our combined awesomeness."

The problem is, the marketplace rarely sees it that way. Most buyers aren't looking for a Swiss Army knife. They are looking for a screwdriver. Or a saw. Or a corkscrew.

You see, strong brands are built upon simple associations in people's minds. When a person needs to ship a package overnight, he thinks FedEx. When a CEO needs help with business strategy, she thinks McKinsey or Bain. But when Daimler Benz bought Chrysler, what did that new brand stand for? An American/German middle-market/luxury car? The brand instantly became a challenge. Likewise, when AOL bought Time Warner, what were people supposed to think about the resulting company? "You've got cable"?

So when an accounting firm considers buying or merging with a software maker, beware. While it might be a smart growth strategy, consider how it will affect the resulting brand (or brands, if they are to be marketed separately). If you aren't careful, the result could be confusion as buyers no longer know what to think about the new firm.

Point of Failure 4. A Fatal Distraction

Mergers and post-merger integrations are resource-intensive activities that usually involve some of the most senior people in the firm. If they are not prepared for it, they can easily be distracted by other critical, but less urgent, activities.

The potential for distraction is greatest—and most profound—after the deal is done and the focus moves to integration. If your senior management gets too distracted, you risk damaging the underlying business and undermining the success of the integration.

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Point of Failure 5. Marketplace confusion

Let's say Firm A, a highly respected accounting firm that specializes in manufacturing, merges with Firm B, a cybersecurity firm that specializes in helping retailers. The acquisition seems very strategic. Seeing an opportunity, the combined firm, A+B Associates, tries to add retail to their specialization.

The result is a confused marketplace: does A+B still specialize in manufacturing? Are they no longer an accounting firm?

The confusion can be even worse if the only rationale for the merger is growth for growth's sake. The whole confusing mess could be avoided with a solid, research-based plan to position the merged brand and help current and potential customers understand the rationale and benefits of the merger.

Tying a Knot is Easier than Untangling One

There are many different ways a professional services firm can grow. And it's quite possible that a merger or acquisition strategy may make sense for you. If you are considering such a transaction, just keep these five potential points of failure in your sights as you move forward.

As you know, bringing two businesses together is a major endeavor—it will take your attention away from other critical responsibilities, such as business development and delivering high-quality client work. If you are serious about an M&A growth strategy, act deliberately, do the due diligence, and don't be afraid to walk away if it doesn't feel like the right fit for both organizations.

Need a seasoned M&A guide?

At Hinge, we help firms of all sizes navigate the planning, growth, and branding challenges that are a part of any merger or acquisition.

Let us set you up for M&A success.

Request Your Free Consultation

CHAPTER 3:

Building Value in Your New Brand

Whenever two companies combine into one, there is an inevitable brand reckoning. Whether the integration happens through a merger or an acquisition, one of three things must happen:

1. One brand swallows the other, which ceases to exist.
2. Both old brands go away and an all-new brand emerges.
3. Both brands carry on, almost as if nothing happened.

With the possible exception of the third scenario—some firms are acquired without any intention of commingling the businesses—a merger or acquisition has strong implications on the resulting brand, as well as the overall success of the integration.

In most cases, by the end of a merger or acquisition process the newly combined organizations need to be prepared to project a unified identity and deliver a brand message that differentiates the firm from competitors, as well as from the earlier versions of themselves.

Whenever two companies combine into one, there is an inevitable brand reckoning.

Think "Brand First"

When going through a merger or acquisition, leaders tend to focus on the quantifiable aspects of the transaction, such as financial models, tax implications, and employment contracts. Just as important, however, is emerging from the deal with a unified brand that projects the firm's new business strategy. When firms do not prioritize their brand they can undermine their M&A strategy—sinking the ship before it sets sail.

On the positive side, mergers and acquisitions present a prime opportunity for firms to rethink and refresh their brands. Like Andy Warhol's 15 minutes of fame, M&As produce a rare moment when you can point the spotlight on your company and new brand—and people will care enough to pay attention. Don't miss the opportunity before it ticks away.

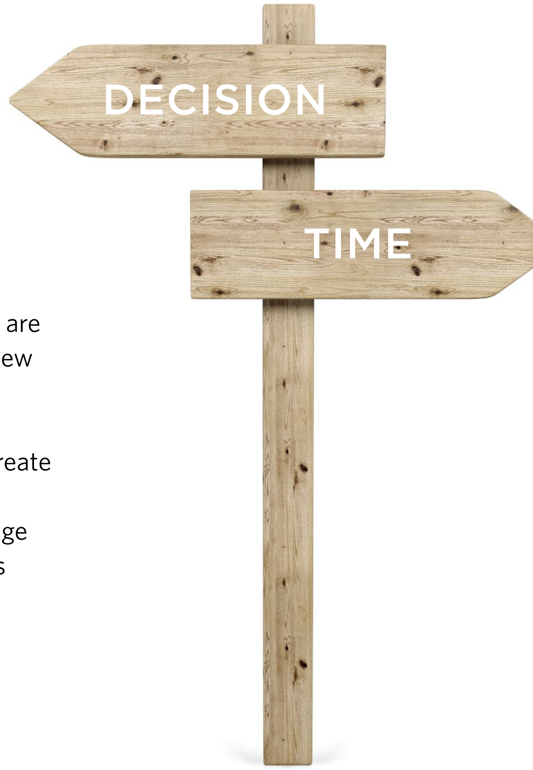
Chart Your Path Forward

It's not easy to combine two distinct companies and create a unified brand with a common culture, mission, and brand message. To achieve this alignment, the leaders of each firm must decide what differentiators, value propositions, and strengths they want the new organization and brand to convey.

We recommend that firms begin the process with one or more strategic planning sessions during which leaders discuss and agree on a range of issues that will impact the emerging firm's brand, including operations, marketing, and culture.

There will be a great deal of ground to cover. Here are a few examples of the marketing and branding decisions that should be made during the strategic planning session:

- Whether or not to rename the firm, adopt a new logo, or co-brand
- The underlying brand positioning and how it will support immediate and long-term business goals
- Which differentiators to highlight in marketing communications
- How marketing budgets and resources will be allocated
- What client retention strategies to implement



Cultivate Critical Consensus

To avoid internal discord, we recommend that you spend time listening to key stakeholders and representatives from across the new organization. If most people are "rowing in the same direction," it will be far easier for employees to articulate the new organization's defining characteristics and speak with a unified voice.

To encourage support for the new brand message, get employees involved early. Create an atmosphere of inclusion in which people feel they can be heard and that their voices matter. In the course of your conversations, you are likely to encounter a range of opinions, some of which will conflict. But at least people will know that the firm's leadership considered their perspectives.

Build Out Your Brand

Once your leadership team has established a new direction for the brand, it's time to equip everyone in the organization with the ideas and words they need to communicate the message consistently. You may want to task your marketing and communications team leaders with the responsibility to educate the entire organization about the new brand and messaging.

You will also need to retool, if not outright reconceive, the firm's visual brand, or *brand identity*. This initiative could affect every piece of identity and marketing collateral in your arsenal, including stationery, sales materials, brochures, pitch decks, tradeshow graphics, and the firm's website.

Communicate and Celebrate

As you combine teams, give your employees something to rally around and get excited about. One way to do this is to throw an internal launch event for employees where you share the new brand positioning, messaging, and identity materials with everyone. If teams are in multiple locations, you may be able to conduct simultaneous events, using a video link to broadcast key presentations. Alternatively, you can hold separate smaller events at each office on different days. If possible, key stakeholders should travel to each one.

At the event, announce key dates for the external brand launch. And let employees know what happens next so everyone is in sync as the new brand rolls out.

Inform Your Clients

Of course, you can't forget your clients. They will be almost as curious as your staff, and perhaps just as nervous about the change.

As part of your launch plan, develop a set of messages for your clients. Here are a few items you'll want to be sure you cover:

- That you have just gone through a merger or acquisition, and why.
- How your level of personal service and attention to detail won't change. If anything, it is likely to improve.
- What long-term benefits the deal will produce. If appropriate, explain how it will enhance the client's experience over time.
- What kinds of changes to expect in the future.
- What's going to happen next.

You will have to decide the most appropriate way to deliver these messages. For your best clients, a personal call or visit might be in order. Others may only need an email or letter (or both).

To reach a larger audience, draft a press release and post it on your website and publish it on a news service like PR Newswire. If publicity is important, invest in a publicity plan designed to generate visibility for the deal and new brand.

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Establishing a new brand message after a merger or acquisition can be a daunting process, but when you plan well and communicate effectively it can present a golden opportunity to unify cultures, improve client relationships, and strengthen a firm's position in the market.

CHAPTER 4:

How to Measure M&A Success

Once a merger or acquisition deal is signed and moving forward, how do you measure success? And how long does it take to achieve it?

These are excellent questions—and we hope you are asking them early in the process. They don't, however, have simple answers. After all, your situation may be very different from someone else's: the sizes of the companies involved in the transaction, the delta between their cultures, differences in business models, and the procedures an organization puts in place to handle the transition can dramatically affect the outcome and timeframe of an integration.

Let's begin with the question of time.

How Long Will it Take?

Assuming the two engaged organizations are able to coalesce and coexist, how long before they are cooperating and working as one? If the deal is a simple acquisition of a smaller firm that does essentially the same thing as the larger firm (for instance, a regional law firm that buys a small practice in another town), the culture shift may be fairly small and the friction minimal. The two firms could be working together with relative cohesion within a couple of months.

If, however, the differences are larger, or if the companies involved are complex, it can take up to three years for all the dust to settle. But even in the most complicated circumstances, *some* order should be emerging in the first 90 days, and the new organization should be seeing tangible progress within six months. In the majority of cases, the integration will be producing the expected efficiencies and synergies by the end of the second year, if not sooner.

Next, let's discuss what metrics you might monitor to determine how your merger or acquisition is performing.

10 Measures of M&A Success

To a large degree, how you define success *going into* a deal will determine the way you measure it. So much depends on what you expect out of the merger or acquisition. For instance, if your expected outcome is access to a new market, you'll likely want to keep an eye on regional sales and indicators of increased visibility in that region. If, on the other hand, you bought a firm to add new expertise to your portfolio, you'll obviously want to monitor interest in, and sales of, those services. But you also might also want to look at utilization in that practice area, as well as overall firm profitability.

No matter what you expect from your merger or acquisition, you'll want to track multiple metrics—beyond your primary objectives. Here are 10 common ways you can assess the success of your integration:

No matter what you expect from your merger or acquisition, you'll want to track multiple metrics—beyond your primary objectives.

1. Number of clients. Consider tracking this number across your entire firm (in case there is a halo effect that benefits multiple practice areas), as well as for the specific area of your business that has changed.

2. Revenue. There is no reason to go through the significant trouble of M&A if it doesn't make you money. Again, look at both the whole firm and the affected business unit(s). With so much change in the organization, it's easy to take your eye off of the business development ball.

3. Revenue per client. Are you now able to attract larger, more valuable clients?

4. Run rate savings. Your run rate is simply an extrapolation of your current revenues and expenses into the future. Plot your actual and expected run rates on a synergy curve and track the results over time. How quickly are you seeing the benefits of synergy? Most successful integrations completely realize these efficiencies within two to three years.

5. Cross selling of services. A well integrated firm will be able to upsell and cross sell services. How often are your other practices referring and selling the new services?

6. Cash flows. Has the merger or acquisition facilitated or impeded your flow of cash? A successful integration should have a very positive effect once you have achieved synergy.

7. Client complaints. M&A activity can wreak havoc in a once-smoothly running organization. Keeping a log of client complaints is a good way to understand the scope of the problem—and pinpoint the areas you need to address most urgently.

https://www.atkearney.com/mergers-acquisitions/article?/a/what-shape-is-your-curve

8. Quality of new clients. Quality can be a subjective measure, but it can give you a sense of which direction your M&A activity is taking you, especially if you have a pre-M&A benchmark to compare against. One way to measure quality is to score a client on a 1–5 scale across a handful of factors, such as: 1) Do they pay on time?, 2) Are they easy to work with?, 3) Do they allow you to do exceptional work?

9. Level of staff stress. Has the merger or acquisition made working at your firm more difficult on your staff? Are managers and HR fielding more internal complaints? Are people taking more sick days? Are they working longer hours to compensate for the distractions of an evolving organization? Is the office atmosphere more tense than usual? It's not unusual for the level of stress to increase in the months following a deal, but you should be taking measures to mitigate those issues over time.

10. Staff turnover. Depending on the nature of the integration, you may or may not expect people to leave the organization. If the merger or acquisition created redundancies, then staff departures were probably part of the plan from the beginning. The worst outcome, however, is when unforeseen circumstances—often clashing cultures—compel top talent to leave the firm. Closely monitor this trend from the very beginning. It can sink a promising integration like a torpedo.

Whatever your reason for considering a merger or acquisition, be sure to define clear expectations for the deal. Set quantifiable goals—objectives that can be measured and monitored along the way. Then track your progress as you roll out your integration plan. Do you need to make adjustments? Is there a major problem (like the departure of key staff) that requires emergency triage? If you aren't looking, you will miss many of the early warning signals. And if you are a firm that plans to grow through acquisitions, measurement helps you learn from your mistakes.

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CHAPTER 5:

The Essential M&A Checklist

Any professional services firm contemplating a merger or acquisition deal has a great deal to think about. It's easy to become overwhelmed by the myriad financial, operational, and marketing details that surround such an event. But a successful integration rides heavily on the level of preparation you do before consummating the deal.

Use this checklist to make sure you think about and address the scores of tasks that, if overlooked, can derail you later on. Note that this list does not include the many financial, tax, and legal-due-diligence issues, as they can vary significantly from deal to deal. We recommend that you consult a qualified accountant and attorney to advise you on those aspects of your merger or acquisition.

A successful integration rides heavily on the level of preparation you do before consummating the deal.

Pre-deal Assessment

- ☐ **Professional Valuation -** Hire a qualified valuation expert to assess and value the firm(s) to be acquired or merged. Using an experienced outsider can remove much of the emotion and subjectivity from the process.
- ☐ **Look for Hidden Costs -** Do your due diligence. Are there any undisclosed financial costs—today or looming in the future—that aren't accounted for in the valuation? For example, a roof that needs to be replaced, or a disgruntled client that is about to file an expensive lawsuit?
- ☐ **Attractive Financials -** If you are trying to sell your firm, you are more likely to get a premium valuation if you can demonstrate several years of consistent growth—with all projections pointing to similar results in the future. "Lumpy" revenues can be a turnoff. Your ability to show healthy profits over the same period also be important. Finally, make sure you don't have a lot of unnecessary overhead that will make the deal more expensive than necessary.

- ☐ **Differentiation -** When considering a potential acquisition, assess the target firm's differentiation in the marketplace. Does it offer anything unique or of strategic value?
- ☐ **Risk Mitigation -** Do your best to identify the potential risks of the deal. What happens if the promised benefits fail to materialize? What if the two teams can't get along? Is there an escape hatch if the integration—despite heroic efforts all around—just doesn't work? Once you've identified the major risks, develop realistic contingency plans to handle each of them.
- ☐ **Organizational Structure -** What will the post-deal company look like from a management, structure, and personnel perspective? Go ahead and map it out, knowing that some key details may change. It will help you identify potential redundancies, job title problems, structural problems and other issues.

Plan for Integration Challenges

Bringing two disparate groups together is fraught with potential complications. Raised with different cultures, management styles, and expectations, the two factions are likely to eye each other with suspicion and even a little fear, at first.

- ☐ **Cultural Differences -** How different are the two cultures? It's important to understand this critical factor before agreeing to a deal—if the cultures are too different they could be impossible to reconcile. In fact, cultural incompatibility is one of the biggest reasons mergers and acquisitions fail. That's why it's important to focus more on cultural differences than similarities in the two groups.

  Once you've determined the two groups are likely compatible, you then need to figure out how you are going to unite the two cultures. A merger or acquisition can be the ideal time to initiate cultural changes, as the employees are already primed for change. And it's a perfect opportunity to introduce a new set of values to the firm.

  These values, however, have to be manifested in countless small ways: how and when you celebrate people's successes, how you deal with failure, how much flexibility you offer, how you make decisions, how people dress, how people collaborate, how people disagree, how meetings are conducted, how much responsibility people have, how (and if) they are held accountable… the list goes on and on. Don't expect to change everything at once. Look for the most glaring differences between the two groups and start there. Then build more bridges over time.
- ☐ **Contrasting Management Styles -** Depending on the nature of the deal, management style may or may not be a significant issue.
- ☐ **Layoffs and Reassignments -** If layoffs will be required, start planning for them early—you'll be better prepared to develop internal messaging and answer staff questions. While you may not be able to foresee every personnel change at this stage, you should be able to draft a preliminary list that's in the ballpark.

- ☐ **Compensation Differences -** Compensation models, pay scales and pay cycles can differ dramatically at different firms, and they can create a lot of headaches down the stretch if you don't plan ahead. Despite management's best efforts, many employees openly discuss their pay, so inconsistencies and inequities will be noticed. Where one firm relies on a performance-based incentive system with a significant upside, another firm might offer only fixed salaries. The simplest approach—and one most employees would welcome, at least at first—is to keep everyone's compensation unchanged (though you may need to synchronize everyone's pay cycle). Then over time you can standardize the model. But every circumstance will be different, and you will have to evaluate your situation before deciding the best path forward for your organization and people.
- ☐ **Job Titles -** Reconciling the way job titles are handled between two combining companies can be maddeningly complex. Unless you are lucky and job titles happen to align relatively neatly, you may be better off keeping most of them intact, at least until the new organization is more stable.
- ☐ **Talent Retention -** Is there anything in the deal or its aftermath that could trigger a brain drain? Address any concerns early-on, before the exodus begins.
- ☐ **Uncertainty and Morale -** Employee fear is a natural part of almost any M&A situation, and if left unaddressed it can create significant problems along the way. What you can tell whom, and when, during a merger or acquisition varies from deal to deal. But to the extent possible, err on the side of providing more information to employees as early as possible. Communicate how the deal will create new opportunities and benefits for staff, but don't hide the potential downsides. Staff will want to know how the deal will affect them.
- ☐ **Recruiting -** Are there any roles you will need to fill right away? And will you be prepared to hire if top talent decides to leave the firm?

Address Employee Benefits

In an ideal world, you would simply take the most generous benefits from each company and make everyone happy. And that is exactly how many firms handle the challenge. If that approach is not financially viable, however, you will need to suss out the best compromises you can, understanding that you might lose some employees along the way. Be open about your challenges and, if practical, let people know early-on what the likely benefits package will look like.

- ☐ **Health Plans -** How different are the two firms' health plans? Losing good insurance can be a deal-breaker for some employees. Can you afford to take on the better plan? Or is there an attractive compromise you can reach?
- ☐ **401k -** Determine how you will resolve differences in retirement plans. Retirement planning is a big deal to some workers.
- ☐ **Other Benefits -** Vacation, sick leave, flexibility, remote work options, paid parking—there are a multitude of benefits and policies that, if scaled back or revokes, could affect employee morale. Compare the two firm's employee manuals so that you make decisions with your eyes wide open.
- ☐ **Employee Manual -** Start updating or replacing your employee manual so that these policies are documented for everyone the day the integration happens.

Be open about your challenges and, if practical, let people know early-on what the likely benefits package will look like.

Create a Communications Plan

How will you explain the deal to your employees and the world? If you don't control the narrative, others will fill the vacuum—with unpredictable results. Developing a communications plan pre-merger or -acquisition puts you in the driver's seat and equips you with the messages you need to set up long-term success. Here are some key components of your plan:

- ☐ **Audiences -** The three most important audiences for your plan are: 1) employees, 2) clients, 3) prospective clients (and the rest of the marketplace). But you may want to consider other audiences, as well—for instance, influencers, referral sources, strategic partners, and prospective employees.
- ☐ **Key Messages -** Begin by identifying each audience's likely objections, then craft messages that overcome those objections and lay out a positive vision of the future.
- ☐ **Communications Calendar -** How will you communicate to each audience? When? How frequently? To answer these questions and add structure and accountability to your plan, create a detailed calendar that designates what dates, media, and specific messages you will deliver over the course of the rollout. These are not loose guidelines—your communications calendar should be a prescriptive, day-by-day playbook.

Plan for the Brand

Depending on the nature of your deal, the implications on your brand may fall anywhere on the spectrum, from having little effect to requiring a soup-to-nuts overhaul. Mergers, especially those that produce an all-new firm, are the most likely to need the full treatment. Here is a list of brand elements that may need your attention:

- ☐ **Positioning -** Does the deal change whom you compete against? What adjustments do you need to make to the way you describe your firm?
- ☐ **Messaging -** How does the merger or acquisition affect the messages you deliver to your audiences? Have your audiences changed? What about prospective new hires—is there anything different you would say to them?
- ☐ **Name -** If a new name is in the offing, tackle it right away. It will appear on everything to come. If you want to register your name with the Patent and Trademark Office (strongly recommended), keep in mind that it takes time to vet and clear it. Hire an IP attorney to help you.
- ☐ **Logo -** Will you need a new logo to differentiate yourself from the old firms and/or old competitors? Or do you need to make a few tweaks to a logo that still has legs.
- ☐ **Tagline -** Do you need to convey a new trait or message in your tagline?
- ☐ **Collateral -** From your pitch deck to the collateral that describes your services, chances are you'll have some updates to make.
- ☐ **Website -** The merger or acquisition may be the excuse you need to redesign your website. Or at the very least, you'll want to update key pages that discuss your capabilities, team, and history.
- ☐ **Brand Style Guidelines -** If you make significant changes to your brand, be sure to capture them in a new set of brand style guidelines. That will help you preserve your brand investment and prevent its decay over time. If you are tweaking an existing brand, update your existing guidelines to document key updates.

Update Your Marketing Plan

You are undergoing a merger or acquisition for a reason. Now it's time to profit from that significant investment. Determine what changes you need to make to your marketing strategy and update your plan accordingly. Here are a few questions to ask yourselves as you retool your plan:

- ☐ Will you have new audiences? If so, how will you reach them?
- ☐ Will you have new services, products, or expertise? How will you promote them?
- ☐ Will the deal position you to enter new geographic markets? What's your plan to raise your visibility in those markets and outflank established competition?
- ☐ Do you need to need to invest in new tools, training, or personnel to accomplish your goals?

- - -

Every M&A deal is different. While this list is a great starting place, it can't cover every contingency. Most likely, as you do your due diligence you will encounter special issues that pertain to your situation. Add them to your list. You'll be glad you did!

Conclusion

Every year, trillions of dollars of value are put at risk in merger and acquisition deals. Why? Because the participants believe they will be stronger and more potent together than apart (except, presumably, the victims of hostile takeovers). In many cases, consolidation delivers the benefits promised.

But when a merger or acquisition misses the mark, which happens more often than not, the damage can be significant and afflict everyone involved. In many cases, the suffering could have been avoided if the companies involved had evaluated the proposed deal honestly and with clear eyes. Some firms are just poor fits for each other, and accepting that inconvenient fact should override the exuberance that can color stakeholders' judgement.

Sometimes, however, it's the integration process, not the fit, that eventually poisons the relationship. Firms that fail to account for the many, seemingly small details that affect workers' lives can find themselves saddled with crippling morale problems or logistical snares.

We hope this guide helps you avoid these pitfalls.

No matter where you are in the M&A process—evaluating a possible opportunity, about to make the plunge, actively negotiating a deal, or even in the thick of a post-deal integration—we've equipped you with insights and tools you can use *today* to make the most of your opportunity and skip the headaches.

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Hinge
1851 Alexander Bell Drive
Suite 350
Reston, VA 20191

703 391 8870
info@hingemarketing.com

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