

Post-acquisition Sales Force Integration



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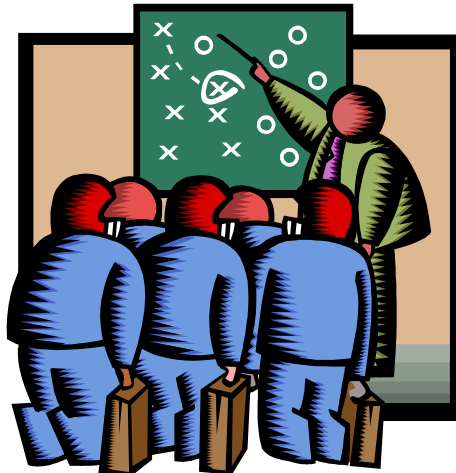
Revenue Is One of the Primary Goals in 80% of Acquisition Announcements.

- Yet, according to McKinsey & Company, most of the time, revenue growth remains elusive.
- Most post-deal attention is on integration and cost-cutting – to the neglect of day-to-day business, causing customer nervousness and flight.
- Companies may use cost savings to justify acquisitions but the best of them focus on securing their sales forces and customer base before turmoil takes its toll.

¹ *Why Mergers Fail: Is the belief that mergers drive revenue growth an illusion?*, The McKinsey Quarterly, 2001 Number 4.

Uncertainty Creates the Perfect Opportunity for Competitors to Attack.

- **There must be a plan to retain salespeople.**
 - The sales force is the key messenger to the customer.
 - Win over the sales force and the company will be on its way.
- **Before the acquisition is consummated:**
 - the status of the acquisition and its guiding principles should be communicated; and
 - a “clean team” process can be implemented.



The Plan Should Encompass the Following:

- **Communication: early, quick and often.**
 - Sales resources and customers will want to know why the acquisition makes sense and how the company will change.
 - CEOs of both the acquiring and acquired companies should:
 - hit the road to explain the acquisition to sales resources and essential customers; and
 - contact personally “critical to retain,” high performing sales representatives.
 - Anything less than direct and immediate communication from the CEOs is too little and too late.
 - The goal of the CEOs’ communication is to:
 - generate enthusiasm and allay fears – letting the sales force know it is a vital part of the company;
 - ensure sales resources have a clear, consistent message for customers; and
 - send a strong signal to competitors that salespeople and customers are not up for grabs.

The Plan Should Encompass the Following: continued ...

- A “war room” to help sales resources win the battle for customers.
- Functional and personal information about how the acquisition will affect individual sales representatives. Ideally, decisions are facilitated by the “clean team” before the acquisition is completed.
 - Will sales forces be merged?
 - How will the sales organization be configured?
 - Who will have which roles?
 - Will people, and who, be let go?
 - How, and to whom, will accounts be assigned?
 - Will compensation remain the same?



Should Sales Forces be Merged?

Illustrative Questions

Current Situational Analyses

What is the current status of the sales organizations?

- Consider financial and market standing – revenue, profit and profitability, market share and growth potential, account penetration, customer satisfaction, market reputation, and perceptions.
- Identify strengths, weaknesses, opportunities, and threats.
- Determine which, independent or integrated sales forces, create more attention on intended sources of competitive advantage and drive more value for the company and customers.

What are the similarities and differences in:

- sales and distribution systems;
- customers; and
- selling skills and competencies?

- Analyze go-to-market strategies and execution.
 - Entire pre- and post-sales and service processes – prospecting through installation/repair.
 - Market and customer coverage model.
 - Identify common accounts.
 - Assess extent sales resources are calling on the same buyer.
- Quantify how sales resources spend their time.
 - What, if any, are potential savings due to commonalties?
 - What is the possibility of additional sales through cross-selling, increased organizational access to customers, etc.?
- Take into account type of sale and level of knowledge required – e.g., transactional, relationship, product or service vs. product/service bundled solution.

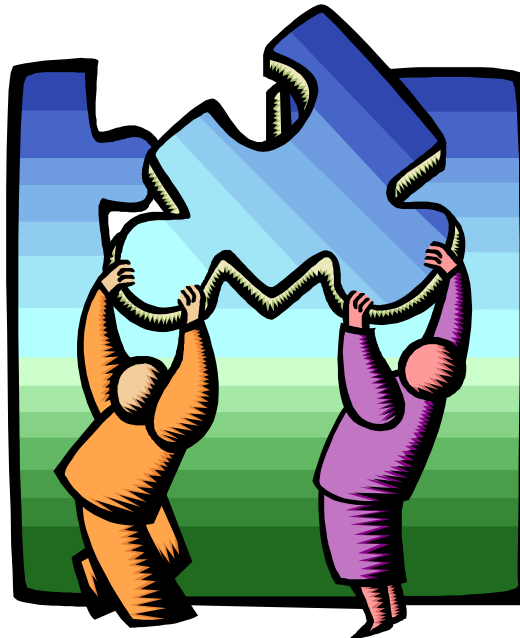
Should Sales Forces be Merged? continued...

Illustrative Questions

Are sales force cultures and performance values compatible?

Current Situational Analyses

- Ascertain differences, among other factors, in:
 - leadership styles and decision processes;
 - team vs. individual performance orientation; and
 - compensation structure, incentive architecture and pay practices;
- Clarify extent of historical rivalries and exploitation of others' weaknesses.



Financial Incentives Are a Critical Retention Tool.

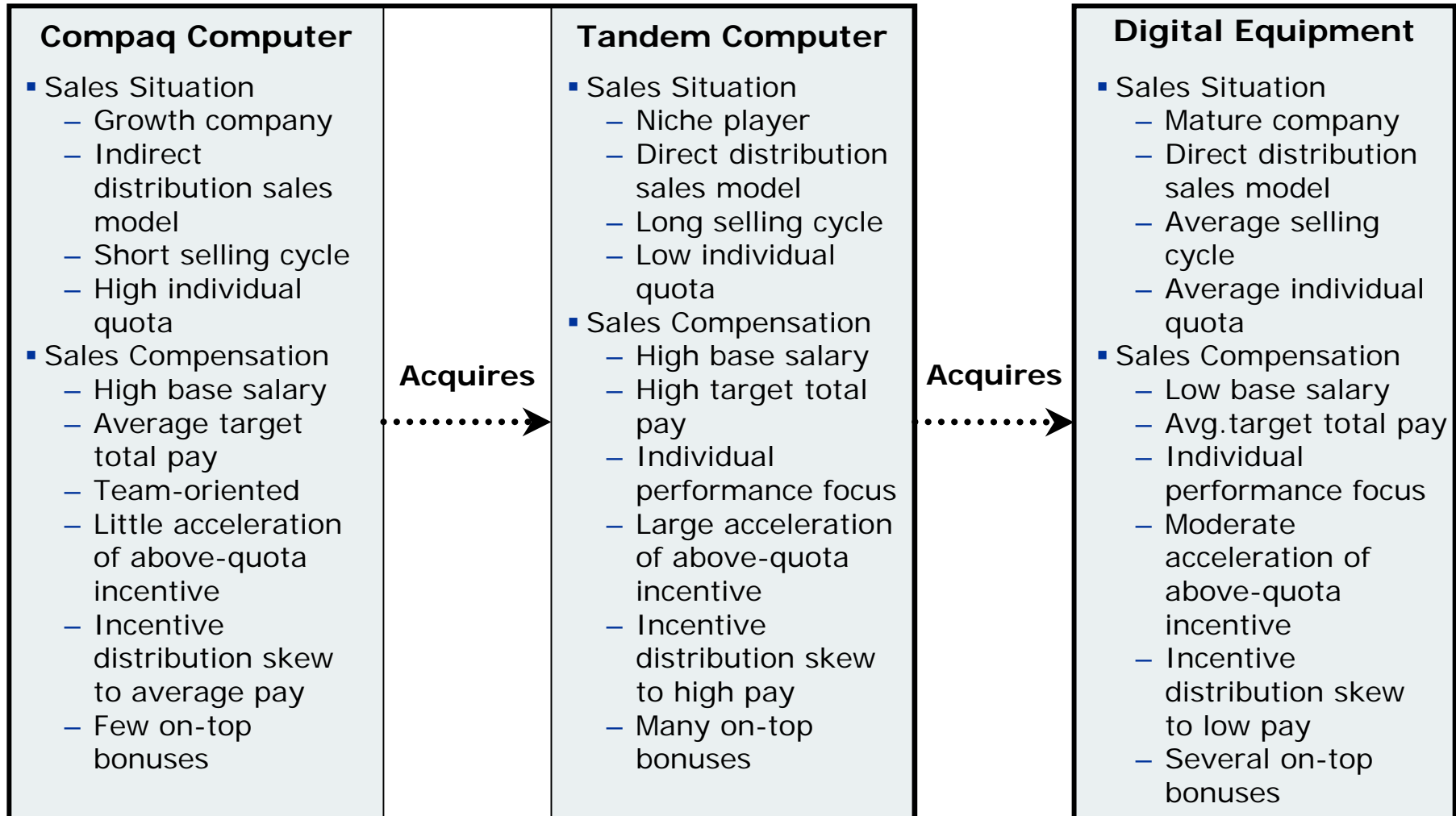
- **Identify the most important transition and post-acquisition objectives and tie incentives to them. For example:**
 - retaining key salespeople and customers;
 - encouraging cooperation and knowledge sharing; and
 - promoting cross-selling of each company's products.
- **Following the acquisition announcement and during acquisition integration, retention bonuses and incentives for maintaining and increasing sales should be layered on top of all existing compensation plans.**
 - Post-announcement and pre-closing: Elevate existing bonus opportunities for meeting sales targets.
 - Post-acquisition: Add "on top" bonuses for exceeding sales targets.

Financial Incentives Are a Critical Retention Tool. continued ...

- **Retention bonuses can be expensive – adding 5% to 10% to a deal’s cost and enough to wreck it.**
 - The trick is to pay neither too much nor too little.
 - For individuals with little “walking away money” from the acquisition:
 - 50% of 3 to 9 months’ salary (depending on how valuable they are) should be sufficient.

- **For Example:**
 - For a company with:
 - \$500 million in annual revenue and 5% Net Income Margin; and
 - \$10.0 to \$25.0 million of revenue at stake.
 - Paying \$1.0 million in additional sales retention/growth bonuses:
 - costs \$150,000 over and above the Net Income realized if \$10.0 million revenue is saved; and
 - contributes \$600,000 to Net Income at \$25 million of saved revenue.

Divergent Sales Situations and Compensation Strategies – What To Do?



Divergent Sales Situations and Compensation Strategies – What To Do? continued ...

■ Sales compensation challenges.

- Identify, “attract,” and retain top performers.
- Establish a consistently positive culture.
- Provide inspirational leadership.
- Define sales roles – individual vs. team performance and accountability, metrics, and performance priorities.
- Set ambitious performance targets.
- Align base salaries.
- Ensure incentive opportunities and leverage reflect stretch performance goals.

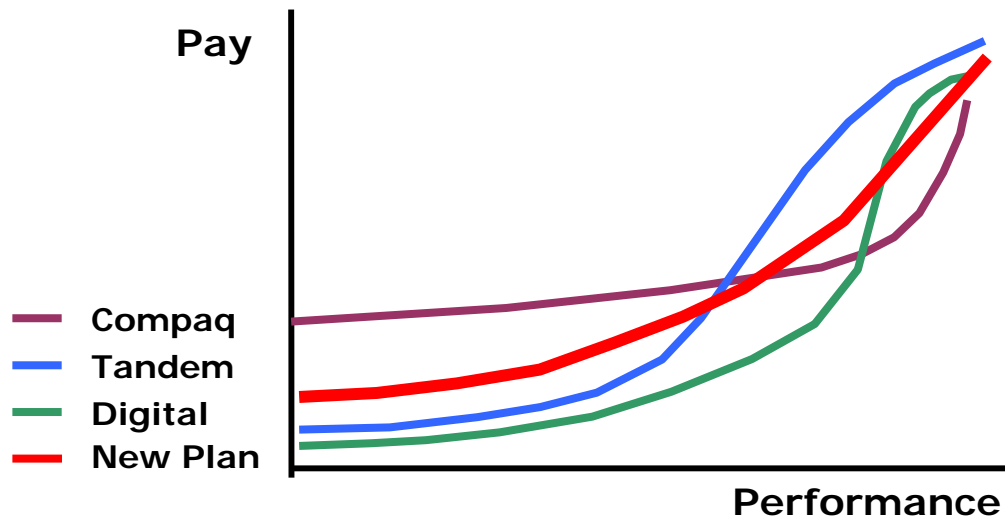
■ New performance priorities and metrics.

- Deliver revenue growth across multiple product segments.
- Generate profit to fund new business investment.
- Balance treatment of multiple and new distribution channels.
- Teaming within an individual performance environment.

Divergent Sales Situations and Compensation Strategies – What To Do? continued...

■ Pay strategy and incentive plan solutions.

- Shift salary and incentive mix – Compaq and Tandem – increasing target total pay with increased leverage.
- Normalize incentive payout.
 - Defining optimum proportion of salespeople at quota.
 - Identifying role of team vs. individual.
 - Accelerating payout curve consistent with new performance definition and targets.



Assuming Sales Forces Will Be Merged, What Sales Incentive Plan to Use?

■ Example of Covey Leadership Center and Franklin Quest (1997)

Sales Culture	<ul style="list-style-type: none"> ■ Covey Leadership Center: Encouraged Teamwork ■ Franklin Quest: Recognized Individual Performance
Historical Perspectives	<ul style="list-style-type: none"> ■ Were competitors. ■ Exploited each others' weaknesses. ■ Suggesting they work together was like asking McDonald's to sell Burger King's fries.
New Sales Compensation Plan	<ul style="list-style-type: none"> ■ Sales representatives achieved targeted compensation through individual goals. ■ Above-target incentive was tied to entire sales force performance.
Result	<ul style="list-style-type: none"> ■ Franklin Quest's sales representatives felt powerless – unable to control their own destiny. ■ Company missed sales goals by 10%. ■ Sales force turnover escalated.
New Plan	<ul style="list-style-type: none"> ■ Individual performance drives target compensation. ■ Small team (4-5 sales representatives) results determine above-target incentive awards. ■ Sales people have more control and immediately notice impact of effort.