Including Marketing Synergy in Acquisition Analysis: A Step-Wise Approach

John A. Weber
Utpal M. Dholakia

Merger and Acquisition fever continues. Whereas the M & A boom of the 1980s was driven largely by financial considerations, resulting in many leveraged buyouts and hostile takeovers, more of today’s mergers and acquisitions are friendly and are motivated by strategic profit goals. Reflecting this transition, marketing synergy has become a more relevant factor in determining the ultimate success of contemporary mergers and acquisitions. This article reviews an empirically tested step-wise approach for identifying, valuing, and realizing opportunities for marketing synergy related to proposed or consummated acquisitions. The approach focuses upon analyzing marketing consolidations in strategically driven, complementary mergers and acquisitions. © 2000 Elsevier Science Inc. All rights reserved.

INTRODUCTION

Leveraged by technology and readily available capital, global overcapacity has developed in steel, paper, chemicals, airline seats, cars, commodities, livestock, telecommunications, financial services, and many other industries. This overcapacity has caused intensive price competition and a new drive for efficiency through consolidation. Companies in affected industries feel they will be left behind if they do not either quickly join forces with competitors or vertically integrate. High stock values have
created abundant currency with which to finance these new deals.\textsuperscript{1} The result has been an explosion in worldwide merger and acquisition (M & A) activity. The total value of worldwide mergers in 1998 was $2.489 trillion, up 54\% from 1997, while in the U.S., the total value rose an astounding 78\% to $1.613 trillion according to Securities Data Co.\textsuperscript{[1]}. Between 1991 and 1998, the annual value of mergers in the U.S. increased more than tenfold (Figure 1).

Strategic Mergers

While varying in specifics, the motives behind today’s mergers have several factors in common. They tend to be strategic in nature, to be friendly deals, and to usually join companies in related businesses. The typical purpose is to increase profits by reducing costs (through achieving economies of scale and slashing overlapping operations) and boosting revenues (through adding new products and expanding market reach). These strategic motives contrast with financially motivated consolidations that were more typical in the 1980s [2, 3]. Given this transition to more strategically motivated consolidations, marketing synergy is becoming a more critical determinant of merger success or failure. Unfortunately, however, systematic assessment of prospective marketing synergies is too seldom included in the formal merger evaluation process. One reason for this continuing oversight is the shortage of acceptable tools and measurement standards. The approach reviewed in this article attempts to help address this shortcoming.

Many Disappointing Mergers

In sharp contrast with intended goals, mergers and acquisitions have frequently resulted in market-share losses, skimpier profits, and, in the long run, less money for shareholders. For example, one study of 150 mergers with values greater than $500 million in the 1990s by Mercer Management concluded that “50\% were failures” when judged by their effect on stockholder wealth after three years. Evaluation of mergers from 1990 to 1995 showed that 69\% of companies making either no acquisitions or making acquisitions worth less than $5 million outperformed their respective S&P industry indices, while only 58\% of companies making acquisitions of over $5 million did better than their industry indices [5]. A study by Sirower, summarized in his book, \textit{The Synergy Trap} [2], found that of 168 deals analyzed, roughly two-thirds destroyed value for shareholders. The study concludes that companies too often think they can generate synergy faster and in greater amounts than is really possible. With the inflated prices of many deals now being consummated [6], both merger stakes and associated risks are quickly rising.

While the causes of the merger disappointments are diverse, integration problems are a factor common to many disappointing mergers [2, 5]. A typical mistake is to assume that skills honed in one business can be readily applied to another. Another critical error is to assume that

\textsuperscript{1} For example, stock transactions accounted for roughly two-thirds of the deals in 1998, up from less than one-tenth 10 years earlier [4]. For a discussion of the trends in M & A activity over the past 20 years, see references [2, 3, 4].
Companies think they can realize marketing synergies faster and in greater amounts than is really possible.

competitors will stand still, which simply does not happen [6]. Then too, conflicts in corporate cultures have often hindered companies from fully realizing the synergistic benefits envisioned from acquisitions [7, 8].

Time pressure is another major factor contributing to disappointing mergers today. Many companies feel they simply do not have adequate time to carefully evaluate the full range of integration issues related to organizational makeup and strategic marketing. Such time pressures increase the chance of rushing headlong into premature closings of poorly planned mergers, leaving important areas of ambiguity unresolved in completed agreements [9–12]. Other impacting factors include assuming a boom market will go on forever, straying too...
Formal merger consideration still begins and ends far too often with the analysis of financial indices.

far afield from the company’s main business expertise, acquiring too large a company, and losing key managers in the acquired company [12, 14–19].

Importance of Synergy in Strategic Mergers

With the growing importance of strategic mergers, the success or failure of many acquisitions today may be determined as much by the ability of the merged firms to realize synergistic benefits as it is by financial criteria per se [12–17, 20–22]. Synergistic benefits can come in a variety of areas such as technology, R & D, production, and marketing. AT&T’s $5 billion acquisition of IBM’s Global Network in late 1998 promises an integration of complementary technologies, with AT&T instantly gaining 5,000 employees skilled in managing a vast array of network technologies. The deal also promises to instantly transform AT&T from a domestic long-distance company into a global communications provider [23]. Micron Technologies hopes that its 1998 acquisition of Texas Instruments semiconductor memory business will position Micron as the cost leader in DRAM memory [24]. National Steel’s ventures with Robinson Steel and Marubene Corporation promise to expand National Steel’s product mix while at the same time providing National with instant capacity for producing steel blanks for the automobile industry.

In the area of marketing, while sitting around a boardroom table, it is easy to envision how a prospective merger might help the parent firm quickly gain a host of marketing-related competitive advantages. Unfortunately, however, because of the competitive pressures in today’s marketplace, many mergers are consummated with too little formal planning regarding specifically how the combined company can actually realize the synergistic marketing benefits envisioned. Thus, many unforeseen post merger integration problems are marketing related, for example, Philip Morris’s difficulties in trying to leverage its brand management skills in an unsuccessful attempt to turn 7-Up into another Coca Cola.

Current Merger Evaluation Approaches

Despite the transition to more strategically motivated mergers, the formal acquisition evaluation process still begins and ends far too often with the analysis of financial indices such as stock price, earnings, tangible and intangible assets, and investments [25, 26]. Financially focused acquisition analysis has been facilitated to a considerable extent by the proliferation of financial databases resulting in the ability of merger analysts to access and manipulate financial data more easily and effectively [e.g., 27–29]. Thus, today’s acquisition analysis models are expansive and quite sophisticated [e.g., 22, 25, 27, 30, 31]. Unfortunately, however, with few exceptions [e.g., 32], the primary analytical dimensions of these models still tend to focus on financial parameters, excluding systematic frameworks for searching out and evaluating prospective opportunities for marketing consolidations and synergy. This failure to adequately plan for the realization of merger-related marketing benefits can doom a strategic merger to failure from the very beginning [5, 12, 15, 33]. One reason why the analytical bases used for evaluating prospective acquisition candidates have not broadened to systematically incorporate marketing variables is the shortage of acceptable tools and measurement standards. The approach reviewed below attempts to help address this shortcoming.

Expanding Merger Evaluation to Include More Analysis of Marketing-Related Dimensions: An Overview of the Proposed Approach

The proposed approach involves a two-phase process for evaluating prospective or actual merger partners from...
A two-phase process for evaluating prospective or actual merger partners from a marketing point of view.

Phase One involves a search for areas where marketing consolidations might be feasible for prospective partners with similar core businesses. This exploration might be initiated by either company but should eventually evolve into a cooperative investigation by the marketing planning teams of both firms. Conducting such a study as a cooperative venture can provide more objective analysis while also providing premerger contacts between key marketing personnel of both companies. These early contacts and cooperative discussions can help smooth consolidations once the merger is consummated. A reasonable starting point for the study itself is to develop a checklist of marketing-related areas of potential duplicate resources, where synergistic benefits might result from consolidation. Among others, these areas might include the following (presented in no particular order):

1. Duplication of products—potential consolidation
2. Duplication of brand positions—potential consolidation
3. Duplication of warehousing and physical distribution facilities—potential consolidation
4. Duplication of customer service facilities and programs—potential consolidation
TABLE 1. Example of Phase One: The Search for Opportunities for Marketing Consolidation.

<table>
<thead>
<tr>
<th>Potential Opportunities for Marketing Consolidation</th>
<th>DESCRIPTION</th>
<th>ECONOMIES</th>
<th>MARKETING ENHANCEMENT</th>
<th>PREMIER COMPETITOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Product Duplication</td>
<td>In commodity offset, GPC's GIANT#3 brand and PPP's PROFITmaker brand could be consolidated, perhaps under the GIANT#3 brand name (see #2 below). In reprographics, GIANTtime and PROFITplain could be consolidated, perhaps under the PROFITplain brand name (see #2 below).</td>
<td>Economies of scale for manufacturing (longer run), shipping, and inventory could result. This could also free up PPP machine time (by dropping PROFITmaker) for higher value added products. Additional economies could result from consolidation of staff and planning activities that might be possible because of such consolidation.</td>
<td>GPC would still be a full line supplier. Sales effort could be concentrated on large volume products. Delivery times could be improved. Market research, advertising, and sales promotion could all be better focused.</td>
<td>Focused efforts of GPC and PPP in these two areas could result in better product performance -- at a cost savings, creating outstanding price performance value for customers of these products, together with concentrated and improved customer service and sales promotion support.</td>
</tr>
<tr>
<td>2 Brand Positioning</td>
<td>GIANT could become GPC's commodity brand across many different product lines, while the PROFIT brand could become the quality brand -- without compromising strong/attractive brands already franchised by GPC or PPP.</td>
<td>Concentrated promotion efforts could clarify these positions in the minds of the merchants, converters, and end users -- and simultaneously reduce redundant advertising, sales promotion, and customer support efforts required to service a wider range of similar brands and brand positions. Marketing and planning staff economics could also result.</td>
<td>Through concentrating marketing efforts and resources in areas of promotion, clear positions for the two new basic positions offered by GPC could be better established in customers' minds, facilitating the choice of GPC brands (especially in view of the other inferred improvements in product, performance, delivery, etc., outlined in #1)</td>
<td>Clear brand positions are a real positive for GPC selling into merchant and converter markets, as well as for GPC merchants selling to converters and end users.</td>
</tr>
<tr>
<td>3 Warehousing and Physical Distribution</td>
<td>Where feasible, consolidate warehousing facilities (e.g., giving PPP brands access to GPC facilities) and shipments.</td>
<td>More truckload shipments. Less breaking shipments, etc., mean cost savings.</td>
<td>More on time deliveries. More flexible availability of product, etc.</td>
<td>Set industry standard for product availability and timeliness.</td>
</tr>
<tr>
<td>4 Customer Service</td>
<td>Consolidate service personnel of the two firms -- retaining the best. Consolidate computer hardware and software capabilities, again retaining the best. Benefits will result from synergistic combinations of current customer service capabilities. Channel service calls (queries, orders, trouble-shooting) through central service.</td>
<td>Reducing duplication of people, hardware, software, and channeling all calls to central service center could generate significant cost savings.</td>
<td>Significant cost savings do not compromise customer service -- rather, those cost savings strategies enhance the timeliness and effectiveness of customer service responses. This in turn can speed delivery and build customer satisfaction.</td>
<td>GPC can set the industry standard for every aspect of customer service. This, in combination with the benefits inherent in other consolidation programs outlines above can help to maintain GPC as the premier competitor in the white paper industry -- delivering to customers on all fronts -- quality, service, and price performance.</td>
</tr>
</tbody>
</table>

FIGURE 2. Example of Phase One: The Search for Opportunities for Marketing Consolidation.
5 Advertising and Sales Promotion
DESCRIPTION
Consolidate advertising and sales promotion efforts of the two firms -- consistent with new target market programs for different GPC/PPP brands.

ECONOMIES.
Consolidation of the best people and programs, plus economies of larger scale capabilities in sales promotion result in significant potential cost reductions in this area.

MARKETING ENHANCEMENT.
More and better advertising and sales promotion without an increase in cost. This means more responsiveness to customers promotion efforts and better sales results.

PREMIER COMPETITOR.
Here is an opportunity to carry over PPP's already established industry leadership in this area to start benefiting the entire set of GPC and PPP brands.

6 Planning, Organizing, and Staffing
DESCRIPTION
Consolidating the best people and procedures would provide economies as well as improved effectiveness of these activities.

ECONOMIES.
Obvious economies of eliminating redundant staff positions.

MARKETING ENHANCEMENT.
The rub-off effect of the best of planning people and traditions of each company can enhance the overall effectiveness of all aspects of market planning -- making it more responsive to customer needs and more effective in helping to generate profitable new sales.

PREMIER COMPETITOR.
The best run company in the business gravitates to the top.

7 Direct Sales Force (GPC & PPP direct contacts with merchants, converters and other brand specifiers)
DESCRIPTION
For example, possibly consolidate GIANT#4 and PROFITancy direct sales forces. Perhaps put the GIANT#2 direct sales force under PROFIT, thus reducing 5 direct sales forces to 3. Some consolidation may also be possible between PROFIT-run and GIANT#3 direct sales forces.

ECONOMIES.
Eliminate redundancies of salesmen and the related costs means significant potential economies.

MARKETING ENHANCEMENT.
More focused efforts of the sales forces support all other consolidation efforts outlines above and allow the GPC direct sales force to come to the merchants, converters, etc. with a wider range of product.

PREMIER COMPETITOR.
The full line direct sales force -- both supporting and reflecting GPC'S leading position in the industry.

8 GPC & PPP Merchants (independent and company owned)
DESCRIPTION
Increased clout of enlarged, joint sales force and sales potential should provide leverage to favorably influence merchants to expend more effort on GPC & PPP brands.

ECONOMIES.
Consolidating merchant contacts of the two sales forces will bring natural cost economies.

MARKETING ENHANCEMENT.
Some potential ways in which consolidation could help GPC in this area to build / enhance its position as the premier company in the white papers business.

PREMIER COMPETITOR.
GPC is already the premier competitor. Filling out line with PPP will confirm and enhance this position.

FIGURE 2. Continued.
5. Duplication of advertising and sales promotion efforts—potential consolidation
6. Duplication of marketing planning, organizing, and staffing—potential consolidation
7. Duplication of direct sales force—potential consolidation
8. Duplication of distributors or merchants—potential consolidation

The initial exercise involves identifying and evaluating specific opportunities where potential benefits from inte-
Phase One involves developing a checklist of duplicated marketing resources, where synergistic benefits might result from consolidation.

gration might enhance the combined firm’s overall competitive position in relevant core businesses. When combined with Phase Two, this preliminary analysis provides valuable inputs for prioritizing and designing operational plans to address the practical challenges related to alternative prospective marketing consolidation opportunities. To facilitate implementing Phase One, the discussion of each area should include four dimensions:

1. Description—the nature of the specific potential consolidation effort
2. Economies—how each potential consolidation might help to provide economies for the company
3. Marketing enhancement—how each potential consolidation might help to improve the company’s marketing effectiveness for the product line in question
4. Competitive position—how each potential consolidation might help the combined company move toward becoming the premier competitor in relevant markets.

The intention of this exploratory process is to identify the most important potential synergistic benefits of each possible consolidation strategy. Emphasizing the positive at this early stage can aid and energize this exploration for prospective synergistic marketing benefits. Figure 2 provides an example of the preliminary analysis.

At this point in the analysis, a company has no need to consider the inherent difficulties or specific costs involved in designing and implementing plans to carry out the various potential consolidation opportunities identified. That analysis awaits the completion of Phase Two.

PHASE TWO: MICRO-MARKETING ANALYSIS OF CORE BUSINESS AREAS BY USING PATH MARKETING ANALYSIS (PATHMOD)

In addition to the search for synergistic benefits from potential marketing consolidations with a merger partner (i.e., in Phase One), a more focused micro-marketing audit and analysis of the core businesses of each company involved is also appropriate. Phase Two uses a before-after basis for assessing the core businesses likely to be most directly affected by the partnership. This appraisal uses an integrative, hierarchical marketing auditing procedure, called Path Marketing Analysis (PMA or PATHMOD) to develop PMA market profiles for each affected core product and market of both the parent company and the merger partner. Each PMA market profile provides a compact, readily comprehensible, visual and quantitative summary of the marketing weaknesses of a company in each market considered.

Comparative PMA market profiles for the parent and the prospective (or actual) new partner are joined to provide hypothetical before-after visual and quantitative perspectives on the would-be combined company’s market position and sales—reflecting whatever marketing consolidation assumptions the planning team would like to test. The framework is also suitable for assessing the prospective results of alternative potential marketing consolidation strategies under different assumption sets (“what ifs”) regarding the environment (e.g., hypothesizing alternative potential strategies by competitors or alternative potential scenarios related to technology, law, or the economy).

Overview of Path Marketing Analysis (PATHMOD)

An incipient version of this hierarchical planning model was presented in the literature previously [34, 35]. It was initially referred to as “Growth Opportunity Analysis,” later as “Gap Analysis,” and finally, today, is called Path Marketing Analysis (PMA or PATHMOD). Over the past 20 years, through trial and error application with over 200 groups of managers from 65 major industr-
### FIGURE 4. Market profiles for the acquiring firm.

#### Unserved Market

<table>
<thead>
<tr>
<th>INDUSTRY SALES</th>
<th>CAM</th>
<th>%</th>
<th>M. UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yr 1</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Yr 3</td>
<td></td>
<td>400.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>400</td>
<td></td>
<td>450</td>
</tr>
<tr>
<td><strong>Captive Sales</strong></td>
<td>10.0%</td>
<td>10.0%</td>
<td>90.0%</td>
</tr>
<tr>
<td><strong>Product Gaps</strong>:</td>
<td>15.0%</td>
<td>20.0%</td>
<td>13.5%</td>
</tr>
<tr>
<td><strong>Price Gaps</strong>:</td>
<td>20.0%</td>
<td>20.0%</td>
<td>61.2%</td>
</tr>
<tr>
<td><strong>Current Available Market</strong></td>
<td>61.2%</td>
<td>57.6%</td>
<td></td>
</tr>
<tr>
<td><strong>Price/Quality Gaps</strong>:</td>
<td>15.0%</td>
<td>15.0%</td>
<td>9.2%</td>
</tr>
<tr>
<td><strong>Current Available Market</strong></td>
<td>61.2%</td>
<td>57.6%</td>
<td></td>
</tr>
<tr>
<td><strong>Dist/Awareness Gaps</strong>:</td>
<td>20.0%</td>
<td>25.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td><strong>Total Awareness Market</strong></td>
<td>67.2%</td>
<td>70.8%</td>
<td></td>
</tr>
</tbody>
</table>

#### Served Market

<table>
<thead>
<tr>
<th></th>
<th>CAM</th>
<th>%</th>
<th>M. UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yr 1</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Yr 3</td>
<td></td>
<td>400.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>400</td>
<td></td>
<td>450</td>
</tr>
<tr>
<td><strong>Promotion Gap</strong>:</td>
<td>17.8%</td>
<td>16.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Firm Sales</strong>:</td>
<td>20.8%</td>
<td>31.1%</td>
<td></td>
</tr>
<tr>
<td><strong>Current Available Market</strong></td>
<td>32.8%</td>
<td>29.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Share of Served Market</strong>:</td>
<td>131.1</td>
<td>132.2</td>
<td></td>
</tr>
<tr>
<td><strong>(4)</strong></td>
<td>45.8%</td>
<td>96.4%</td>
<td></td>
</tr>
</tbody>
</table>

**Exhibit Footnotes**

1. Each gap is subsequently adjusted downward in size by applying it only to industry sales remaining after subtracting all previous gaps. See discussion in the paper.
2. Promotion gap is a residual of (current firm sales minus served market).
3. Firm sales are given for current year and projected by the model for Year 3.
4. Example projects a modest decline (-1.7%) in share of served market, assuming no promotion strategies planned.

---

**Acquirer's Market Profiles (Yrs 1 & 3)**

- **Breakdown of Industry Sales (M. Units)**
  - **yr1**: 500,000
  - **yr3**: 500,000

**Market Profile Components**

- Firm
- Prom'n
- Dist'n
- Price
- Prod
- Captive

---

166
Figure 5. Market profiles for the prospective or actual partner.

<table>
<thead>
<tr>
<th>INDUSTRY SALES</th>
<th>Yr 1</th>
<th>Yr 3</th>
<th>CAM</th>
<th>% M. UNITS</th>
<th>Yr 3 CAM</th>
<th>% M. UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNSERVED MARKET</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPTIVE SALES:</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term contracts</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>40.0</td>
<td>10.0%</td>
<td>45.0</td>
</tr>
<tr>
<td>Current Available Market 1 (CAM1)</td>
<td>90.0%</td>
<td>90.0%</td>
<td>90.0%</td>
<td>90.0%</td>
<td>10.8%</td>
<td>48.6</td>
</tr>
<tr>
<td>PRODUCT GAPS:</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Missing Colors</td>
<td>10.0%</td>
<td>10.0%</td>
<td>9.0%</td>
<td>36.0</td>
<td>9.0%</td>
<td>36.0</td>
</tr>
<tr>
<td>Service</td>
<td>10.0%</td>
<td>10.0%</td>
<td>8.1%</td>
<td>32.4</td>
<td>10.0%</td>
<td>48.6</td>
</tr>
<tr>
<td>Current Available Market 2 (CAM2)</td>
<td>72.9%</td>
<td>69.7%</td>
<td>69.7%</td>
<td>69.7%</td>
<td>9.5%</td>
<td>42.8</td>
</tr>
<tr>
<td>PRICE GAPS:</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Price Gap</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0</td>
<td>0.0%</td>
<td>42.8</td>
</tr>
<tr>
<td>Price/Quality Gap</td>
<td>20.0%</td>
<td>25.0%</td>
<td>14.6%</td>
<td>58.3</td>
<td>14.6%</td>
<td>58.3</td>
</tr>
<tr>
<td>Current Available Market 3 (CAM3)</td>
<td>58.3%</td>
<td>52.3%</td>
<td>58.3%</td>
<td>58.3%</td>
<td>17.4%</td>
<td>58.3</td>
</tr>
<tr>
<td>DIST/AWARENESS GAP:</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40.0%</td>
<td>40.0%</td>
<td>23.2%</td>
<td>23.2%</td>
<td>93.3</td>
<td>17.4%</td>
<td>93.3</td>
</tr>
<tr>
<td>TOTAL UNSERVED MARKET</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>65.0%</td>
<td>65.0%</td>
<td>65.0%</td>
<td>65.0%</td>
<td>66.6%</td>
<td>308.9</td>
</tr>
<tr>
<td>SERVED MARKET</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[ Current Available Market 4 (CAM4) ]</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>140.0</td>
<td>31.4%</td>
<td>141.1</td>
</tr>
<tr>
<td>PROMOTION GAP (2)</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) 20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>80.0</td>
<td>80.0</td>
<td>18.4%</td>
<td>82.8</td>
</tr>
<tr>
<td>FIRM SALES (3)</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) 15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>60.0</td>
<td>60.0</td>
<td>13.0%</td>
<td>58.3</td>
</tr>
<tr>
<td>SHARE OF SVD MKT (4)</td>
<td></td>
<td></td>
<td>CAM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) 42.9%</td>
<td>42.9%</td>
<td>42.9%</td>
<td>96.4%</td>
<td>41.3%</td>
<td>96.4%</td>
<td>41.3%</td>
</tr>
</tbody>
</table>

Exhibit Footnotes

1. Each gap is subsequently adjusted downward in size by applying it only to Industry Sales remaining after subtracting all previous gaps. See discussion in the paper.
2. Promotion Gap is a residual of (current Firm Sales minus Served Market)
3. Firm Sales are given for current year and projected by the model for Year 3.
4. Example projects a modest decline (~1.7%) in share of served market, assuming no promotion strategies planned.
FIGURE 6. Leveraging company sales through the acquisition (how 13% + 13% might add up to 35%) combined market profiles, including synergistic benefits.
Consider how each potential consolidation might help the combined organization move toward becoming the premier competitor.

trial companies, the specific components ("gaps") of PMA market profiles and the application of the approach to help plan market share growth have been significantly modified, refined, and enhanced. A number of new uses for PATHMOD have also been developed. A full-scale version of the enhanced model is presented in a recent issue of Industrial Marketing Management [36]. Empirical evidence shows that application of PATHMOD can project a close approximation of growth anticipated from planned marketing strategies [37].

The essence of the PATHMOD framework is that it treats marketing mix elements [38, 39] in a hierarchical manner (Figure 3 A–C). The resulting format is referred to as a PMA market profile. Each PMA market profile provides a compact visual and quantitative summary of the share growth opportunities available for a company in a targeted segment. More specifically, a profile summarizes growth opportunities ("gaps") related to captive sales, breadth of product line, price positioning, distribution effectiveness, and promotion.

Identifying PMA Market Profile Gaps

To start building a PMA market profile, the planning team first segments the relevant market and then estimates current annual industry sales (IS) and the firm’s sales (FS) for the target segment. For prospective merger partners, it is important that both companies begin with similar product market definitions and boundaries, so that market size estimates and subsequent projections do not conflict. This can best be accomplished as a cooperative process among key marketing personnel from both companies. Fewer conflicts are likely to result if primary shared markets are segmented and estimated according to benefits sought [e.g., 40]. Next, the planners of each company try to explain all portions of the overall competitive gap (i.e., industry sales minus firm sales). As the explanations emerge, they take the form of PMA market profile Gaps (or, simply, "gaps"). The challenges involved in identifying individual gaps and estimating their size have been considered elsewhere [36]. The first set of gaps together constitute the "unserved market" (USM). Each gap identified as part of the Unserved Market represents a potential share growth opportunity for which the company is not currently competing. Included in the unserved market are four fundamentally different kinds of gaps: captive sales, product, price, and distribution gaps (as shown later, the promotion gap is treated as part of the served market).

Appendix A reviews different types of PMA market profile gaps and provides general perspectives regarding gap identification and gap size estimation. A PMA market profile can have several gaps of each type (e.g., several captive sales gaps, several product gaps, etc.). In the compact summary and example presented here, however, the number of gaps of each type are kept to a minimum to focus coverage on how the hierarchical framework can provide marketing-related insights for acquisition analysis.

Applying PATHMOD for Merger Analysis

Applying PATHMOD for merger analysis begins by developing two PMA market profiles, one for company one (the acquiring firm, Figure 4, 1A), and another for company two (the merger partner, Figure 5, 2A). These profiles summarize the current weaknesses (i.e., gaps) of each company in the relevant market prior to the prospective merger. See the examples in Figures 4 and 5.

PROJECTING FUTURE MARKET PROFILES FOR EACH COMPANY—ASSUMING NO MERGER. Market profiles and related gaps are then projected for each partner for several years into the future (e.g., year 3), while assuming no new strategies by either company. Projecting these profiles stimulates planners to consider how the market itself is likely to change over the next several years, thus establishing a base for evaluating the effects of potential
Phase Two involves a micro-marketing audit and analysis of the core businesses of each company.

marketing strategies, including related potential marketing consolidations. Market dynamics incorporated within the projected profiles include forecasted changes in industry sales, demand patterns (e.g., different product variations, price sensitivity and competition, distribution modes, etc.), competition, technology, the economy, and other potential changes in the environment.

Building projected future market profiles (Figure 4, 1B, and Figure 5, 2B for the parent and merger partner, respectively) begins by projecting industry sales several years into the future (e.g., year 3) for the relevant market. Gap sizes are then identified and estimated independently for the parent company (Figure 4, 1B) and the prospective partner (Figure 5, 2B). Gap size estimates for the projected profiles (Figure 4, 1B and Figure 5, 2B) should assume no new strategies by either company, but should fully incorporate projected changes in demand patterns, competition, technology, etc., as described above (i.e., the most likely environment).

COMBINING THE MARKET PROFILES OF THE PROSPECTIVE MERGER PARTNERS. Once current and projected market profiles have been developed independently for the two companies, the challenge is to hypothetically combine them, while assuming alternative potential marketing consolidations between the partners. An example appears in Figure 6. Figure 6 presents the current market profile for the parent company today (Figure 6, 1A) and a new consolidated profile, assuming a merger between the two companies (Figure 6, 3B). The combined profile (Figure 6, 3B) assumes implementation of selected post-merger marketing consolidation strategies between the merger partners. As shown in the example, current and projected firm sales for companies one and two are similar before the merger (Figure 4, 2A, and Figure 5, 2B). Each company is shown with a 15% share (60 M units) in the current year. Assuming no new strategies, the share for each is projected to decline slightly to 13% (approximately 58 M units) over the next several years (by year 3). Therefore, were they to remain independent, the two companies together would account for a 26% share (c. 116 M units) in year 3.

The PATHMOD framework serves as a logical tool for directing the discussion regarding the likely synergistic impact of potential marketing consolidations between the prospective partners. For example, Figure 6 assumes a merger and some marketing consolidations between the two firms. In that example, joining companies one and two into company three yields a significantly higher market share of 34% (vs. 26%) and higher sales of 155 M units (vs. 116 M units) than if companies one and two continued as separate entities. The next section reviews the particular marketing consolidations assumed in the example and comments on their potential synergistic impact upon the combined company’s sales and market share. In the example, the gap reductions shown are assumed to reflect the planning team’s detailed discussion of the potential marketing consolidation alternatives uncovered in the broader based analysis in phase one.

Marketing-Related Synergistic Benefits Assumed in the Example

CAPTIVE SALES GAPS. Captive sales refer to sales not available to a company’s brand because of predetermined buyer commitments to competitors’ brands. Such commitments exclude simple brand loyalty, referring rather to phenomena, such as long-term contracts, compatibility requirements, specified requirements for brand choice diversity, or in-house allocations (e.g., General Motors reserving a certain portion of its parts business for GM owned affiliates). The example assumes that each firm has a projected captive sales gap of 10%, caused by long-term contracts in both cases.

Direct Benefit. Of the acquirer’s (company one) 10% captive sales gap, 3% was captured by the prospective partner (company two). Through the acquisition, there-
Comparative market profiles for the partners are joined to provide before-after quantitative perspectives on the would-be combined company’s market position and sales.

Before, company one’s projected gap will decline from 10% to 7%.

**Potential Synergistic Benefit.** Joining the two companies (into company three) may result in a firm that can bid more competitively, has better service and responsiveness, and is perceived as more stable by contracting agencies and the 7% of buyers making up the remaining captive sales gap. The example projects a 2% gain from these synergistic benefits, leaving combined company three with a projected residual captive sales gap of only 5%.

While the nature of and logic for the various gap size reductions in the consolidated firm (company three) are described and justified in this section, the specific size of gap reductions flowing from assumed marketing consolidations (vis a vis captive sales and all other gaps) are estimated through judicious interpretation of the planning team’s detailed discussion of each potential marketing consolidation alternative uncovered in the broader based analysis in Phase One.

**Tangible Product Gaps.** Tangible product gaps include relative brand weaknesses related to product dimensions such as size, capacity, technology, range of operation, specific tolerances, or other concrete measures regarding the physical, performance-related characteristics required by certain subsets of buyers. Color is a tangible product gap in the example. The acquiring firm (company one) is projected to have a 20% color gap in three years, versus a 12% gap for the merger partner (company two).

**Direct Benefit.** If the merged firm would continue to carry two separate brands, simple cross-branding or “private” branding by company two’s production facility to make its full spectrum of colors available to company one would result in a color gap for the merged firm of only 12% (i.e., the size of company two’s projected color gap). If the two brands are merged into one, the same benefit would result. If company one has special production requirements for its brand and/or company two has production capacity limitations, then production rationalization by the two companies could still yield the same residual color gap (12%) for company three, even without adding any new colors.

**Potential Synergistic Benefit.** Joining the two companies (into company three) may enable company three to rationalize its production facilities, concentrating the production of certain colors in certain plants, thereby freeing up production capacity. This new capacity could be used to broaden the spectrum of colors offered by company three. For more technical product gaps (none in this example), joining the research and development resources and expertise of the two companies to eliminate redundancies would free resources to develop appropriate responses to reduce important technical product gaps now projected. The example projects that three-fourths of company three’s color gap before production rationalization would be addressed by pursuing these synergistic benefits, thus reducing company three’s projected color gap from 12% to 3%.

**Intangible Product Gaps.** Intangible product gaps include relative brand weaknesses related to quality, service, aesthetics, etc. Service is an intangible gap in the example. The acquiring firm (company one) is projected to have a 20% service gap in three years, versus a 12% gap for the merger partner (company two).

**Direct Benefits and Potential Synergistic Benefits.** Merging and integrating two firms can provide several direct and indirect opportunities for improving service.
For example, a merger may enable moving production processes closer to customers, integrating physical distribution and warehousing, and realigning service personnel to specialized customer areas. All of these strategies would improve a company’s responsiveness to customers, thus enhancing service. Furthermore, the larger size of the merged firm and the consolidation of service resources and expertise can improve quality and responsiveness in company three’s dealings with customer inquiries, order taking, delivery, and postsales activities—all important overall elements of the service dimension. Reflecting such possibilities, and the fact that company two is already providing better service than company one (12% gap for company two versus 20% for company one), the example projects that company one’s gap will be reduced to only 8% in merged company three.

**Price Gaps.** Price gaps appear next in the market profile. A profile can have several different types of price gaps, for example, a low price gap, a price quality gap, and a composite of other price gaps related to discounts, special deals, etc. For example, that portion of industry sales accounted for by the low price segment of a market would constitute a low price gap for any company not having a product entry competitively priced for that segment. Sales lost to competitive brands specifically because a company’s product is not priced competitively within certain grades of the product line constitute a price quality gap. The example assumes that company one has two projected price gaps, a low price gap of 20% and a price quality gap of 15%, while company two has no low price gap, but a price quality gap of 25%.

**Direct Benefit.** Given that company two has no low price gap, the merged firm will participate in the low price segment without any changes, thus eliminating the low price gap for company three (0% low price gap).

**Potential Synergistic Benefit.** Joining the two companies (company three) may enhance the firm’s price competitiveness in several ways. First, the rationalization of production, distribution, warehousing, and servicing facilities plus new scale economies stemming from greater purchasing leverage and higher volume sales can all work to improve the firm’s cost structure. Trimming redundant facilities and personnel can further enhance the firm’s cost competitiveness. Also, Company Three’s improved cost position can enable it to compete more effectively on a price basis in price sensitive segments (i.e., improve share in low price segment). Furthermore, quality improvements brought about by rationalization and specialization can improve the firm’s competitiveness in value segments (i.e., reduce the company’s projected gap in the low, medium, and high-end value [price/quality] segments). With more potential brands in its mix, company three also has the alternative of repositioning specific current brands to compete more effectively in narrowly defined price segments. Also, with more production capacity, company three might have the option of targeting one or more brands (manufacturer’s brand or private distributor’s brand) specifically for price sensitive national accounts. The example projects a significant price/quality gap reduction from these synergistic benefits, leaving company three with a projected price quality gap of 10% and a 0% low price gap.

**DISTRIBUTION GAPS.** Several different methodologies can be used to estimate a company’s distribution gap. In situations where a company’s presence is considerable stronger in some sections of the country than oth-
ers (e.g., a significantly higher market share in the Northeast than in the Southwest), a “regional approach” is often useful for estimating the distribution gap [34, 35, 41]. In the example, company one is assumed to have better overall distribution than company two (projected gaps of 25% and 40%, respectively), but each firm is assumed to have its best distribution in a different region. For example, company one, with a 15% overall market share, may have a 25% share in the Northeast, but only a 5% share in the Southwest. Conversely, company two may have a 25% share in the Southwest but only a 5% share in the Northeast.

**DIRECT BENEFITS.** Through the historical strengths of individual partners in different regions of the country, the combined firm (company three) should have an opportunity to obtain good distribution in all regions. For example, company three may be able to extend some of company one’s historical strength with distributors in the Northeast over to the new product offering added by company two in the merger. Similarly, company three may be able to extend company two’s strength in the Southwest to company one’s offerings.

**POTENTIAL SYNERGISTIC BENEFITS.** Improving distribution in all regions is most likely to occur if company three actively takes advantage of potential distribution related synergistic benefits of the merger such as the following. Some distributors and national account retailers prefer to deal with fewer, larger suppliers. Company three will be in a better position than either company one or company two to compete for this business. Because company three will have smaller product, service and price gaps (see above), it will appeal to more and better distributors by offering a wider variety of products, more responsive service, and better value in pricing. The example projects a very significant distribution gap reduction from pursuing these synergistic benefits, leaving company three with a projected distribution gap of 10%.

**Promotion Gaps.** The proportion of industry sales remaining after subtracting the gaps for captive sales, product, price, and distribution is referred to as the served market in the market profile. The ratio of the firm’s own sales (FS) over the served market is referred to as the share of served market (SSM). Efforts to increase SSM, thus reducing the direct competitive gap, typically focus on refining and/or expanding promotion efforts. Therefore, this gap between the served market and the firm’s sales is labeled as the “promotion gap” in the market profile. The example assumes the two companies have similar direct competitive positions, with year 3 projected shares of served market of approximately 44% and approximately 41% for companies one and two, respectively.

**Direct Benefits and Potential Synergistic Benefits.** The merger will enable company three to consolidate promotion efforts for the brands of both company one and two. The best promotion personnel and programs from each firm can be combined. If any brands are consolidated, more promotional resources will be available for remaining brands. Sales increases stimulated through other consolidation efforts (already reviewed above) will make more promotion resources available to enhance promotion exposure, build brand loyalty, and more effectively communicate the many new improvements in company three’s marketing offerings (resulting from the merger, as described above). Both this improved attractiveness of company three’s market offerings and its increased promotion budget will enable the firm to negotiate with agencies and media for better promotion rates and placements. The larger company will also provide more opportunities for cross-promotions of Company Three’s broader market offerings. Reflecting all of these
opportunities for improved promotion, the example projects that these synergistic promotion related benefits will enable company three to improve its share of served market from slightly under the current 46% for independent company one to slightly over 50% for combined company three by year 3.

As indicated earlier, estimates of the specific size of gap reductions flow from the judicious interpretation of gap discussions in Phase Two combined with the planning team’s earlier detailed discussion of potential marketing consolidations during Phase One.

**BENEFITS AND LIMITATIONS**

Using a more structured premerger integrative marketing analysis can facilitate objectively evaluating the comparative marketing strengths and weaknesses of prospective partners. This, in turn, can expedite developing coherent consolidation plans to identify and take advantage of anticipated marketing synergies in more timely fashion—starting on the very first day of the merger. Using the proposed approach can provide the following benefits.

- It can help the parent company become more familiar with key marketing personnel, distributors, and customers of the potential partner before the merger. This familiarity, coupled with the specific marketing knowledge garnered through such contacts, can make it easier to integrate marketing more quickly once the merger is consummated. It can also help to establish communication links between key personnel of the parent and acquired firms, thus reducing anxiety and uncertainty about the transition period following the merger.

- It can give both companies a more objective view of each other’s actual marketing weaknesses and strengths, thus enabling the acquirer to set more realistic objectives vis a vis the likely realization and timing of post-acquisition consolidation and related synergistic marketing benefits. Such gains are realized most readily when the two parties work together to build and interpret market profiles.

- It can help planners to set timed objectives for consolidating specific marketing resources with an acquired partner. Subsequent monitoring of specific gaps as well as changes in market share can also help managers determine how well the merger’s performance is tracking against projections.

- It can help managers make more objective comparisons among alternative acquisition candidates.

- It can help realize more synergistic marketing benefits from previously consummated acquisitions, by using essentially the same two phase analysis as when evaluating prospective partners.

The structured scheme reviewed is no panacea for ensuring the success of marketing consolidation efforts, as that success is highly dependent upon a number of other factors as well. For example, coordinating the strategic objectives of the merger partners is highly desirable in order to build a spirit of cooperation in both planning and implementing marketing-related consolidations. Furthermore, well thought out, politically sensitive personnel planning is required to merge the skills and energies as well as to integrate the cultures and work ethics of key personnel in the two organizations [7, 8, 42, 43]. Eliminating functions or departments can pose particularly difficult challenges, calling for judicious redeployment of valuable personnel within the merged company and tactful downsizing through natural attrition and creative outplacement strategies. Strategic integration of the information systems of the two companies can also influence post acquisition performance [31]. All in all, however, when used judiciously, the procedures outlined can help firms assess potential merger partners more objectively and realize potential marketing-related benefits of an acquisition more readily.

**SUMMARY AND CONCLUSIONS**

In today’s fast-paced, environmentally dynamic, globally competitive markets, speed and innovation have become pivotal determinants of corporate success. In this environment, mergers and acquisitions have become an increasingly attractive strategic alternative. Thus, many of today’s mergers are driven primarily by strategic goals such as the quest for market access, new technologies, critical mass, and growth. Reflecting this transition, marketing synergy has become a more important element in the evaluation of potential acquisition candidates and in the integration of already acquired partners.

This article presented a two-phase approach for identifying, valuing, and prioritizing opportunities for marketing synergy related to proposed or consummated acquisitions. Used as a complement for more traditional financial analysis, the proposed approach can help improve the chances for more successful mergers and acquisitions.
APPENDIX A

PMA Profile Components and General Perspectives on Identifying Profile Gaps and Estimating Profile Gap Sizes

GAP ORDER. The summary of the framework presented in this article assumes the specific gap order shown. Because of the “chain ratio” or decomposition method used to adjust gap sizes, as one moves down the hierarchy of opportunities (gaps), the order in which a specific gap appears in the profile does not affect the incremental served market and the potential new market share represented by that gap. Therefore, if logic dictates, gap order can be modified without affecting the implications of the framework. Importantly, recognizing and including a specific gap does not in and of itself imply that the company should pursue the related share growth opportunity. Indeed, one important insight from PATH-MOD is to help the firm to prioritize alternative opportunities (i.e., gaps) in order to decide which, if any, are worth pursuing.

GENERAL PERSPECTIVES ON ESTIMATING GAP SIZES. The process of estimating gap sizes for the PMA market profiles is facilitated if one thinks about the size of each gap only for the industry sales remaining after all previous gaps have been subtracted from initial industry sales. For example, a firm should consider and calculate price gaps only for portions of industry sales accounted for by product line elements offered by the firm (i.e., for portions of industry sales for which the firm has no captive sales or product gaps). Depending upon what assumptions are appropriate regarding the independence of each gap, a gap appearing lower in the market profile may or may not apply equally to industry sales above and below that specific gap (see discussion regarding “equal proportional dependence” elsewhere [36]). When estimating gap sizes initially for any profile, a conservative approach is recommended—favoring smaller gap size estimates. As one gains more familiarity with the process of building PMA market profiles, and as related data inquiries expand, the accuracy of a firm’s profile data quite naturally improves, thereby providing more credible and useful strategic insights from the profiles over time.2

Most often, a well-designed marketing planning team can develop reasonably good initial market profile estimates in short order by drawing from its own collective experience. A systematic plan can then be developed to gradually improve key data over time. For example, in most product markets, the marketing team has ready access to informal networks of key brand specifiers (e.g., distributors and end users) that selected team members can query on a regular basis as a normal part of ongoing business relationships. Through a formalized plan to take the pulse of key specifiers as an integral part of doing every day business, the marketing team can gain better information each operating period on key profile parameters. One of the initial benefits that can be realized from applying the hierarchical audit process is that market profiles themselves can provide important insights for determining which data estimates are most important and which are relatively unimportant—thus helping to make subsequent formal market research inquiries more focused and efficient.

GATHERING INFORMATION FOR ESTIMATING GAP SIZES OF ACQUISITION CANDIDATES. Part of the process of estimating the shortcomings (market profile gaps) of a company’s own marketing offerings involves trying to objectively compare the firm’s brand(s) against individual competitive brands. Therefore, the company’s research used in building its own profiles can provide a useful starting point for developing comparative market profiles for competitive brands (i.e., prospective or actual partners). To supplement this information, an ideal situation for the acquiring firm is to have open access to key marketing personnel, distributors, and customers for each of the acquisition candidate’s key product markets. The acquirer can then systematically query these groups by using the framework to complete the market profiles for each relevant product market segment of the candidate. Even in friendly acquisitions, this process can be useful, as it helps to ensure an objective assessment of the real marketing strengths and weaknesses of the candidate—framework. Alternatively or additionally, the planning team can run simulations by using risk analysis software programs (e.g., @Risk software, Palisades, Inc.) to estimate the values of the variables. A Bayesian learning model approach similar to those used to model the information integration process in marketing science and consumer behavior can also be used to update and improve opportunity size estimates over time. Furthermore, game theory can also be used to systematically evaluate a wide range of potential competitive reactions in the analysis—within the constructs of the hierarchical share planning framework. For further discussion, see reference [36].
rather than making unwarranted, and sometimes presumptuous, assumptions.

Unfortunately, in many situations, access to key internal marketing personnel and closely linked distributors may not be available (e.g., in hostile takeovers). In such instances, the acquiring firm can again start with the research used to build its own profiles, as this already incorporates indirect estimates of the weaknesses (gaps) of each competitor. Carefully structured field interviews of the acquirer’s own customers and distributors can provide supplementary inputs for making gap estimates for the relevant competitor’s brand(s). Useful secondary information may be gathered through actively monitoring press clippings, government reports, trade journals, business and technical journals, 10-Ks, annual reports, Dun & Bradstreet reports, and outside industry experts. Active information gathering at trade shows can also be very insightful. Competitive intelligence gathering is being further leveraged by the information revolution, especially through the proliferation of public and private computerized databases. Today, the Internet and various on-line business information services facilitate gathering this information, and now virtually any company can easily gain direct access to these sources or farm out this work to competitive intelligence professionals [for further discussion, see 28, 44–47].

For more background on the hierarchical market audit process, including further discussion on identifying gaps and estimating gap sizes, refer to reference [36].

REFERENCES