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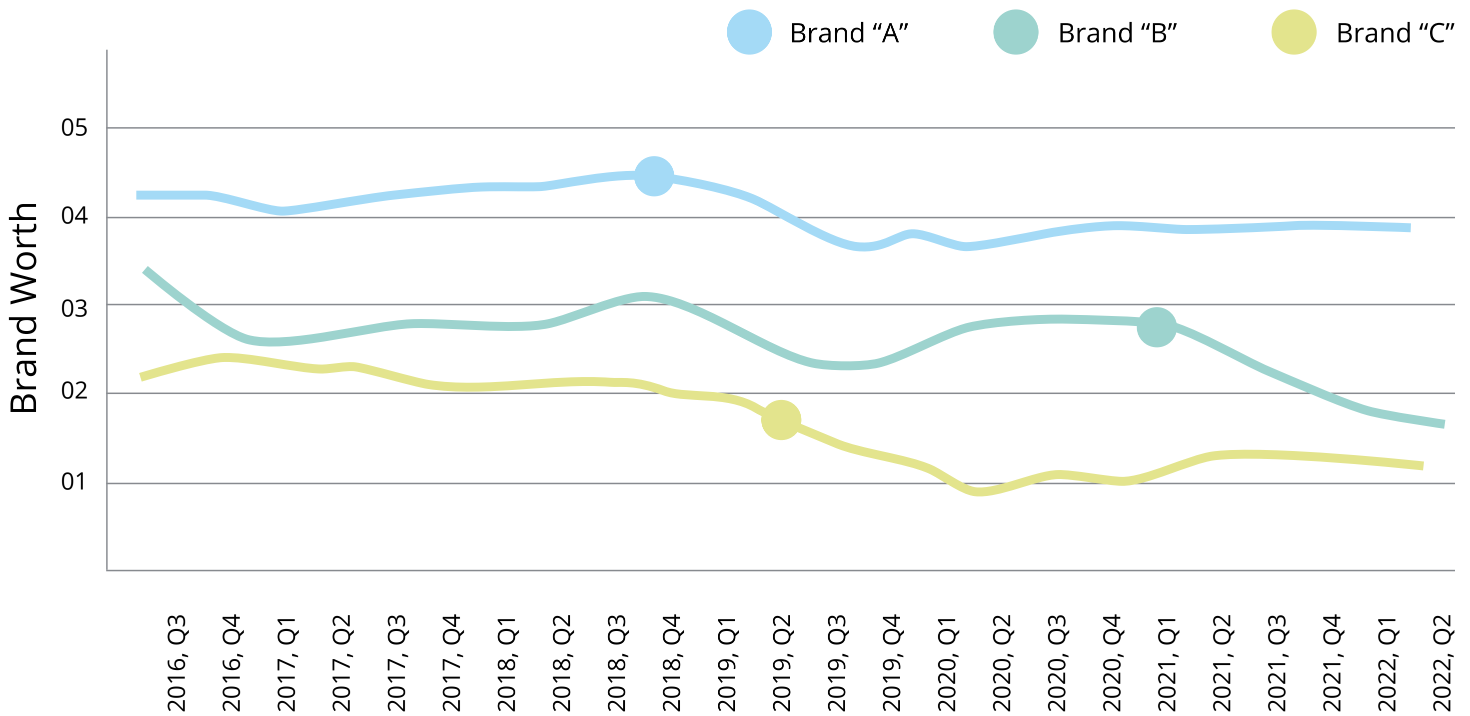
BrandWorth™: Branding in M&A for growth

Build your brand as a financial asset, not just a marketing tool

There is no magic formula for creating a brand. Like any other process within M&A, branding is not a math problem with a single correct answer. Instead, there are many paths to success. In any merger or acquisition, the brand name and, or visual identity should eventually become part of the conversation. Why? Because one of the best ways to communicate a shift in strategy is with a brand. In addition, a brand's name will be the most-used brand asset and will inevitably hold the majority of a brand's financial value. Brand naming is serious business - and a brand name does not have to be the same as the entity's legal name.

Naming a new company brand will have long-term implications on an entity's success and re-naming an existing brand can be even more high-stakes.

Regardless of the scenario, a new name is often a shock to brand equity. The chart below shows three examples of brands which changed their names (moment of name change represented by the circle). BrandWorth, our proprietary metric, combines a myriad of strengths and attributes into a single score that helps quantify brand equity. The key takeaway from all three examples is that a new name is hard on a brand, so it's imperative to get the right name the first time.



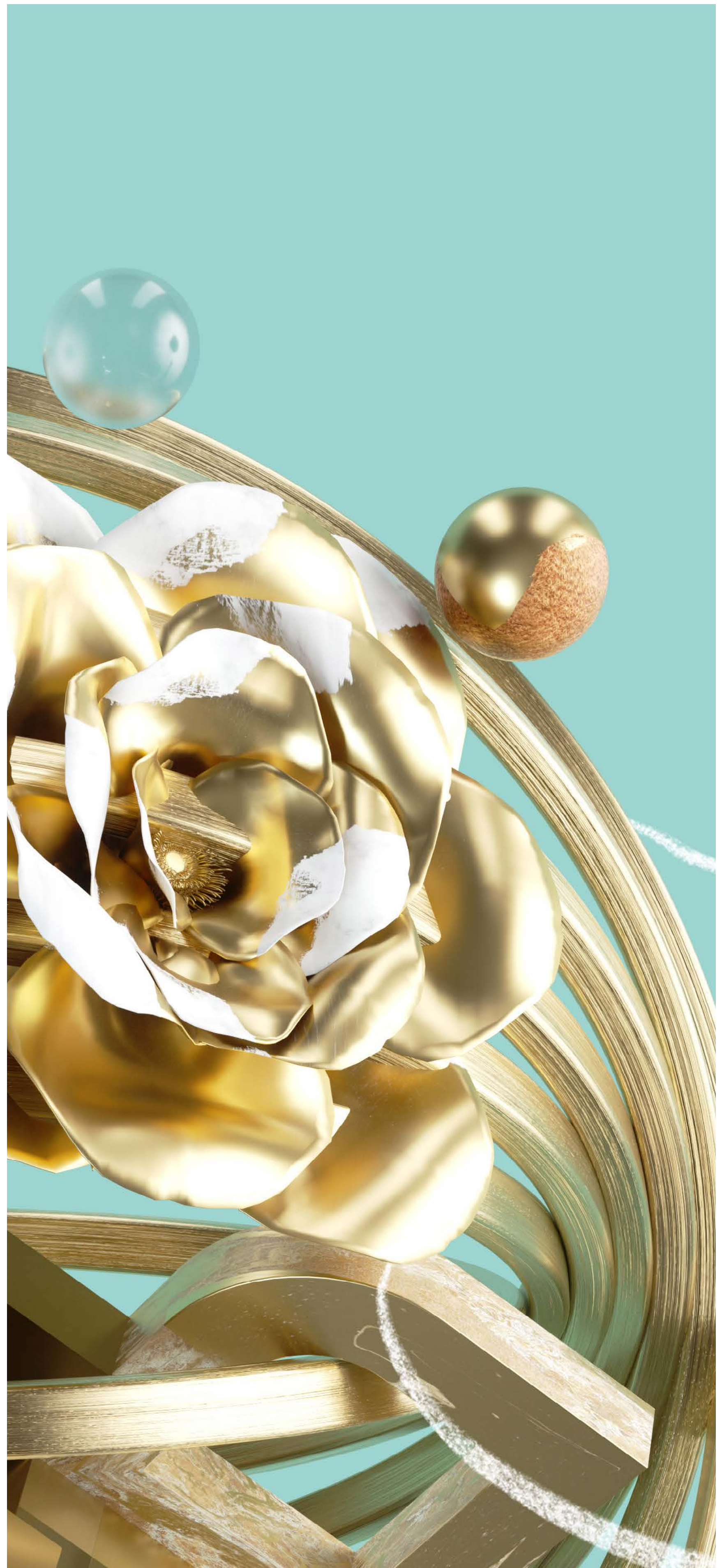
From our perspective, a great brand name begins with a clear brand strategy rooted in a deep understanding of the 4 C's.

- **The Customers' needs:**
  How are customers engaging in the category? What are their values and what do they care about? What are their search patterns when shopping? What analog brands catch their attention? How can we use this to inform the name?

- **The Category differentiation:**
  How are direct and indirect competitors named? Is the category a 'sea of sameness' when it comes to naming? Is there an opportunity to disrupt with a name, or are those codes in place for a reason?

- **The Company truth:**
  What is unique about a product or service? Is there a special ingredient or heritage that can be leveraged? Is there an existing brand architecture or naming framework that should be maintained? How can we use this to create an ownable name?

- **The Cultural opportunity:**
  Are there any macro trends that are shaping the world? What, if any, role can or should the brand play in these in the long run? Should the name reflect this position?



Once the team has worked through these questions, there are still important choices to be made. **Namely, no pun intended, what to do with the brand name.**

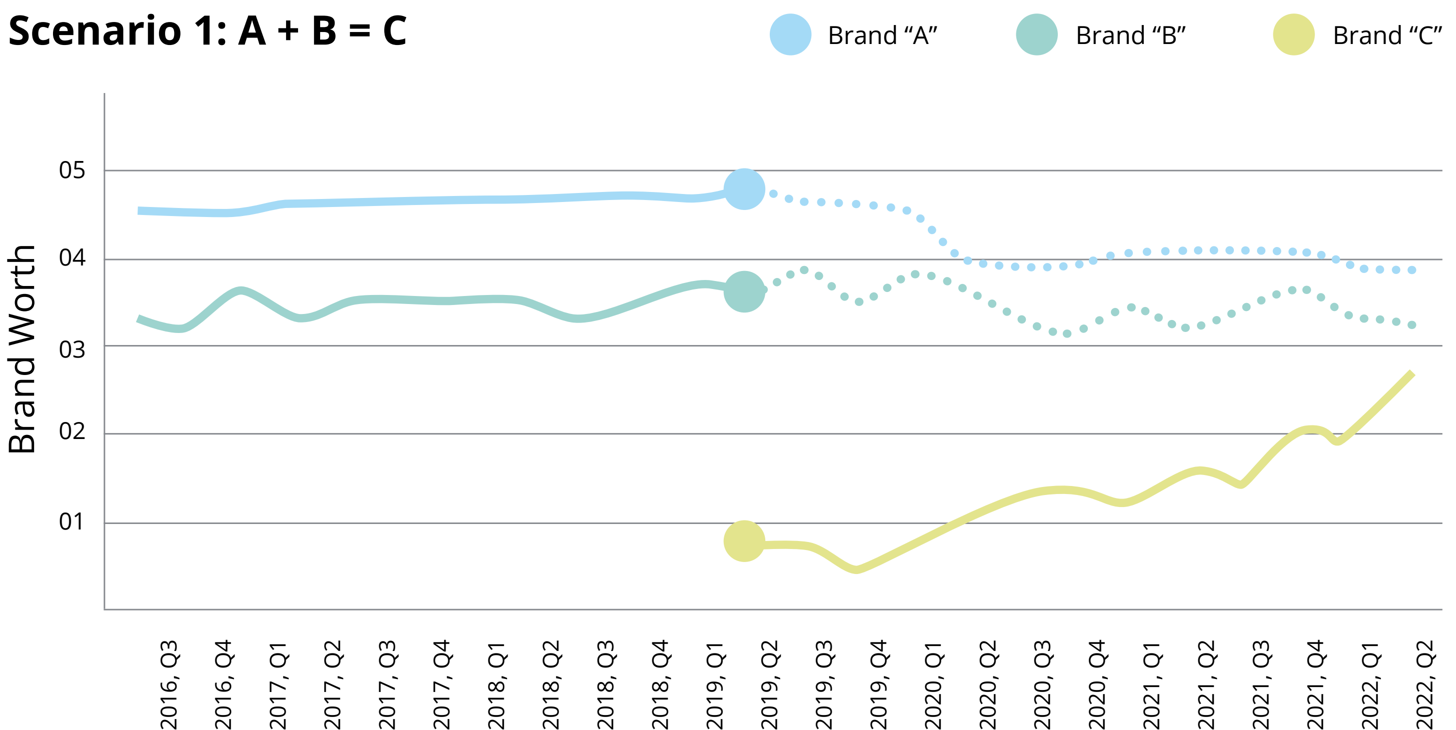
This is where challenges and tensions often arise. Branding is emotionally charged - it's this emotional resonance that gives brands their power over customers, employees, and partners. An entity's name drives customers' perceptions, market identity, and company culture. So it's no surprise when a team representing the acquired organization feels their name carries important meaning. And it's also to be expected that an acquiring organization's team may struggle to harmonize a newly acquired brand within an existing portfolio.

It's in these emotionally-charged moments where we are fans of ruthless objectivity and data, leaning on BrandWorth. It allows organizations to remove some of the subjectivity and emotion and instead make choices that best use existing brand equity and enable the new entity to grow further. Below, we've outlined the two most common M&A naming scenarios, along with potential considerations for organizations opting to take each path.

Scenario 1: A + B = C

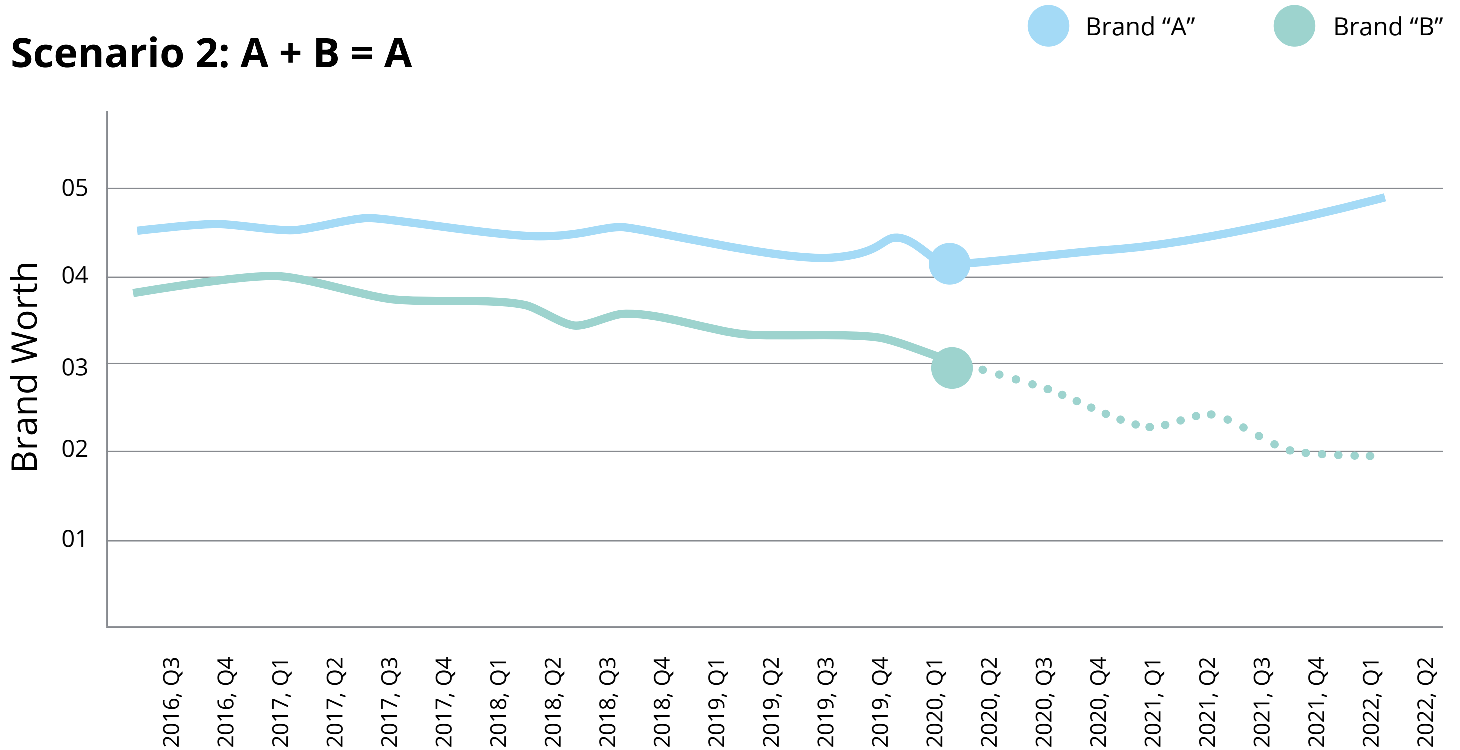
In this scenario, there are two merging entities which both go to market as a new entity (Brand "C"). While each organization brings its own unique strengths to the table, as you can see below, there is one brand with more equity (Brand "A"). The newly merged organization made the choice to develop a new company with a new name and visual identity which eliminated any existing brand equity. Even three years after this new company was launched, and in this case with substantial media weight announcing the shift, Brand "C" still has equity scores lower than pre-acquisition Brand "A" or "B." Note how brand equity continued to persist for the Brand "A" and "B" in market even after the launch of new company Brand "C." It's important for M&A teams to account for the opportunity costs associated with brand equity erosion, and the media costs associated with announcing a new brand and achieving enough awareness to grow efficiently before making the choice to move forward with this scenario.

However, there are times in which this approach provides immeasurable opportunities. For example, it can be freeing to build a new brand if both entities have vastly different cultures or will require repositioning in order to deliver on the business strategy. If the merger represents a substantial shift in strategy or market positioning, a new name may be required to ensure this is believable to customers and the market.



Scenario 2: A + B = A

Compare the prior scenario with this one, where the two merging entities align on the strongest brand name. In this instance, the weaker brand (Brand "B") brought operations and market penetration strengths but had always lagged in brand equity. After the acquisition, they both went to market as Brand "A" and were able to achieve an outsized impact and grow appropriately. Note how brand equity grew slightly for both brands ahead of the merger due to a strong PR strategy and then Brand "B" equity faded quickly in comparison with our prior scenario. While this approach is often a great way to leverage the value of the brands most efficiently, it's not without costs like revising messaging and harmonizing brand experience.



Each scenario brings strengths and considerations.

While the second scenario may appear to be the best way forward on paper, there are times in M&A when a new company scenario provides immeasurable opportunities.

For example, it can be freeing to build a new brand if both entities have vastly different cultures or will require repositioning in order to deliver on the business strategy. Regardless of the approach taken, the most important thing is to make choices that best use the existing equity and enable the new entity to grow further.

Based on our research, it takes approximately three to five years to build brand equity for a new brand name, and having the right name can make a big difference in how quickly equity is accumulated. No matter the strategic direction chosen, it's important to remember that the highest-performing brands have a clear brand strategy rooted in a deep understanding of the 4 C's: the Customers' needs, the Company truth, the Category differentiation, and any role the brand can play within Culture. This will help ensure a name will drive long-term, enterprise value.

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A great name begins with a clear brand strategy rooted in a deep understanding of the **4 C's**.

1

The Customers' needs
How are customers engaging in the category?

2

The Category differentiation
How are direct and indirect competitors named?

3

The Company truth
What is unique about a product or service?

4

The Cultural opportunity
Are there any macro trends that are shaping the world?

Contacts

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Sources

1 Source: BrandWorth, 2022

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