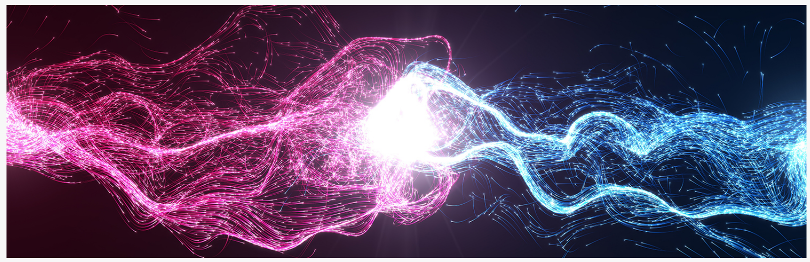
Understanding Revenue Synergies for a Successful M&A Strategy

A thorough understanding of revenue synergies is necessary for any company intending to formulate an M&A strategy that maximizes revenue.


M&A Revenue Synergies

LONG BEACH, CA, UNITED STATES, September 8, 2022 /EINPresswire.com/ -- What Is Revenue Synergy?

Companies engage in mergers and acquisitions with the expectation that the merger or acquisition will generate more revenue than the entities would when operating separately. Simply put, they hope the whole will achieve greater results than its parts.

This excess revenue generated by the combined company following a merger or acquisition is called revenue synergy. Revenue synergy mutually benefits both the target and acquiring companies.

The target company may capitalize on the idea of revenue synergy to ask the acquiring company for a heftier premium because they expect that the funds will ultimately add to the revenue of the acquiring company.

On the other hand, the acquiring company may negotiate with the target, indicating that the increase in sales the target company will see following the transaction more than offsets a lower acquisition price.

How to Calculate Revenue Synergies

To calculate revenue synergy, business owners can add the revenue of the two businesses before the M&A and compare it to the total revenue afterward. The difference between these numbers is the revenue synergy.

For example, Business A makes $20 million in revenue, and Business B makes $10 million. If the total revenue of Business AB following the merger or acquisition is $40 million, the revenue synergy is $10 million.

How to Achieve Revenue Synergies?

While generating revenue synergies seems simple and viable in theory, synergies depend on many uncertain assumptions. These include cross-selling, market expansion, proper integration, and the introduction of new products. These factors affect how much revenue synergy the combined company can achieve.

Following a merger or acquisition, companies must often implement and coordinate new workflows and strategies for the new combined entity. The systems that were effective for the individual companies may no longer work for the merged business.

Despite the obstacles, achieving revenue synergies is possible. Follow these best practices that can increase your company's chances of attaining revenue synergy following an M&A:

- Identify potential areas for the creation of revenue. Before a merger or acquisition, a company must understand where to create revenue synergy by identifying areas where they can make additional income.

- Allocate responsibility. Company leaders and operators must allocate responsibility from the beginning of the merger or acquisition and understand their role in the process.

- Conduct a customer-level analysis. This analysis may consist of polling customers about what products they need or how much they currently trust the brand. This information will be valuable during market strategizing for the combined company after the M&A, particularly if the company plans to rebrand or offer new products.

- Keep the sales team in mind. A company's strategy to achieve revenue synergies must consider current employees' capabilities and skill sets, particularly the sales team. It is advised to track how long sales employees take to sell any new services or products the combined entity offers.

- Set transparent targets. Setting clear goals and targets for the combined entity following the M&A helps increase revenue synergy and allows the company to identify areas of growth or problem areas.

- Incentivize employees. Companies may wish to design financial incentives for employees as a way to drive synergy. It is essential to show your employees appreciation during periods of change, especially with high employee turnover rates and more employees working remotely.

- Support proper post-acquisition execution. Many elements change after an M&A, which tends to cause worry for investors. The combined entity may want to elect executives from both companies to form a single coordinated task force responsible for communicating and coordinating with each company's stakeholders to minimize investor concerns.

- Track and measure performance post-M&A. Following a merger or acquisition, companies should plan to track leading metrics (focused on inputs) and lagging metrics (focused on the outputs generated by the inputs). An M&A offers a company the unique chance to look into its operations, staffing, and technology to track how internal changes affect key revenue metrics.

Examples of Revenue Synergies

Disney's acquisition of Pixar is an excellent example of creating revenue synergies. In 2006, Disney acquired the animation studio Pixar in a deal that benefited both companies.

Before the acquisition, Disney's revenue was $34 billion. The company's revenue increased to nearly $41 billion only 5 years after the merger. Even though the S&P 500 dropped during this period, Disney's stock price rose.

Disney's acquisition of Pixar resulted in revenue synergy for many reasons:

- Because Disney was such a large company, Pixar was able to create popular, revenue-generating movies regularly after the acquisition.

- Disney's massive distribution network allowed more people to view Pixar movies and animations.

- Disney has stores worldwide, giving Pixar a built-in platform for selling merchandise featuring its characters after the acquisition.

- Pixar's characters were promoted at Disney theme parks worldwide for additional exposure.

While this example applied to a large, worldwide company, similar principles also apply to smaller private companies. If you are considering an M&A as a private business owner, you can examine your potential revenue synergies with your goal to maximize revenue.

Maximize Revenue Synergies

Whether buying, selling, or merging your private business, Choose an M&A firm that can help formulate and manage your M&A strategy to maximize revenue synergies. Select a firm with expert services, including financial and tax due diligence, cash flow and financial modeling, working capital analysis, business structure planning, and EBITDA analysis.

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