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Capturing cross-selling synergies in M&A

Cross-selling is a leading source of post-transaction revenue synergies, requiring deep commitment and understanding of the opportunity and how to execute on it.

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When companies look for synergy potential in deals, they tend to focus on costs. After all, cost synergies are more straightforward to estimate than revenue synergies and often pay off quickly after Day 1. Revenue, or growth, synergies are more complex and take longer to capture. But, with deal multiples at record highs, capturing revenue synergies is essential to ensuring that transactions meet shareholder expectations.

Our research suggests that cross-selling—delivering products and services traditionally sold to one set of customers to another set of customers—is a powerful way to realize revenue synergies. Our prior research found that cross-selling accounts for approximately 20 percent of the value companies derive from revenue synergies.

However, merging firms often underestimate the difficulty of realizing this potential. Fewer than 20 percent of the organizations we polled in the M&A space achieved their cross-selling goals (Exhibit 1).

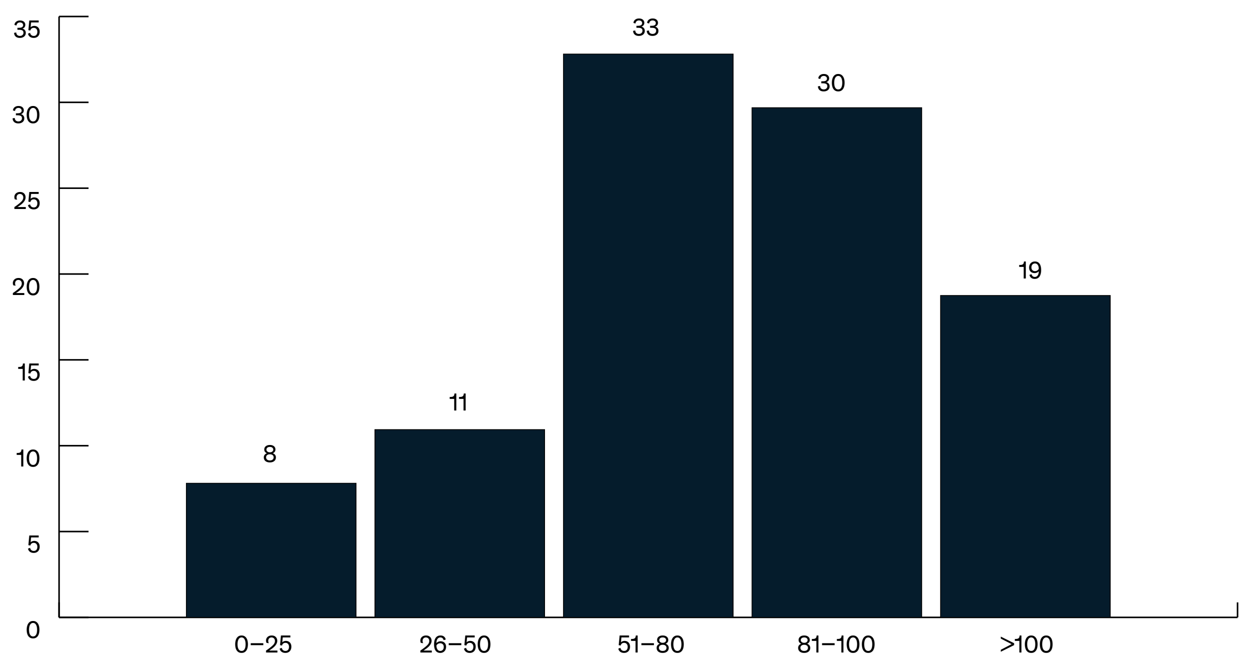
Why are cross-selling programs so hard to implement in M&A situations? The difficulty starts with the challenges inherent in realizing revenue synergies in general. These synergies usually involve multiple functional groups; they're difficult to estimate up front; and their ultimate financial impact is tough to measure.

A recent study we conducted found that many companies fall short of their revenue synergy targets. On average, the gap between goal and

Exhibit 1

Total cross-sell potential achievement achieved (as % of target)

Companies by cross-sell synergy attainment,[1] %



[1] Defined as a % of total cross-sell target. Figures may not total 100% due to rounding.
Source: 2020 McKinsey cross-sell survey

result is approximately 20 percent, and capturing the majority of synergies takes three to five years (Exhibit 2).

Yet, some companies do this well.

To better understand what successful cross-selling initiatives in merged organizations require, we surveyed more than 75 seasoned M&A executives across 12 industries who have significant cross-selling experience. We set out to answer the question: How can companies achieve cross-selling success?

This research suggests focusing on six core dimensions—the “six Cs” discussed in the coming pages—that can provide a strong sense of the cross-selling opportunity a merger represents and increase the odds of capturing the opportunity:

— *Complementarity.* How well do the companies’ accounts, products, and services complement one other?

— *Connection.* Do we have strong customer relationships to build on?

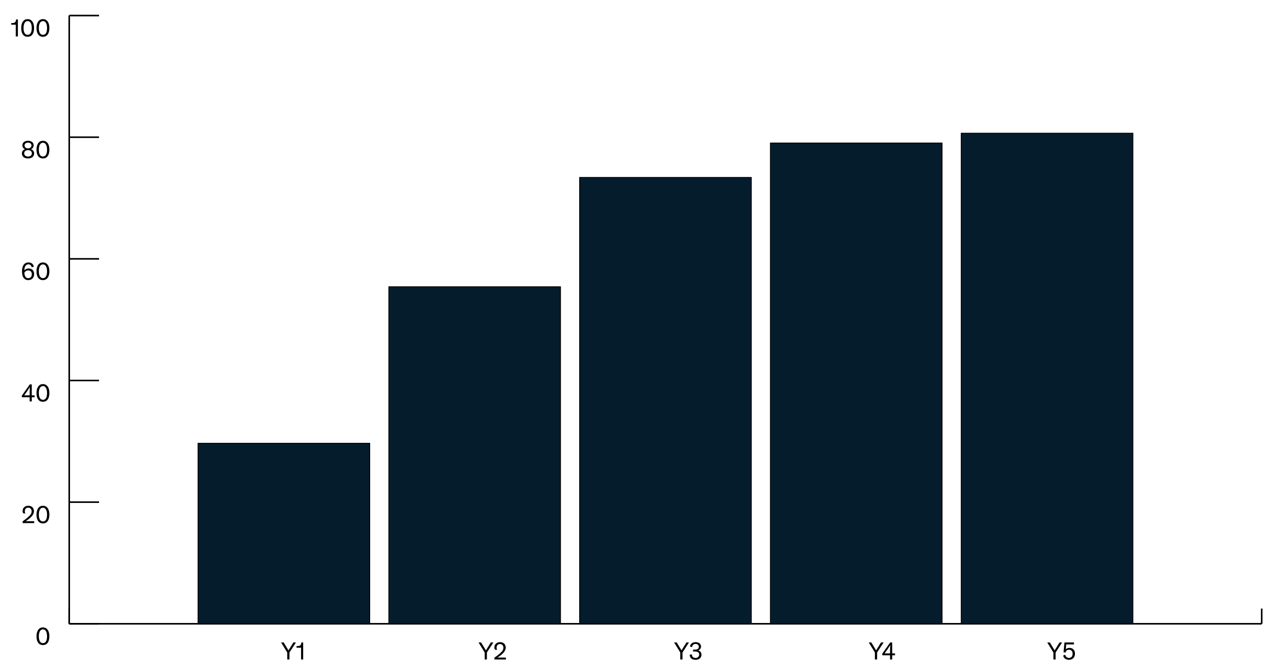
— *Capacity.* Can the salesforce focus on cross-selling?

— *Capability.* Does the salesforce have the skills for cross-selling?

Exhibit 2

Total cross-sell potential achieved by year

Average of cross-sell synergies captured out of end-state total, by year (run rate), %

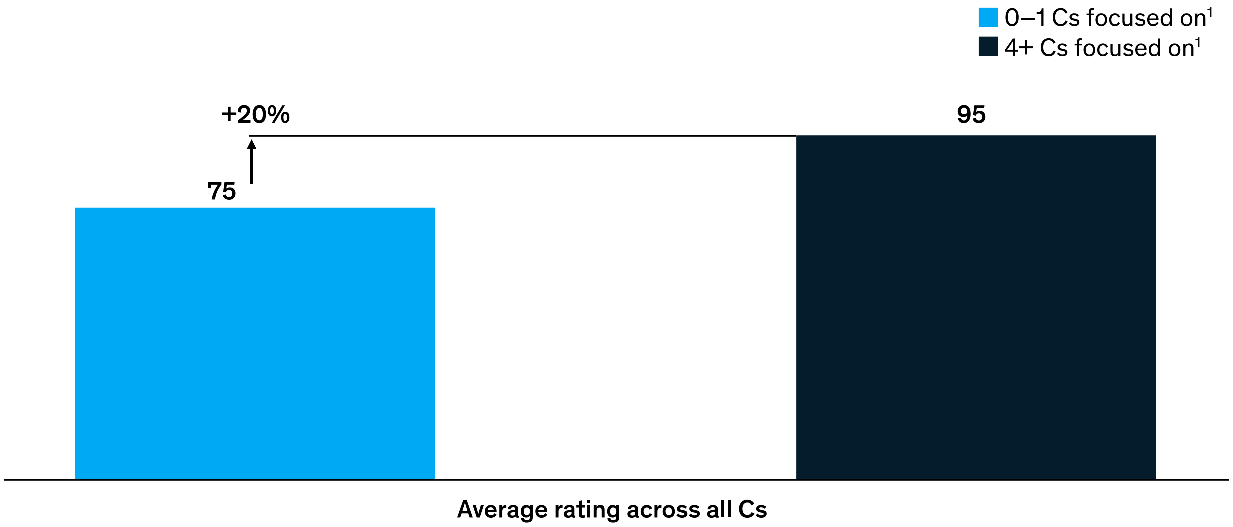


Source: 2020 McKinsey cross-sell survey

Exhibit 3

Financial impact of focusing on more of 6 Cs

Attainment of cross-sell aspiration, by number of Cs addressed, %



[1]Rating defined as how much focus the factor received during planning or execution, on a scale of 1-10; focus defined as >7
Source: 2020 McKinsey cross-sell survey

— *Compensation.* Does the company provide the right incentives for cross-selling?

— *Commitment.* Is the company committed to cross-selling?

Our research indicates that the companies with the greatest cross-selling success focus significantly more on the six Cs than other companies do. The organizations that focus systematically on more of these six core dimensions outperform those that focus on one or none by more than 20 percent (Exhibit 3).

In other words, a systematic focus on the six Cs is a hallmark of the most successful cross-selling programs. This systematic approach should include a review of each of the six Cs and its potential impact on cross-selling success.

Complementarity: How well do the companies' accounts, products, and services complement one other?
In a merger, the size of the cross-selling opportunity correlates directly with the potential to take existing products to new customers and the potential to take new products to existing customers.

The more the two companies' products and customers complement each other in those two respects—creating the potential for new product bundles, for example, or access to previously unreachable customers—the more value the combined organization can realize from cross-selling. Indeed, the top performers in our research sample call complementary offerings the most important factor in capturing revenue synergies successfully.

While M&A teams can generally evaluate overlap in customers or products, they tend to overestimate the potential complementarity of products. That optimism usually stems from insufficient understanding of the complexity of products and limited customer validation—in other words, how customers buy and use the two companies' products and services.

Equally important is evaluating customer overlap. Naturally, the more that the deal can capture unique customers currently being overlooked by both companies, the greater the potential.

Furthermore, products that are notionally complementary require executional planning. This includes defining a new, compelling pitch that will inspire commercial teams and customers alike.

In our experience, companies do not always take these crucial steps. One M&A executive saw the impact of this oversight firsthand. When a media company strong in cable bought a telecom company that was strong in mobile, the key draw was the presumed cross-selling opportunity created by the limited overlap in the two organizations' offerings and customers.

But after the deal closed, management realized that the mobile relationship was the stickier of the two. While the combined company could sell cable to mobile customers, it struggled to sell mobile plans to cable customers. As the chief sales officer admitted: "We should have done a lot more customer research to validate the cross-selling opportunities. We would have discovered that people did not want to change their mobile provider."

Connection: Do we have strong customer relationships to build on?

One executive we interviewed said it best: "Emphasize current trusted client relationships on which to build cross-sell opportunities. The stronger the relationship, the more successful the cross-sell."

The difference between having a strong relationship with the account and with the specific buyer can have significant impact on success. One technology services company achieved an 80 percent cross-selling rate within a year of the merger at accounts where salespeople had strong relationships with relevant decision-makers. Accounts where the reps had to sell to unfamiliar people took about 18 months longer to achieve similar results as the reps had to build relationships.

Even with a strong relationship, sales leaders need to understand the new product's relevance to decision-makers and build credibility and trust in the new space. All too often, we find untested or inadequately tested assumptions on relationship strength and product uplift.

Consider the example of a consumer products manufacturer that enjoyed cross-selling success across multiple acquisitions. As the lead executive observed: "It worked when we had a super-strong relationship (looking at historical sales, growth, and distribution). If it was only a transactional relationship, it didn't work and actually created more risk."

Starting as early as due diligence, sales leaders need to assess the strength of existing relationships and product relevance at an account or segment level, using both art and science. Quantitative metrics like legacy sales and growth, product breadth, and sales rep tenure, combined with strong qualitative understanding of accounts, can lend credence to market-share-based uplift assumptions.

Capacity: Can the salesforce focus on cross-selling?

Sales teams have finite sales capacity and limited attention from customers. Determining whether they have the capacity to cross-sell requires considering the existing commercial priorities, product assortment, and sales plan, and weighing those factors against the benefits of introducing a cross-selling program.

As one M&A executive explained: “Salespeople have a certain capacity for how much they can and will sell. To increase that capacity, you have to give them tools that allow them to do so. Without that, you will simply replace sales, not increase them.”

Leading organizations look hard at the feasibility of introducing a cross-selling program and visualize the effort and reward involved for each salesperson to make it happen. They evaluate three aspects in particular:

— Individual salespeople’s ability to prioritize the program and make the cross-sale material relevant enough relative to other products to get attention

— The priority, embedded in the sales quota, of selling other products

— The ease of introducing other products into customer conversations

Not every cross-selling scenario appeals to all reps. Creating the right focus requires careful orchestration and consideration of precise activity during the launch.

One medical device company integrated cross-selling into the base quota of the salesforce, ensured that the new product bundle was part of the “focus” category of top-tier products, and launched at a time without significant competing new introductions. Not surprisingly, the products performed above expectations and set a new standard.

Capability: Does the salesforce have the skills for cross-selling?

Companies often make assumptions about what a sales team *could* sell without objective assessment of the sales organization’s knowledge, skills, and experience. We have seen three cross-selling behavioral shifts that have proven especially challenging to navigate: transactional to consultative, product to solution, and farmer (account management) to hunter (account acquisition). In each case, companies have stretched the salesforce beyond its organic abilities.

To determine whether sales reps have what it takes for new cross-selling, sales leaders should understand the combined salesforce. They need to review new decision-makers and their needs, the new sales cycle, existing rep knowledge and skills, and the sales operating model, including teams, organization, and leadership.

Then sales leaders can plot the right course of action. This may include developing compelling materials and value propositions to enable competitive selling, launching training programs to give sales reps the needed technical knowledge, or building a specialized team dedicated to cross-selling.

During a new product launch, a beverage manufacturer learned through experience just how important the right sales capability is to cross-selling. The company first tasked the existing salesforce with selling the new product. This salesforce was accustomed to short-cycle sales of consumables, where reps had customer relationships.

But the new product required significant up-front investment, a different contracting model, and understanding of long-term customer economics. The company soon realized that the product required a different salesforce and found much more success with a specialized team that brought experience with long, capital-intensive sales cycles, additional financial skills, and the ability to work collaboratively with the legacy salesforce.

Compensation: Does the company provide the right incentives for cross-selling?

“Compensation drives behavior” is the mantra of executives everywhere. Almost three-quarters of the M&A executives we polled call incentives important or critically important to cross-selling success. But compensation alone will not achieve results. Success requires coupling a well-calibrated compensation plan with the right recognition programs.

Sales organizations often turn to sales promotion incentive funds, or SPIFs, for bonuses to motivate salespeople to do cross-sales on top of their existing quotas. But, if an incentive fund does not contribute significantly to retiring a rep's quota, it sends the message that cross-selling is nice-to-have, not a core priority.

For cross-selling campaigns to work, the compensation program must ensure that the cross-selling opportunity is economically attractive to salespeople relative to their existing sales plans, and reps are very quick to do the math. "It must not be optional," one sales leader said. "If you simply pay SPIFs, you will get the occasional sell. If you drive too big of a quota, you will get dilution of other sells." The size of the sale is the key differentiator: "If you ask a salesperson to take time to cross-sell something that is hard to sell and is only a tenth of the size of a 'normal' sell, you will fail."

Nonmonetary incentives are also critical to spurring sales people to make cross-selling a priority. Some companies require achieving a cross-sale quota to qualify for a recognition like admission to the president's club, while others may have the CEO present special awards to high-performing cross-sellers.

Such tactics are powerful motivators, celebrate the new behavior, and signal a clear priority. Leading companies also ensure that nonmonetary incentives apply equally to sales leadership, so their objectives align with their reps' objectives.

Commitment: Is the company committed to cross-selling?

A merger may be the first time an organization embarks on a formal cross-selling program. In that case, designing and launching the program requires building new organizational muscles and demonstrating leadership discipline and commitment. It all starts at the top.

Our research shows that commitment has the highest correlation with overall program success among the six Cs. The company must treat cross-selling as a distinct change program and apply the same rigor applied to other top strategic initiatives.

Commitment has three components. First, the company should make a senior, respected leader accountable for cross-selling and empower that person to make decisions with the full support of the business units involved. Appointing a de facto chief cross-selling officer, whether with real line accountability or in a short-term integration role, sends a clear sign that the C-suite stands fully behind the initiative.

Second, the company should embed cross-selling in its performance system. Clear, aspirational targets should cascade from the corner office to the front line and be woven into the fabric of regular sales performance dialogues.

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Detailed monthly dashboards of sales pipeline, quotas, and impact versus target, coupled with regular finance and account reviews by top management will ensure the focus and discipline required to achieve goals. The dashboards also provide the visibility needed to publicly celebrate the cross-selling wins that are critical to sustaining momentum.

In our experience, the ability to make early progress on cross-sell initiatives builds a sense of momentum. Done correctly, dashboards providing a timely view of performance can enable top management to take specific actions that drive this early progress.

Third, the company should establish and communicate critical support processes, such as revenue crediting, ordering, and customer support, to ensure a zero-frustration experience for sales teams. A focus on these dependencies is critical to ensuring seamless execution. After all, if you can't process an invoice, you certainly can't sell.

The internal path of navigation should be clear and smooth. Developing these processes may seem like a formidable undertaking, but options exist that the company can implement with simple spreadsheets and manual work-arounds, hardwiring the organization for cross-selling.

As the pressure to maximize the value of deals intensifies, knowing what differentiates a true cross-selling opportunity from wishful thinking brings a genuine competitive advantage. By understanding the six Cs of cross-selling and concentrating where these core dimensions are strongest, companies can spot the right opportunity and mobilize the resources to capture it.

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