INSEAD The Business School for the World®

KNOWLEDGE

Keeping Clients Post-Merger

Strong rapport between a firm and its client can be beneficial to both, but when a competing firm is brought into the equation it's this tight bond that can tear the relationship apart.

When advertising giants Publicis and Omnicom moved into advanced merger discussions last year, a hot topic around industry water-coolers (and boardrooms) was how, or if, two of the companies' biggest clients, competing soft drink conglomerates Pepsi and Coke could live together under one roof. Speculation may have been premature (the merger deal fell through) but the concerns were justified.

Thirteen years ago, Pepsi and Coke found themselves in the same situation. In 2001, when Interpublic Group of Companies (IPG), the advertising firm who held most of Coca-Cola's major accounts at the time, merged with True North, which counted Pepsi among its star clients, the tension was just as fraught. Prior to the merger both sides met with their respective clients to discuss ways of maintaining their separate 'space'. All seemed to go well but within months of the deal being closed Pepsi left, taking $350 million of its accounts to rival advertising conglomerate, Omnicom.

The potential for conflict between fierce competitors like Pepsi and Coca-Cola is hard to miss. Omnicom and Publicis called their marriage off, but many advertising firms continue to merge even when their clients compete with one another. This prompts the question: when mergers result in competing clients being served by the same advertising firms what can the merged entity do to keep everyone happy?

One would expect if the merging firms had tight enough ties with their key clients then they could be convinced that a merger is not only safe but actually beneficial for all, bringing new degrees of expertise and economies to the table.

In fact the situation is quite the opposite. Findings from my recently published study **Too Close for Comfort? The Effect of Embeddedness and Competitive Overlap on Client Relationship Retention Following an Acquisition** suggest that for some mergers, the *closer* the relationship between a client and the advertising firm, the more likely the relationship is to fall apart. When an advertising firm merger results in big increases in competitive overlap for clients, then more embedded (that is, closer) clients are more likely to leave. In embedded client relationships, trust and information sharing turns to feelings of trust betrayal and fears of information leakage which can make these relationships more prone to loss post-merger, not less.

When competitive friction ends a close relationship

The research included rigorous analysis of a sample of client relationships of advertising firms involved in mergers in North America and Europe in 2000 and a control sample of client relationships not

Copyright © INSEAD 2020. All rights reserved. This article first appeared on INSEAD Knowledge (http://knowledge.insead.edu).

involved in mergers. Data about the history of each client relationship dating back 20 years prior to the merger was collected and analysed to understand how long the advertising firm and client had been working together. The relationships were then tracked for three years after the merger to see which clients had stayed together.

In general the close, 'embedded' relationships were more stable, and less likely to be terminated than other relationships. However, when mergers occurred which brought competing companies together in the same merged portfolio, depending on the level of competition between the companies and how deeply embedded the relationships were, the stability of the close ties weakened. In fact, when competitive overlap was high, the more embedded partnerships were more likely to dissolve. Quite simply, the long-term clients – acting on a sense of trust betrayal or fear of information leakage to their competitors – took their business elsewhere.

While this study focused only on advertising firm mergers, this dynamic often plays out in professional service industries such as law, financial services and consulting, where clients have similar concerns about information leaks. Under normal circumstances, the private and sensitive information that is shared by close clients helps professional service firms serve these clients better. But when competitors to the client enter the picture, that private information sharing sets the stage for betrayal and fear of information leakage.

What can firms do to avoid the loss of clients in these situations? Clearly the solution is not to call off all mergers that involve competitive overlap. In my study, while advertising firms were not able to avoid the loss of close clients due to competitive overlap post-merger entirely, larger advertising firms were less likely to lose close clients in these situations than small advertising firms.

This is because larger firms were better able to put in place Chinese walls – information barriers implemented to prevent exchanges of information that could cause conflicts of interest. In the advertising context, these require separate agencies in the holding company – not only employees working on separate floors in the same agency. Smaller advertising firms are less able to keep competing clients at a distance and therefore are more likely to experience relationship breakdown.

When your growth and relationship strategies clash

With this in mind firms must look closely at the link between their M&A strategy and their approach towards client relationships. Compatibility with the way firms maintain relationships with key clients and the key vehicles they use for growth is critical. Managers can't look at one strategy without considering the other.

They must be aware of the client conflicts that can arise, and not fall into the trap of believing that because companies have been clients for years they will give them the latitude to work through initial post-merger problems or disruptions. Indeed long-standing clients are the ones that need the most attention as they are the ones who are most likely to walk away.

In other words, it is difficult to "date" others when already "married". A firm cannot have the benefits that come with deep trusting client relationships and still keep the flexibility and agility needed to snap up target companies without considering the consequences.

***Michelle Rogan** is an Assistant Professor of Entrepreneurship and Family Enterprise at INSEAD.*

Follow INSEAD Knowledge on Twitter and Facebook

Find article at
https://knowledge.insead.edu/strategy/keeping-clients-post-merger-3533

Download the Knowledge app for free

Visit INSEAD Knowledge
http://knowledge.insead.edu

Copyright © INSEAD 2020. All rights reserved. This article first appeared on INSEAD Knowledge (http://knowledge.insead.edu).