Stabilized Value Key Tactic to Avoid Lost Clients After Merger

Half of the US companies that attempt a merger or acquisition lose value within a year following announcement of the deal. A substantial component of that loss is lost customers. In the quest to attract new customers, acquiring companies may alienate existing customers or recognize too late that they lack the capacity to effectively meet the expectations of existing customers *and* new customers. That was the crisis that confronted Sprint following the Sprint-Nextel merger.

The deal was heralded as a merger of equals. Sprint was a dominant player in the telecommunications industry with a strong individual consumer customer base. Although its "customer churn" rate (an industry measure) was relatively high, Sprint was able to maintain and build its consumer customer base by marketing attractive new phones and new phone features. Simply stated, "customer service" was highly transactional and supported by Sprint's ability to "wow" new customers with its innovations. Nextel was a recognized leader in attracting and securing the loyalty of its business customers. Also an innovator, Nextel's specialty was smart phones with sophisticated features that enhanced the ability of white collar business users to conduct business in or away from the office. "Customer service" at Nextel was defined as a relationship that was supported by a well-trained team of client service representatives who were familiar with the client's business and highly-responsive to each client's needs and concerns. The marriage of the two companies was expected to create a powerhouse that could continue to attract and dazzle individual consumers while sustaining the loyalty of lucrative business customers.

Like most acquiring companies, following the announcement of the deal, Sprint moved forward with eliminating redundancies and capturing cost-saving synergies. Most M&A experts will attest to the fact that even in a "merger of equals," the acquiring company is usually the ultimate decision-maker. Based on its highly transactional customer service philosophy, the teams of customer service representatives employed by Nextel were deemed not essential to the business operation of the merged company. A substantial number of Nextel customer service representatives were laid off. Overlooked was the fact that its strong customer service interface was the key to Nextel's customer loyalty. Another mistaken assumption was that the loss of business accounts could be countered by an effective marketing strategy and competent sales team. Business accounts represented hundreds of phones. When a business account was lost, it resulted in a much higher impact than the loss of one consumer account. Too late, Sprint discovered that once business customers became aware of the dramatic decline in customer service, they not only lost existing customers, they lost the ability to attract new business customers – which had a strong adverse impact on the value of the deal. The error not only resulted in the loss of competitive advantage envisioned by Sprint's business strategy, but Sprint handed its competitors for the business phone market a distinct competitive advantage.

The lesson is one for all acquiring companies. People – not numbers – drive the value of the deal. People bring you new customers. People manage your business relationships. People respond to customer concerns and complaints. And people are always affected by mergers and acquisitions. How they are affected and how they react are contingent upon how decision-makers perceive their value. Too many acquiring companies have learned the hard way that buying a company and losing the people essential to its performance is a substantial loss that may never be recovered.