On brand, on time and on budget: The 10 buy-side “get rights” for brand conversion in M&A

Shape the future with confidence


The 10 buy-side “get rights”
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Amid the effort to integrate newly acquired assets in a transaction setting, many businesses face challenges meeting budget and scheduling requirements while delivering a seamless customer experience. Let’s explore the strategy of brand conversion, where essential “get rights” can help you navigate the complexities.

In brief:

- "Conversion" in the context of M&A refers to the programmatic transition of an entity or collection of assets from one brand to another. Conversion programs aim to transition business elements, such as personnel, operational procedures, contracts, and technological and physical infrastructure to a new brand and platforms.
- Based on our prior experience, transactions with minimal to no conversion requirements typically incur costs of approximately 3% to 5% of the purchase price. These costs can inflate to as much as 30% of the purchase price when significant branding considerations are introduced.
- Companies can preserve and enhance deal value through meticulous oversight of 10 buy-side brand conversion “get rights” that prioritize budget and schedule management, while delivering a seamless customer experience.

Congratulations on closing your company's most significant acquisition to date! This monumental deal is poised to elevate your presence to new heights. Take the time to celebrate, but prepare for the mountain of work ahead.

"Conversion" in the context of M&A refers to the programmatic transition of an entity or collection of assets from one brand to another. Conversion scenarios are often triggered by an M&A event, where the buyer chooses to rebrand the acquired assets or the purchase terms exclude brand rights.

Conversion programs aim to seamlessly transition business elements that include personnel, operational procedures, contracts, and technological and physical infrastructure to a new brand and its platforms (e.g., point of sale). As a baseline, integrations with minimal conversion requirements incur costs of 3% to 5% of the purchase price, which includes areas such as transaction costs, financing fees, change in control costs and integration costs.[1] Conversion costs are often incremental to integration costs, and vary significantly depending on the conversion scope.

Case example #1: Brand conversion costs added over 30% to the total purchase price. In this example, our client acquired hundreds of retail sites and assets across Canada. The terms of the purchase agreement excluded brand rights, requiring our client to integrate and rebrand the sites into their well-established multi-brand portfolio. This task was complicated by a mix of unique assets and operator arrangements, as well as high interim costs to operate unconverted assets, due in large part to Transition Service Agreements (TSAs), thus limiting our client's window to transition sites to their brands.

Navigating these challenges involved accelerating the conversion timeline, scrubbing capital cost estimates for each site and making careful consideration of local factors, including owner vs. operator sites and key constraints like the availability of construction crews to do the work.

To manage this, the conversion strategy employed an archetype approach, where assets were force-ranked based on specific characteristics, with each warranting tailored investment that aligned to the sites' future destination brand and forecasted long-term profitability.

The theory was then put into practice by running several pilots, which served as a testing ground to develop process familiarity and gather valuable lessons learned. This approach changed the calculus. The rate of conversions quickly stepped up from one asset conversion per week to four over successive periods, reducing the conversion timeline by approximately 50% from original planning estimates.

Case example #2: Our client, an essential service provider, acquired a whole company and its extensive network that serves several million customers annually. While the conversion costs in this example amounted to less than 5% of the total transaction value, the program focused on revitalizing the brand image to unify the thousands of employees amid the launch of a singular

[1] EY, "Are you giving M&A integration costs the attention they deserve?", 2019

brand in a historically mixed-brand market. The brand revitalization was a crucial component to the cultural integration of the two organizations because it created a common employee identity and ignited enthusiasm for the newly combined entity.

Successfully executing a conversion program is a complex and challenging endeavor. Whether you have yet to complete a deal or have already closed a transaction, dealmakers need to clearly articulate the strategic vision for the assets. Doing so best positions a company to capture and hopefully exceed the intended deal value, while meeting the needs of customers, operators and stakeholders.

Working together with our client's teams as their advisors on strategic acquisitions on the cases described above, we have distilled 10 brand conversion get-rights for complex, at-speed conversion programs that touch thousands of employees and millions of customers.

01.

Put the customer first, always

The customer experience is a foundational element that must remain at the heart of any conversion program. Companies engage in transactions for a variety of reasons. Gaining competitive advantages, expanding growth opportunities, increasing market share and improving supply chains are just a few reasons. At the core of these reasons is the end customer, who represents the fundamental source of value.

An exceptional customer experience is underpinned by its association to the brand experience. On a recent engagement, we identified and mapped critical touchpoints along the customer journey, pinpointing key "moments of truth." These included offering diverse point-of-sale payment options, developing a smooth process for loyalty points accrual and redemption, providing regular product promotions and prioritizing customer safety, among others. A consumer-first approach guided the conversion strategy with the customer experience being a focal point throughout each phase of the conversion lifecycle.

02.

Construct a milestone-based approach and empower the team to action

Using a critical path milestone-based approach and encouraging decisive leadership are key to meeting conversion program demands. Multi-asset conversion programs, known for their complexity and extended timelines, generally unfold across a conversion cycle that involves three phases: pre-conversion, during conversion, and post-conversion.

On a recent engagement, EY teams guided the client through each conversion phase, supporting stakeholders to identify and navigate crucial milestones.

For example, during pre-conversion, a stage-gate process helped evaluate readiness and put critical-path milestones in hand before committing more time and resources to the program. This confirmed essential conversion prerequisites like development permits, construction crews and materials were secured before making a "go/no-go" decision to advance.

During the conversion execution phase, on-the-ground team members had the responsibility and autonomy to make conversion-related decisions swiftly, circumventing bureaucratic delays and adhering to the timeline.

Finally, in the post-conversion phase, site operators were equipped with opening plans and operational resources to facilitate a smooth and swift transition to business as usual.

This milestone-based approach, empowered by decisive leadership, drove work completion and resulted in assets being converted on schedule.

03.

Identify the value drivers and craft the conversion strategy for success

Early identification of deal-specific value drivers is fundamental to shaping the long-term strategy of the acquired assets. The conversion strategy should be crafted with a clear understanding of the original deal rationale.

In a recent transaction, our client had to manage the legacy brand under a time-restricted licensing agreement until they could transition the assets to their own brand. During this pre-conversion period, it was important to keep the customer experience consistent to the promise behind the legacy brand.

In order to facilitate this, a comprehensive set of TSAs upheld the programs and services offered under the legacy brand. Put simply, the approach was guided by the principle, "If it looks like brand ABC, it should deliver the experience of brand ABC." Following this principle, working together with the client's integration, marketing and design teams, we conceived a "big bang" conversion strategy. This meant that assets operated under the legacy brand pre-conversion, inclusive of associated programs and services, until they were temporarily closed for conversion and reopened under the new brand post-conversion, accompanied by a full suite of new programs and services. Therefore, minimizing the length of time that the end customer would be impacted by the conversion. This focus on customer retention, a primary value driver for the deal, ensured the overall conversion strategy and approach preserved the return on investment.

04.

Build a cross-functional, specialist team supported by robust governance

Another critical "get right" is establishing a Conversion Management Office (CMO) that is customized to the deal's unique requirements. Programs of this nature often compete internally for organizational resources, such as people, capital, and executive time.

A proficient CMO combines a variety of cross-functional expertise — including design, development, change management, communications, procurement, and marketing — operating under a governance framework tailored to facilitate capital projects within the organization's policy. This framework also employs a bias-for-action mentality and encourages dynamic decision-making that is adept at resolving conflicts swiftly.

The composition and organization of the CMO varies significantly depending on program requirements and the urgency of execution.

For example, we worked with an eight-person CMO that encompassed a broad spectrum of technical skills and was bolstered by functional workstreams, such as supply chain, marketing, operations and facilities.

In contrast, we also advised a leaner, two-person CMO that relied on execution teams organized by conversion scope, which included areas like exterior signage and IT applications.

In both cases, the governance framework of the CMOs played a crucial role in supporting the program's objectives by enabling efficient resource allocation, streamlining decision-making and employing deal-specific skills.

05.

Maximize the economics through strategic capital deployment

Time and budget overruns are common pitfalls to capital projects, with approximately 92% exceeding initial budget and schedule estimates.[2] Achieving timely completion within budget requires a cost-conscious mindset, meticulous budget oversight and active scope management.

Conversion programs often encompass a diverse array of assets and business elements spread across geographies. To improve capital deployment planning, leading practices should:

- Create archetypes for similar assets to define scoping parameters
- Sequence the asset to logically prioritize the conversion order

For a client facing these challenges, we employed EY-Parthenon's data engineering capabilities to create a bespoke tool. This tool simulated the conversion timeline by categorizing assets by archetypes based on characteristics such as sales volume, age of the asset, development opportunities and brand visibility. It also considered various operational constraints, such as ownership structure, workforce availability and seasonal factors, among others. This approach provided the client with a data-driven strategy to deploy capital and realize budget and schedule objectives. Early and thoughtful strategic capital deployment enabled the preservation of deal value by balancing the pressure of conversion timelines, limiting budget overruns and minimizing operational downtime.

[2] Brent Flyvbjerg, Oxford Professor, interviewed by The Washington Post, "Most infrastructure projects are late, over budget. He hopes to fix that", April 28, 2023; Flyvbjerg, Brent, "Over Budget, Over Time, Over and Over Again: Managing Major Projects", Oxford University, 2011

06.

Invest capital strategically to deliver the right brand experience for the right price

Companies with strong brand reputations align their brand offering to the customer experience they wish to deliver. This alignment properly positions the brand within the intended market segment so that the tier of service matches customers' expectations while justifying the capital investment and operating costs needed to convert and run the asset(s). This concept is referred to as "brand tiering," which is a key step to inform the capital investment requirements.

An example that frequent travelers may relate to is in the passenger aviation industry, where it is common for airlines to partner with other brands to offer comprehensive air travel options through codeshare and other arrangements. This collaboration allows airlines to extend their service networks and offer more routes at price points that target a specific customer experience, such as a premium carrier experience vs. a budget carrier experience.

We applied this brand tiering concept in practice, where a client's newly acquired assets did not justify the investment required for a premium-tier brand, even though they were valuable to the business. To address this, we helped our client create a new, independent mid-tier brand. This brand introduced new programs and services targeting a different market segment and offered a distinct customer experience from the premium-tier brand, but at a more deliberate price point. This approach made investing in the mid-tier brand financially smart, while addressing customers' brand expectations.

07.

Seize the symbolic wins and capture "quick-win" conversion opportunities first

Brand conversion is a powerful form of symbolism that can boost customer retention and attraction, as well as enhance employee engagement. Given conversion programs span long timeframes, implementing immediate and impactful conversion initiatives — referred to as "quick wins" — can yield amplified benefits.

For example, we worked with an essential service provider to stabilize a transaction that merged two distinct workforces, whereby the swift execution of certain branding measures offered elevated benefits. These quick-wins not only helped build customer trust by presenting a cohesive brand image, but also provided a rallying call to unify employees undergoing a shift in organizational identity.

To action this, the conversion program targeted branding elements that were easily achievable — low cost and/or little effort with high brand visibility. For example, branding of the website and appointment booking portal were prioritized, which demonstrated an immediate commitment to service quality, thus building confidence in the service provider.

Other internally focused quick-wins concentrated on items like digital branding and physical merchandise, which were symbolic of the newly merged entity and facilitated the blending of corporate cultures. This encouraged a sense of unity and shared purpose among transitioning employees that helped ignite enthusiasm for the long-term strategic vision of the combined entity.

08.

Establish crystal-clear, frequent communication with stakeholders, including customers

Effective conversion programs develop detailed communication strategies that articulate important massaging to the right people at the right time. Conversion's extensive reach across people, processes, geographies and operations means robust communication channels must be used at each phase of the conversion lifecycle. Further, defining stakeholder groups is a key first step to understanding who the target audiences are, such as customers, operators, and suppliers, to name a few.

We worked with a client to develop a communication strategy employing various one-and two-way communication channels across conversion phases and stakeholder groups. For example, we administered a suite of virtual and in-person training sessions covering an array of subjects meant to familiarize and upskill operators in preparation for conversion completion. This was followed by hands-on training the week of conversion, which was supplemented by a dedicated on-call support liaison post-conversion to provide immediate and tailored operational assistance.

Across each phase, communication mechanisms, such as hotlines, emails and operating manuals, were used to facilitate consistent and comprehensive messaging. This proactive approach reduced delays, prevented budget overruns and thwarted adverse impacts on end customers by readying frontline operators with the knowledge and support to swiftly identify and resolve challenges.

09.

Implement “hypercare” protocols to enable swift issue resolution and stabilize the assets

Conversion often introduces new operational practices that are unfamiliar to those most affected by the change. The period before and immediately after conversion is a critical stage, marked by an increased risk of disruption to the customer experience.

The old adage, “You only get one first impression,” is particularly relevant here. The days immediately following the opening of a newly converted asset present an important opportunity to provide a seamless experience to customers and secure repeat business. Therefore, it is essential that a comprehensive conversion plan includes “hypercare” protocols to enhance support immediately after the conversion is complete.

Hypercare refers to the heightened support and vigilance following an operational change. For example, we worked with our client to implement additional support layers for approximately one to two weeks after the conversion of each asset. This included installing a governance structure and organizing a rapid-response team with specialized skills, such as operational and technology professionals. These measures also helped front-line employees build familiarity with the new infrastructure and ways of working, while addressing issues in real time. Therefore, implementing hypercare protocols during the critical post-conversion period enabled a seamless customer experience, minimized disruption, and secured repeat business by providing heightened support and rapid issue resolution.

10.

Apply lessons learned on the fly for immediate impact

Brand conversion programs typically settle into a consistent and repetitive pattern as they progress through the conversion schedule. The most effective programs are those that swiftly incorporate lessons learned from early conversions into subsequent ones, thereby leading to improvements in scheduling, cost savings, and work quality. They also provide the opportunity to build capabilities and enhance safety protocols across stakeholders.

For example, we supported the execution of a series of pilot sites with the goal of gleaning insights to inform future conversions. We also performed debriefs after each site conversion to assess what went well and what did not, and how to apply improvements to future conversions. This approach helped upskill construction crews and ground support, refine work scope, build a knowledge base of risk areas and rectify issues in conversion processes.

By applying these learned lessons to subsequent conversions, the program quickly scaled up from one asset conversion per week to four over successive periods.

How can we help?

Connect with EY-Parthenon

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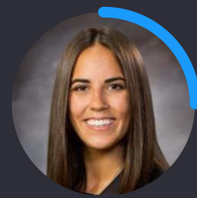

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