Don't forget the customers after mergers

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(Phys.org) —Merging companies that focus on a dual-goal emphasis of simultaneously enhancing efficiency and customer satisfaction show the highest increase in long-term financial performance, according to a new study from Rice University, Kent State University and the University of Pittsburgh.

"However, achieving a dual emphasis is very difficult," the study's authors said. "Managers need to be prepared with a realistic timetable and implementation plan."

The study is timely in the context of recent merger discussions making headlines. Apparel retailer Men's Wearhouse has begun a hostile bid for competitor Jos. A. Bank Clothiers, and Sprint has launched a takeover attempt of wireless communications industry rival T-Mobile US, indicating mergers between these companies may be in the future.

The paper was published online in the *Journal of Service Research* and will appear in an upcoming print edition.

Study co-author Vikas Mittal, the J. Hugh Liedtke Professor of Marketing at Rice's Jones Graduate School of Business, said there are many recent examples where firms have overestimated their ability to achieve a dual emphasis. When Hertz merged with Dollar Thrifty in November 2012, the Federal Trade Commission forced Hertz to shed its subsidiary Advantage Rent a Car brand. Unable to stay efficient, Advantage is now preparing to file for bankruptcy protection.

Similarly, when United and Continental merged, Continental clearly had more satisfied customers than United, Mittal said. After the merger, the combined satisfaction declined as the merged entity – marketed as "United"—tried to become more efficient. "It has taken Continental-United over three years," Mittal said. "They are still in the process of achieving a dual emphasis. Many firms do not have a unified plan to achieve dual emphasis after a merger—how to simultaneously improve efficiency and customer satisfaction."

The author's paper investigated the moderating role of mergers using satisfaction data spanning from 1995 to 2003. The researchers examined 233 companies that had merged and 196 other companies. The firms in the sample participated in the American Customer Satisfaction Index, which features large U.S.-based firms such as Coca-Cola, Ford, FedEx, Kroger, McDonald's and Southwest Airlines. The authors found that the largest long-term value accrued to firms that had undergone a merger and were able to achieve a dual-goal emphasis by simultaneously increasing efficiency and customer satisfaction.

A merger presents an opportunity for firms to identify and focus on their most profitable customer segments to strengthen their profitability, the authors said. A merger setting also facilitates access to new markets and may be able to attract new target segments whose needs are more aligned with the firm's offerings. In the realm of efficiency, shared services and rationalization of fixed costs are key drivers.

"Despite the synergistic efficiency improvement opportunities that a merger presents, true firm value is only increased if customer satisfaction is increased as well," Mittal said. "During a merger, the management team needs to seize opportunities to implement both changes simultaneously." He underscored that customers are the largest revenue base for a company. "After mergers, companies that ignore customers and only focus on cost cutting may be missing the boat," Mittal said. "The reverse is also true."

Christopher Groening, an assistant professor of marketing at Kent State's College of Business, said it is important to note that investors "are not just looking for high levels of customer satisfaction and firm efficiency, but actual increases."

More information: "How Achieving the Dual Goal of Customer Satisfaction and Efficiency in Mergers Affects a Firm's Long-Term Financial Performance," *Journal of Service Research*, 2014.

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