BRANDING YOUR MERGER

by Steve Brown

Given that many banks are on the hunt for merger or acquisition candidates, an interesting study caught our eye that asked the question -"What is the best branding strategy in a merger?" In any merger, there are 4 choices on what to do about the brand: 1) The acquirer maintains its name and disregards the acquiree's name (most common and similar to Bank of America and Fleet), 2) Both brands are kept separate (2nd most common), 3) Both brands are kept in a fusion that maintains certain elements of both (3rd most common, similar to JP Morgan Chase), or 4) Create a new brand from the combined entity (rare, similar to Virginia Financial Group and First National Bank forming "Stellar One). The study was done by IE Business School in Madrid and the University of North Carolina, with the research looking at 216 US companies formed by merger between 1997 and 2006. The post-merger company's performance was analyzed for 3Ys after the merger date and average total return performance of equity was tracked and then adjusted for size, risk (beta) and market-to-book ratio.

The results are somewhat surprising. The first result that jumps out is that most mergers during that time period underperformed the market by about 18%. However, since that is a much deeper topic and not the focus of the study, we will come back to this aspect at a later date. What the study did highlight was that mergers that maintain the acquirer's brand and disregard the weaker one underperformed the marked by an average of 15%. In similar fashion, mergers that kept the brands separate underperformed the market by a whopping 25%. However, in cases where brands are fused together, the new brand ends up outperforming the market by 3%. What about cases, were a totally new brand is created? Unfortunately, this happens so rarely in corporate America that the 2-3 public cases over the time period studied didn't provide a relevant sample.

While we are skeptical that the branding method in the merger drove performance, we do see how management treats the brand as a sympathetic response that likely highlights a general attitude about cultural, process and infrastructure assimilation. The method of discarding the acquisition brand likely points out that while some cost savings are achieved, valuable talent and processes were also likely jettisoned (thereby hurting performance). Likewise, keeping brands separate is most likely also a sign that overlapping cost structures were maintained and internal cultural silos kept. Keeping brands completely separate likely kept the organization from reaching its full potential. Because a merger's success relies in part on the successful integration of two cultures into a powerful new entity, a branding strategy that explicitly underscores the best of both worlds is likely worth considering for increasing value.

While bank mergers are good at valuing property, loans, deposits and other assets; management teams usually treat what to do about the name as an afterthought. Since a bank's intangible or brand value may compose a material amount of performance, considering this question pre-decision is highly recommended as a way to capture more merger value. Using a fusion strategy to send reassuring signals to customers, employees, other stakeholders and most importantly, investors, may increase the level of success.

BANK NEWS

Closed (71)

Regulators closed First National Bank of Florida ($297mm, FL) and sold it to CharterBank ($955mm, GA). CharterBank took over 8 branches, entered into a loss-share transaction on 73% of assets and assumed all deposits.

Branch Closures

Old National Bancorp ($8B, IN) will close 23 more branches, as it integrates the failed Integra Bank it took over. Closures are scheduled in IL, IN and KY.

Flood Insurance

The Senate Banking Committee approved a 5Y extension of the federal flood insurance program that allows yearly increases of 15% (up from the current limit of 10%, to bring rates up to actuarial standards). It is still uncertain whether this bill can be reconciled with a House bill before Sep 30 (when authorization for the insurance program runs out).

Sector Weakness

Analysts at Citigroup have slashed 3Q earnings estimates for larger US banks by as much as 45%, amid concern new capital requirements, weaker global growth and weakness in capital markets trading will hurt performance.

Where's Fred?

If you want a good example of a community bank that does simple, yet effective marketing, check out 3rd Federal ($700mm, PA) http://www.thirdfedbank.com/. Customer testimonials, Facebook giveaways and our favorite, a multipart YouTube fake news series on "Fred" sightings, the bank'' missing mascot.

French Banks

France's top banks are expected to be downgraded by Moody's, further complicating efforts overseas to calm investor fears. CNBC reports BNP Paribas, Societe Generale and Credit Agricole were expecting an "imminent" decision from the ratings agency. Moody's is expected to take the action this week, given French bank exposure to Greece.

G7 Support

Finance chiefs from the most powerful countries worldwide said they would "take all necessary actions to ensure the resilience of banking systems and financial markets." The only problem was they didn't provide any specific steps and differed on the points of emphasis regarding Europe's debt crisis, so investor worries remained.

Coin Toss

Nobel-prize winning economist Paul Krugman said in a recent speech that the risk of a global recession is now 50%. Less than one month ago, he put the odds at 33%.