Post-Merger Branding Strategies in Banks

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ABSTRACT

Merger and Acquisitions (M & As) have existed in market economies since at least more than a century and have quickly spread to the banking industry. An important facet of mergers and acquisition is Branding. The same becomes more important when it is a customer facing industry like banking. This paper throws light on the importance and challenges of integrating the brands during M & A deals. It also presents post-merger branding strategies of some select cases of bank mergers in India. Brand strategy in a post-merger scenario assumes high significance given the high percentage of M&A failures.

Keywords

Merger and acquisitions (M & As), Brand, Strategy, Post-merger.

Introduction

Banks in India need to change in form and structure so as to adapt to meet the changing scenarios of total financial services provider. The inorganic growth through mergers and acquisitions is the most preferred route for this.

A merger or acquisition represents a new opportunity to capture value not present prior to the deal. This opportunity allows one to build a new brand and/ or leverage the strengths of existing brands. Brands of the banks involved in merger usually have their own unique identities, personalities and philosophies. As such the fundamental question of brand strategy that arises is how to treat these brands - one brand, joint brand, flexible brand or a new brand.

A brand is not just slogans, advertising campaigns, logos, and organizational names, as is commonly believed. But it is tied to ideas of reputation, trust, and quality of a firm. It represents a promise that the firm makes with its clients to deliver a set of experiences. Thus, the companies must recognize that their brands are strategic assets that need to be carefully managed over the long term.

Objectives of the study

1. To highlight the importance and challenges of integrating the brands during M & A deals.
2. To identify the post-merger branding strategies in merger cases of Indian banks.

Scope of the study

This study limits itself to the post-merger branding decisions of some Commercial Banks of India. Also, only the cases of Indian bank mergers which took place in the 21st Century have been considered.

The importance of brands in business

A brand is more than just a name or a logo. Acquirers or merging companies must understand that the brand represents four components of value comprising its overall equity:

- The brand's definition (what it promises);
- Its culture (how the brand's previous owner honored the brand promise);
- Its infrastructure (how the brand is supported by distribution, marketing, promotion, advertising, and sales); and
- The visual aspects of the brand expressed by the name and uses of the identity.

If any of these elements change during integration, so does the brand's equity.

Strong brands affect business performance. Not only do strong brands result in better investment performance, but they also decrease acquisition costs since customers are more likely to repeatedly purchase a product/service that they have come to trust and to whom theyhave demonstrated loyalty. Evidence shows that it is much more expensive to acquire a customer than to keep one.

There are many competitive advantages associated with strong brands. Firstly, clients are more willing to pay a premium price for strong brands. Secondly, a strong brand simplifies clientchoices. Once a client has purchased a brand, he/she will not need to go through the entire decision-making process again, but instead will rely on past experience to guide them. Strongbrands will thus help to reinforce clients' decision to choose a firm and to stay with them over time.

The benefits of strong brands are not limited to external business performance; the organization benefits as well. People are naturally attracted to firms with strong brands, which translate toa better pool of talent applying for positions.

Brand management challenges in financial services

Brand management poses several challenges in financial services:

- New concept - The idea of managing a brand is a new one for the industry, as many financial services firms have historically perceived brand management as only relevant to consumer goods. As a result, financial services firms are not likely to have strong in-house brand management capabilities. Thus, the opportunity exists for banks to gain competitive advantage by investing in brand management and enjoy the business performance benefits.
- Many client types-Banks serve a variety of clients with differing needs, which in turn makes it difficult to build a brand that is relevant to all

groups. However, financial services firms can transform this challenge into an opportunity to tailor a more comprehensive group of products/services to a specified client type.

- Difficulty in differentiation-The similarity of product offerings makes differentiation more difficult in services. Product innovations in financial services are short-lived since it is relatively easy to copy new product offerings. The result is that financial firms must find other aspects of their business, such as the client / advisor relationship, as a means to differentiate from the competition.
- Difficult to manage the client / advisor relationship- The most influential way of reaching the client are actually the most difficult to manage. As a result, financial services firms face the challenge of managing the process of educating advisors and other staff who have direct contact with the client, to ensure that they deliver a consistent, branded experience.
- Complex brand positioning -Another big challenge in financial services involves the difficulty of positioning brandin the face of industry trends such as the global/local debate and recent merger and acquisition activity. The task of positioning a brand involves deciding which part of "what a brand stands for" will be actively communicated to the target audience.

Phases of Branding decisions during a merger deal

1. Pre-Deal Phase-The Pre-Deal phase is driven by senior and strategic management for both parties and determines the brand strategy and architecture for the merged entity.

Strategy Clarification → Brand Audit and Valuation → Intent to mergeannouncement

2. Brand Transition Phase-Significant brand transition planning involving most functional areas should occur prior to deal close.

Inventory/Requirement Audit → Transition Planning and→ Deal Close Announcement Budget Developmental

3. Post-Deal Phase-In the Post-Deal phase, a number of activities should be carefully coordinated to ensure successful implementation and brand rollout. Most functional areas of the organization need to be involved.

Redesign and Implementation→New Brand Launch→ Evaluation and monitoring

Brand strategies for merging banks

In tune with the goal of a bank merger to increase the bank's value in one way or another, objective of a bank's M&A brand strategy should also be to increase its brand equity.There are four commonly known principal brand strategies for merging bank brands -

- Black Hole- In this strategy, one brand survives (usually the brand of the acquiring bank)and the other brand is rapidly retired, completely disappearing. Hence, the name-"black hole".
- Harvest-In the Harvest strategy, the equity in one brand is extracted over time until that brand becomes an empty shell. No brand building efforts or marketing resources are budgeted for the harvested brand. Instead, it weakens over time.
- Marriage-In the Marriage strategy, the "marrying" brands seek to create meaningful and relevant differentiation in the minds of the customers of both brands.
- New Beginnings - In the New Beginnings strategy, merging banks decide that neither of their brands carries tremendous equity and so they build a new brand. This is much more advantageous for small banks without wide brand awareness or brand equity. Moreover, when more than two small banks merge at one time, this strategy is often the most effective way to begin building brand equity.

Cases of M&As in Indian Banking

The cases of M&A (Table 1) which have happened in the Indian banking industry in the 21st century have been presented below in brief-

Table 1-Cases of Mergers & Acquisitions of Indian Banks in the 21st Century

S.No	Banks/ FI Involved in Merger		Year	Reason	Post-merger Brand Name
1	Times Bank	HDFC bank	2000	Voluntary	HDFC bank
2	Bank of Madura	ICICI Bank	2001	Voluntary	ICICI Bank
3	ICICI Financial Institution	ICICI Bank	2002	Universal banking	ICICI Bank
4	Benaras State Bank	Bank of Baroda	2002	Forced	Bank of Baroda
5	Nedungadi Bank Ltd.	Punjab National Bank	2003	Forced	Punjab National Bank
6	Global Trust Bank	Oriental Bank of Commerce	2004	Forced	Oriental Bank of Commerce
7	Bank of Punjab	Centurion Bank	2005	Voluntary	Centurion Bank of Punjab
8	IDBI Financial Institution	IDBI Bank	2005	Universal banking	IDBI Bank Ltd
9	United Western Bank	IDBI Bank Ltd	2006	Forced	IDBI Bank Ltd
10	Ganesh Bank	Federal bank	2006	Forced	Federal Bank
11	Lord Krishna Bank	Centurion Bank of Punjab	2006	Voluntary	Centurion Bank of Punjab
12	Sangli Bank	ICICI Bank	2006	Voluntary	ICICI Bank
13	Bharat Overseas Bank	Indian Overseas Bank	2007	Forced	Indian Overseas Bank
14	Centurion Bank of Punjab	HDFC Bank	2008	Voluntary	HDFC Bank
15	Bank of Rajasthan	ICICI Bank	2009	Forced	ICICI Bank

Times Bank & HDFC Bank Merger

In 2000, as part of HDFC Bank's strategy of attaining great heights, it decided to merge with Times Bank. The merger with Times Bank took HDFC Bank into a different league, giving it greater muscle in terms of retail client base as well as midmarket corporate clientele. With this merger, HDFC and Times bank became the first two private banks in the New Generation Private Sector Banks to have gone through a merger.

Bank Of Madura & ICICI Bank Merger

This was a merger between the 57 year old Bank of Madura (BoM) and a six year old 'new age' organization, ICICI Bank. BoM had traditional focus on mass banking strategies based on social objectives while ICICI Bank emphasized parameters like profitability in the interests of shareholders. This merger was expected to give ICICI Bank a hold on South Indian market, which had a high rate of economic development.

ICICI Ltd Merger & ICICI Bank Merger

The ICICI Bank-ICICI merger needs a special mention, as this is the first Indian merger to create a universal bank. On Oct 24th, 2001 ICICI and two of its subsidiaries -ICICI Personal Financial Services and ICICI Capital Services reverse merged with ICICI Bank and the amalgamation became effective on March 31, 2002.

Benares State Bank Ltd &Bank of Baroda Merger

This deal between the banks took place in 2002.At that point of time most banks in India were trying to expand their customer base and thereby increase the consumer banking business. Benares State Bank helped Bank of Baroda in this aspect.

Nedungadi Bank & PNB Merger

Public sector Punjab National Bank (PNB) took over Kozhikode-based Nedungadi Bank Ltd (NBL) from Feb1, 2003. This was the seventh merger of another bank with PNB in the 107 years of its existence.

GTB & OBC Merger

This was a forced merger of a pioneer private bank of new generation (Global Trust Bank) with a financially strong public sector bank (Oriental Bank of Commerce). This was not the first case of its kind. Earlier too RBI had imposed moratorium on a good number of sick banks before attempting a merger as in the case of Nedungadi Bank merged with Punjab National Bank (PNB) in 2002 and Benares State Bank with Bank of Baroda in 2000.

Centurion Bank and Bank of Punjab Merger

In 2005, Bank of Punjab (BoP) merged with Centurion Bank (CB) to form Centurion Bank of Punjab (CBP). RBI approved this merger and it became effective from October 1, 2005.

IDBI and IDBI Bank Merger

In 2005, the financial institution, Industrial Development Bank of India was merged into its subsidiary IDBI Bank, in a reverse merger on similar lines as the merger of ICICI into its subsidiary ICICI Bank.

Federal Bank And Ganesh Bank Merger

The RBI had put Ganesh Bank of Kurundwad (GBK) under a moratorium on January 7, 06, thereby freezing the bank's operations, as its net worth had turned negative. The Union Government approved the merger of The Ganesh Bank of Kurundwad with the Federal Bank Ltd effective September 2, 2006. GBK was considered a good fit to improve agriculture and retail lending.

IDBI Bank- United Western Bank Merger

In 2006, IDBI Bank acquired the distressed United Western Bank, which the central bank had put under moratorium.For IDBI, which was in the process of establishing itself in the commercial banking segment, post its reverse merger with its banking arm in 2004, rehabilitating UWB was quite challenging. However, the combination of IDBI and UWB added value in the long-term and helped IDBI expand its retail presence.

LKB-Centurion Bank of Punjab Merger

The Lord Krishna bank (LKB) merged with Centurion Bank of Punjab (CBoP) with effect from August 29, 2007. Centurion Bank took the M&A route twice in one year. After the successful acquisition of The Bank of Punjab and re-christening itself as Centurion Bank of Punjab, the bank acquired Lord Krishna Bank (LKB) in another part of the country. This was more of a RBI driven merger to safe guards the interests of the depositors

Bharat Overseas Bank & Indian Overseas Bank Merger

Bharat Overseas Bank (BhOB) was a private bank based in Chennai. In 2007 it merged with Indian Overseas Bank, which took over all the bank's employees, assets, and deposits.

Sangli Bank & ICICI Bank Merger

In 2007, RBI approved the scheme of amalgamation of Sangli Bank with ICICI bank and the scheme of amalgamation came into effect from Apr 19 2007. With this merger ICICI Bank gained Sangli Bank's network of over 190 branches and existing customer and employee base across urban and rural centers.

HDFC Bank & CBOP Merger

In February, 2008 HDFC Bank approved the acquisition of Centurion Bank of Punjab (CBoP) for Rs 9,510 crore in the largest merger in the financial sector in India This merger helped HDFC Bank to consolidate its position as the third largest bank in India after SBI Bank.

Bank of Rajasthan & ICICI Bank Merger

In 2010, Tayal family-owned Bank of Rajasthan (BoR) merged with ICICI Bank amidst legal disputes and employee unrest. The move to merge BoR with ICICI Bank came in the wake of regulatory pressure mounted on the Tayals, who held nearly 55 per cent stake in the bank. This was the third acquisition by ICICI Bank in the last decade. BoR was considered an ideal platform for ICICI to post a more robust and distributed growth.

Branding decisions

The select cases of mergers and acquisitions of banks in India showdifferent branding decisions post-merger-

- In case of merger of Times Bank with HDFC Bank in 2000 and that of Bank of Madura into ICICI Bank in 2001, though both the entities were strong in their respective regions, however, the branding decision was based on the strength of the parent organization brand name.The brand equity of Times Bank and Bank of Madura was extracted over time until both the brands became an empty shell. So, these cases are good examples of "Harvest strategy" of branding decisions.
- The merger of weaker banks into established players has resulted in the weaker brand being forced into oblivion. The case of Global Trust Bank (GTB) merger with Oriental Bank of Commerce (OBC) in 2004 and that of United Western Bank (UWB) with IDBI Bank in 2006 are good examples of this.GTB and UWB became "Black holes" post this merger deal. Also, the merger of Benares State Bank with Bank of Baroda, NedungandiBank with Punjab National Bank and Lord Krishna Bank with Centurion Bank of Punjab can be cited as an example here.
- There have been instances where the merging entities are both strong in their respective customer segment. In such cases the merged entity has retained the names of both the erstwhile entities. This has helped the merged entity retain confidence of clients in general. The merger of Centurion bank

and Bank of Punjab in 2005 is an example of such a case. The new entity, the Centurion Bank of Punjab, was the result of the marriage strategy being adopted for branding decision.

- In the case of merger of financial institution ICICI with ICICI Bank in 2002 and IDBI with IDBI Bank in 2005, the branding was something which has been driven by the regulatory framework. No financial institution is allowed to change the name of the bank in which it is merging. The regulatory framework does not allow a bank to merge into a financial institution; it always has to have a reverse merger.

Suggestions

Branding challenges can exist for any company that goes through a merger. There are some suggestions to be undertaken when acquiring and merging brands:

1. Initiate discussions immediately in the marketing department about positive and negative consequences on corporate identities as a result of a merger
2. Conduct research with all groups that will be affected by a potential merger.
3. Pay special attention to the intangibles i.e. know your partner, their values, their culture, and their brand and not just stick to the traditional due diligence checklist.
4. Communicate the right thing at the right time. Press releases should go out to key financial and business publications highlighting the changes or additions to the board of directors, key senior management and overall business of the company. The rationale for the death of a corporate name must be given along with an assurance that the merged companies will benefit consumers and shareholders even more.
5. Advertising must be developed to communicate a new company name and logo if a name change has occurred. Also, any changes in the product line or service as a result of the merger must be timely communicated.
6. Holistic measures that take into account the culture, brand, employee/client retention, sales, profitability, growth etc. must be undertaken.

Conclusion

Mergers can create an identity crisis for a company if not handled properly. Whether it is the company being merged or the acquiring company, short focus on corporate branding decisions during a merger may lead to many problems.Timely attention is essential so as to guide customers and employees smoothly through the transition. However, it is found too often in bank mergers that branding decisions are relegated to post-merger consideration. The select cases of mergers of bank in India reveal that branding decisions were mainly based on the objective of merger.

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