The State of Technology Company Mergers and Acquisitions in 2023 and the Subsequent Branding Requirements

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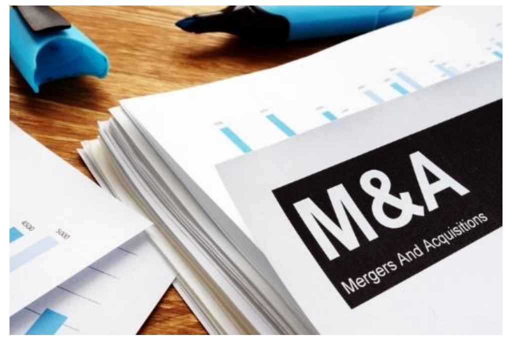

In response to the unexpected need for companies to make an early technology shift to sustain their businesses during the COVID-19 pandemic, the technology sector had to address the sudden and very strong demand by offering the market a wealth of new and emerging solutions. With massive investments from venture capital (VC) and private equity (PE) firm investors in technology companies, many start-ups and other small and medium-sized companies were born or propelled during this boom. According to Pitchbook, total "dry powder," or investable capital, available to VC and PE reached $1.5T in 2020 and $3.4T in 2021, and given the continued availability of dry powder through 2022, M&A activity was expected to maintain a steady pace into 2023. However, this pre-dated recent inflation-fighting interest rate increases, economic downturns, and socio-political factors significantly slowing global M&A activity in 2022.

M&A key drivers will remain through 2023

- Devaluation of technology companies
- Reduced funding from technology investors
- Low-cost acquisition of small, underperforming technology companies by larger ones
- Consolidation of technology companies to diversify their product and technology portfolio and expand their product offering
- Environmental, social, and governance (ESG) now factoring into company valuations, driving boards and executives across most industries to improve their ESG footprints

Although technology investors have scaled back their funding activities due to lower company valuations, M&A in the technology sector remains and is expected to remain active in 2023. In the current market landscape, we can expect an increase in the number of distressed sellers, which should result in opportunities for more established and financially strong companies to make private acquisitions of start-ups and small, underperforming companies at lower costs.

Meanwhile, as digital transformation continues to be a major driver in all industries, the reality is that the market is now flooded with technologies and the market has become much more competitive. Technology providers must now tap into the same pool of users to get them to adopt their technology over that of their competitors. The largest and those with greater brand recognition will be able to differentiate themselves and have a more competitive offering. All-inclusive solutions, available at a better price, allowing users to accomplish a variety of tasks, ideally through a single platform, will be preferred.

Tech-heavy industries are in the spotlight

As part of their exit strategies and in anticipation of the next economic recovery, investors will focus more on enterprise software companies with the potential to improve business efficiency.

Financial Services (FS)

The FS industry's need for digital capabilities, combined with sustained pressure from regulators and disruption from platforms and fintech, means that M&A will continue to be a transformational driver. The focus on technology, growing demand for sustainable investment options, and lower valuations will keep M&A activity strong in the year's second half.

Industrial Manufacturing and Automotive (IM&A)

The continued focus on technology and the digitization of business models, investment in supply chains, and labor will create M&A opportunities in the IM&A sector.

Technology, Media, and Telecommunications (TMT)

Digital adoption of new technologies in TMT is still leading in terms of M&A investments. Technology demand is expected to create M&A opportunities in software and infrastructure technologies, such as 5G, data centers, and metaverse and its associated technologies.

Rebranding post-M&A, well worth the risk

Revisiting the brand strategy is essential when companies acquire new technologies, products, and companies. For most, proceeding to a partial or total rebrand is a sound business decision. But companies must be diligent in developing their new brand strategy and identity, as well as the different digital and non-digital assets, to ensure a clear positioning and successful introduction that will create a positive vibe around the new brand.

While not investing the time, resources, and effort into a well-thought-out brand strategy and rollout can significantly damage a company's brand image, a well-executed and well-communicated rebrand is an invaluable opportunity to increase awareness and build equity.

Attain clarity on your rationale for post M&A rebranding

Mergers and acquisitions inevitably lead to the need to review and adapt a company's brand image to reflect its new value proposition and align its new offering with its existing brand architecture. At a minimum, companies will take this opportunity to modernize and revitalize their current brand image.

Brand repositioning

Companies that have made acquisitions or are merging, changing focus areas, expanding their reach, or targeting new segments, markets, and audiences must redefine their value proposition, overall brand message, and potentially their visual identity and tone of voice to ensure that they are conveying a clear, meaningful, and consistent brand story.

A well-known example of changing its positioning is Facebook, which rebranded Meta in 2021 to reflect the brand's new focus, from a social media platform now moving to the metaverse, based on AI and virtual reality (VR) technology.

Before Meta, Mailchimp repositioned its brand due to a change in direction in 2018, going from an email platform to a marketing platform, after adding new features and functionalities. Mailchimp launched a new brand message and created a new brand identity for a better brand unity.

Our advisory work with emerging tech providers shows rebranding post-M&A is not only for large tech providers. Many VCs have funded roll-ups of several like-segment tech providers that result in significant rebranding. Rebranding strategy choices vary but all, when executed properly, look to establish "new brands that will be long-lasting."

Brand architecture and consistency

With the acquisition of new brands to integrate into their portfolio, in many cases, companies will be forced to revisit their brand architecture to ensure a cohesive product naming structure and logos that are easy for buyers to understand.

A good example of a brand that had to revise its brand statement and architecture is Google, which became Alphabet in 2015 after the acquisition of YouTube, numerous investments in start-ups, and the development and launch of new technologies took the company from being a search engine to a much-diversified company.

This was followed by Instagram, a well-established brand for many years, which overhauled its brand architecture in 2016 to integrate its related brands, Layout, Boomerang, and HyperLapse, after shifting its focus from a photo and video-sharing social media app to an influencer platform and launched a consistent set of logos and colors for a unified visual identity.

Brand refresh and modernization

Any business change that may affect the brand in some way represents an opportunity to refresh and modernize the brand to reflect a new image that is more in line with the changing beliefs of the buyers and end users and to ensure that the visual identity and tone of the brand is consistent across all media and assets, avoiding unnecessary confusion that comes with inconsistent branding.

In 2021, Pinterest changed its brand identity to reflect the changing trends and cultural habits of its users and democratized the image of the "pinboard" image-sharing platform to embrace humanity and resist the clichés of technology.

In an effort to project a cohesive visual identity with a simplified logo and be more recognizable, Slack decided to refresh its brand image in 2019.

Timely rebranding after M&A – a wise decision

Delaying a rebrand can lead to confusion, disorganization, and uncertainty among employees, current and prospective customers, partners, suppliers, and even future investors. Organizations should also avoid launching their new brand in stages or operating with legacy brands. They should avoid losing the precious momentum and excitement that comes with a new brand launch with bells and whistles.

Although quick rebranding is well advised after M&A, organizations must take the time to go through the entire rebranding process and develop a good communication plan before launching their new brand. It can take anywhere from 12 to 18 months to prepare a rebrand before the official launch.

The major steps of a rebrand from strategy to execution generally include the following:

- Review the brand strategy and positioning and develop the brand story and overarching message.
- Refresh or redefine the brand identity and guidelines.
- Create all digital and non-digital assets.
- Elaborate and deploy internal and external communication and change management plans.
- Develop and execute a brand awareness strategy.

About the author

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Nathalie's focus area is branding, providing SoftwareReviews members with research, best practices, step-by-step guidance, and tools for all their branding needs:

- Brand Strategy
- Brand Identity
- Partial and Full Rebranding
- Brand Awareness

Other related publications

[Diagnose Brand Health to Improve Business Growth]

SoftwareReviews helps technology providers systematically build more effective marketing, product, and sales processes to grow and scale their organizations.