Mergers and Acquisitions

Mergers and Acquisitions part 1

Narrator:

Ian Wilson is a specialist on business takeovers and has spent many years working as a Consultant to a range of companies in the chemical and manufacturing sectors.

He's been involved in a number of high profile deals. We talked to Ian about a number of aspects of mergers and acquisitions.

In Part 1 of this interview Ian Wilson reflects on some of the factors which motivate the people who run companies to acquire, sell to or merge with others. First Synergies.

Ian Wilson:

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Synergies is about cross-leveraging capabilities. So, for example, if the acquiring company is selling to some customers and feels that it could sell more products to those customers from the business that's acquired that's a potential synergy.

And similarly if the two companies perhaps have got some manufacturing assets that are not being fully utilised some of those assets can be closed with cost savings. And therefore realise synergies along that kind of route.

And a good illustration of that is the way that Kraft came along and acquired Cadbury. It was quite a controversial deal in terms of the politics around that. But Kraft decided that they wanted to get into the European market in a complementary area. And Cadbury had got some very strong brands that were complementary with Kraft. And so that deal was eventually agreed to and the Cadbury shareholders did extremely well in terms of their returns on their investment.

Narrator:

There could be both positive and negative synergies as Ian has discovered from personal experience.

Ian Wilson:

I once sold a company that distributed catalogue chemicals that were used by pharmaceutical companies, universities and research laboratories. And I sold this business to an organisation that had a similar catalogue chemicals organisation.

And essentially some of our catalogue chemicals were ones that the buyer's organisation didn't have so the acquired products were sold through the buyers' distribution channels. And

they achieved cost savings by not needing all the computing infrastructure and also some of the people who are involved with the sales.
But equally synergies are often built into financial models that just cannot happen. For example, I once advised a paint company that was looking to increase its cash flows in Year 2 and 3. And the advisers to this organisation built in synergies from R&D projects that hadn't even been conceived. Similarly I've seen synergies from cost savings from material purchasers due to the increased buying power. Completely unrealistic savings built in there that were never achievable in the market and didn't happen.

Narrator:
Second Competitive Advantage.
The reason for acquisitions is quite often to increase a company's competitive advantage. And this is achieved by increasing market share in certain sectors such that the power of that organisation increases.
And indeed that is quite often the result of acquisitions. The problem with it is the actual implementation. So, for example, there's a case where a French company called Carno acquired Metal Box a number of years ago to strengthen competitive advantage. But the cultures of the organisations were so different that the management teams would just not work together and the whole deal fell apart.
It's a problem of realising the synergies in the deals. So when they don't work out because the post deal integration is not properly planned and the cost savings are not achieved or the cross-selling doesn't work. Or there are problems with rationalising production infrastructure due to political infighting then those benefits are not achieved and those synergies don't occur.
And indeed I remember when I was in the chemical industry two companies would announce a deal and the turmoil created by the uncertainty and the lack of planning of the post deal integration was such that we could quite often go in and steal business from these people while they were trying to sort themselves out.
On the other hand there's been a recent deal where British Airways acquired Iberia. And that has been relatively successful in increasing British Airways critical mass. And it's sometimes thought that since the air transport business is so international cross-border deals in that sector tend to be more successful.