

OVERVIEW ON CONSULTANTS' ACTIVITY IN M&A PROCESSES

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Abstract: *Theoretical background on mergers and acquisitions and consultants' role during various phases of transaction are shown in this paper. Business consultants are proven to have a significant role in M&A processes and their knowledge is verified as very important for transaction success. By using data from Mergermarket database for the financial sector in the European Union and countries in South Eastern Europe in period 2008 – 2011, authors analyze business consultants' activity and point out their importance for M&A process.*

Keywords: *mergers and acquisitions, business consultants, business consultants' role, financial industry*

1. INTRODUCTION

Globalization is changing our understanding of the market and market competition. In contemporary markets, there is a great uncertainty and risk when conducting business. Rules of the market games are much different as a result of rapid technological change, emergence of the Internet as a basis for operations, digitization, deregulation, etc. All these changes have created a completely new context of strategic business enterprises - an intense trend of mergers and acquisitions resulted in creation of the world's largest corporations. Integration, strategic cooperation and networking have affected almost all industries such as banking, insurance, trade, automotive and pharmaceutical industries, tourism and more.

However, the analysis of the effectiveness of the M&As also shows that two out of three transactions fail because managers do not pay enough attention to strategy, proper implementation of acquisition processes and business activities after the transaction. Business consultants have significant role in M&A processes and their knowledge is very important for transaction success.

Therefore, the main goal of this paper, using data from Mergermarket database for the financial sector in the European Union and countries in South Eastern Europe in period 2008 – 2011, is to analyze business consultants' activity and to point out their importance for M&A process.

2. THEORETICAL BACKGROUND ON M&A

Mergers and acquisitions are one of the main features of contemporary economic trends. The advantages of mergers and acquisitions are speed of achieving results, the expansion of competence and capacity, product differentiation, and others. Their disadvantages are the need of large financial resources, hard process of

harmonization of corporations (the culture, the unwanted parts of enterprises, different business methods) and very high risk [11].

Acquisition refers to purchase of a control interest of company "A" in company "B". Control interest is a purchase of more than 50% of the voting shares of the company "B". In most cases, controlling interest is paid in money, but also the shares of the company "A" or a combination of cash and shares [4]. The acquisition is friendly, if implemented by agreement of both sides and hostile if there is no consensus between management of the companies [11].

Merger is kind of transaction where two or more companies "merge" into a new legal entity and those connected legally cease to exist. All assets and liabilities of two firms are combined together [2]. Mergers are most likely to occur between competitors, which mean that these companies were from same industry. The way transaction will be declared (merger or acquisition) largely depends on how transaction is perceived by management, employees and shareholders (owners) of the target company. Normally, companies of similar size and economic strength merge together. Name of newly created company usually includes names of both companies [2].

Motives for mergers and acquisitions can be divided into motives of seller and the motives of the acquirer. The most common motive for sellers is to improve efficiency and focus on core activities, while the motives for buyers are truly numerous, and they are never caused by just one motive, but by many of them [3]. Motives for successful merger or acquisition are synergy, improvement of management, diversification, financial benefits, market power, increasing productivity, efficiency, and the price of company shares. In other hand, the motives for international transactions are: consolidation, expansion into foreign markets, access to new technologies and expansion of competences [7].

Mergers and acquisitions tend to give numerous benefits, but the following are some of the most important: the reduction of unit costs, greater availability of capital, achieving economies of scale, developing core competencies to enter new markets, increasing market share, expanding product portfolio and services, eliminating competition, accessing new supply and distribution channels, developing new products, reducing the political, financial and other risks [5].

Unfortunately, it was confirmed in practice that 70% of transactions fail (cannot achieve its primary objective) either because the effects of synergy have been overstated or because it failed to realize in the integration process. The fact that 70% mergers and acquisitions fail suggests that these are a complex, high-risk transactions. The main reasons for failure are usually reckless decisions of the top management in key moments of the transaction. It is important to focus on a good selection of companies that will be acquired, develop a good plan, determine actions that will be taken if an unforeseen situation occurs, explore the information about the company's profits and simulate rates of return on invested capital to avoid losing value for shareholders [8].

For the last fifteen years, mergers have recorded significant growth in the overall economy. The value of international mergers and acquisitions has increased worldwide between the 1990 and 1999 for more than 5 times. The peak occurred 2000th with the so-called "boom of mergers". In recent years, due to the recession and reduced investment security in the world, there is declining trend of such transactions as illustrated in the Figure1.



Fig. 1. Mergers and acquisitions worldwide (1985 - 2010)

Most mergers and acquisitions transactions are recorded in telecommunication, oil and gas industry, banking, pharmaceutical and food industries. The following table shows the largest mergers and acquisitions by value in various industries in the last three years.

Rank	Year	Target	Bidder	Value (mil.\$)	Sector
1	2008	Philip Morris Intl Inc	Shareholders	112955,20	Tobacco products
2	2009	Wyeth	Pfizer Inc	64479,70	Pharmacy
3	2008	Anheuser-Busch Cos Inc	InBev NV	60408,10	Food
4	2009	Rio Tinto PLC-WA Iron Ore Asts	BHP Billiton-WA Iron Ore Asts	58000,00	Mining
5	2008	Merrill Lynch & Co Inc	Bank of America	48766,20	Banking
6	2009	Schering-Plough Corp	Merck & Co Inc	45704,40	Pharmacy
7	2008	Genentech Inc	Roche Holding AG	43655,40	Biotechnology
8	2009	General Motors-Cert Assets	Vehicle Acq Holdings LLC	42979,50	Automotive
9	2008	Time Warner Cable Inc	Shareholders	42129,70	Media
10	2009	RBS	HM Treasury	41878,70	Banking

Tab. 1. The largest deals by value 2008 - 2011

3. THE ROLE OF CONSULTANTS IN M&A PROCESS

Mergers and acquisitions and all activities related to them are extremely profitable. Many opportunities and

income sources in such transactions opened a space for emergence of business consultants. Consultants assist managers during M&A process, develop tactics for the transaction, evaluate the target company and speculate with stock prices of potential transaction candidate [3].

Consulting companies are indispensable part of M&A process. They find companies that want to buy other companies and connect them with those who want to be bought or are attractive to be bought. Considering this as a very lucrative business, consulting companies must nurture its reputation and strive for most valuable transactions. It is the reputation and high rankings that obtain new jobs to them. The following table shows ranking of the largest consulting companies by value of transactions in year 2010.

Rank	Consultant	Value (mil.\$)
1	Goldman Sachs	311229
2	JP Morgan	272109
3	Credit Suisse	263958
4	Morgan Stanley	261356
5	Deutsche Bank	205344
6	Citigroup	179029
7	BoA Merrill Lynch	167414
8	Barclays Capital	158439
9	Lazard	136199
10	UBS Investment Bank	106242

Tab. 2. The largest consulting companies based on the value of transactions in 2010

Many companies today use the services of consultants because of the need for professional assistance and to ensure the outcome of mergers and acquisitions that are expected. Research conducted on a sample of clients who have used services of consultants has shown that the main reasons to seek their help was the complexity of the acquisition deal and solutions and services that only they offer with their focus on a specific problem [10].

Consultants successfully guide clients through the whole process, have a large number of studies and data, know how to solve unexpected problems, leave much more time for the management to deal with the company's core business and its normal operations. Most consulting companies not only provide advice but also offer many other services in order to achieve long-term relationship with its customers. Consulting companies tend to be professional and keep the privacy of clients, ensuring them to achieve goals and reduce their costs as much as possible [6].

Considering all mentioned, the role of consultants in the process of mergers and acquisitions is to advise in the whole process and negotiate within companies, provide assistance to the appropriate team of experts, co-ordinate the advice received from other professionals, such as lawyers, advise on financing transaction, predict the market response to the transaction in cooperation with experts, advice about communications with the public and cooperation with PR agencies and oversee the

preparation of documents related to the transaction in conjunction with top management and lawyers [6].

The nature of possible interventions in transaction varies depending on the specific task that is in front of consultant, the goals of merger or acquisition, and the time (phase) when the consultant came in the process. Consultant's job in mergers and acquisitions is taking place in several phases and that are planning prior to the transaction, the integration plan and implementation and in the end, evaluation of transaction and activities after the transaction [2].

In the first phase, the consultants must determine that the top management is fully aware of the activities that follow and that they are aligned with the strategic goals of the organization. The major activities of the preparations for the integration phase are appointment of persons responsible for the integration process (integration team), development of communication plan, the establishment of a unified organizational structure of merged company, making decisions about the necessary changes and assessing their effects, and making an integration plan [10].

The client should be fully aware of entire transaction and introduced that non-financial factors such as culture, human resources, information technology could cause problems, or at least higher costs in post-integration stage of transaction. Finally, this stage emphasizes what will be required for successful merger or acquisition.

In next phase, all efforts must be focused on the implementation of the transaction, which means that the role of consultants in this stage is to find ways to achieve the best possible cooperation and communication between the two companies, to organize a meeting of top management of both companies and work on problems and disagreements that may arise.

At last, in the post-integration phase, consultants follow the process of merger and acquisitions, calculate return period, adjust the organizational structure of the two organizations, address the issue of back office technology, manage change and technology, and possibly correct unwanted behavior and reactions. It is especially important to motivate employees to begin to focus on the interests of the new company.

While the top management is particularly encouraged by the new situation, the employees often report the "merger syndrome" or anxiety and fear because of cultural differences, differences in doing business and limited communications. To avoid organizational problems, the consultants in collaboration with management prepare employees for change [1].

4. ANALYSIS OF CONSULTANTS' ACTIVITY IN FINANCIAL INDUSTRY

To explain the role of consultants in the process of mergers and acquisitions, an analysis based on secondary data about mergers and acquisitions in Europe (European Union countries) and Southeastern Europe (Croatia, Bosnia and Herzegovina Serbia, Macedonia,

Montenegro) was gathered from Mergermarket database. Analysis covered consultants' activity in the financial industry.

Under the influence of global connectivity and standardization of various financial markets, technology, financial flows, knowledge and control, it a unique global financial market which offers many new features is created, and is particularly suitable for transactions like mergers and acquisitions. Most mergers and acquisitions are happening in banking industry, and the most common reason for that is penetrating to foreign markets in order to expand client base and improve market position [1].

Rank	Bank	State
1	BNP Paribas	Paris, France
2	Deutsche Bank	Frankfurt, Germany
3	Mitsubishi UFJ Financial Group	Tokyo, Japan
4	Credit Agricole S.A.	Paris, France
5	HSBC Holdings	London, England
6	Barclays PLC	London, England
7	Royal Bank of Scotland Group	Edinburgh, Scotland
8	Bank of America	North Carolina, USA
9	JPMorgan Chase & Co.	New York, USA
10	Citigroup	New York, USA

Tab. 3. The world's biggest banks by value of capital

These banks are not the greatest without reason. Most of them have become giants after merging with another bank. Specifically, Citigroup was created by merging Citicorp and Travelers Group, JPMorgan Chase by merger of JP Morgan and Chase Manhattan Corporation, Bank of America by merger of Bank America Corp and NationsBank Corp (in 2008 Merrill Lynch was merged) and BNP Paribas by merger of Banque Nationale de Paris (BNP) and Paribas.

The biggest transaction occurred in 1999 when Citicorp and Travelers Group merged and the transaction was worth 72.5 billion dollars. In September 2010 Deutsche Bank AG bought 70% of Deutsche Postbank for 3.8 billion Euros and it was the largest transaction in the financial market in Europe in that year. The following table shows the top consultants by highest value of transactions advised.

	Consultant	Value (mil.€)	No. of transactions
1	Morgan Stanley	165780	89
2	Deutsche Bank AG	129407	70
3	Credit Suisse	125828	50
4	UBS Investment Bank	111640	61
5	Citigroup Inc	103049	53
6	JPMorgan	99203	59
7	Goldman Sachs	69504	58
8	Lazard	67773	52
9	SG	55615	22
10	Rothschild	49807	90

Tab. 4. Top consulting companies in the financial sector in the European Union in period 2008 – 2011

The most valuable transaction was led by Morgan Stanley in 2010 and it was selling Eversholt Rails Group for amount of 16 800 Euros to investment fund owned by 3i Infrastructure plc, Morgan Stanley Infrastructure Partners and STAR Capital Partners Late 2010. Consultant company Deutsche Bank has conducted its biggest merger: Caja Madrid, Bancaja, Caixa Laietana, Caja de Ahorros de la Rioja, Caja de Avila, Caja Insular de Ahorros de Canarias, Caja Segovia created a new group for amount of 28 million Euros.

In 2010, the largest transaction led by Credit Suisse was the Nautic Partners LLC and The Jordan Company LLC who bought Milestone Aviation Group, the first specialized financial organization for leasing of the helicopters and private jets.

In the area of South Eastern Europe in the financial sector, there were three deals for which were led by consulting companies.

Rank	Consultant	Value (mil.€)	Number of transactions
1	Phalanx Capital	38	1
2	PwC	23	1
3	Deloitte	14	1

Tab. 5. Top consultants in the financial sector in South Eastern Europe in period 2008 -2011

Phalanx Capital led the takeover of Invest bank AD Skopje by Steiermaerkische Bank und Sparkassen AG (Austrian savings bank) for 37.1 million Euros. In September 2008 Demir Halkbank Bank of the Netherlands buys 65.54% of IK Banka for 22.3 million Euros. This transaction was led by a consultant from the consulting firm Pricewater house Coopers.

5. CONCLUSION

The globalization that has engulfed the world made the rules of the market game today much different, created a completely new context of strategic business activities of companies and increased the trend of mergers and acquisitions of corporations. Such transactions are very complex and therefore, during such processes, companies use consulting services. The role of consultants during acquisition process must be adapted to the objectives of each phase of the acquisition process.

Consultants advise how to negotiate, they provide appropriate assistance of team of experts, coordinate advices received from other professionals such as lawyers, consult on financing of transactions, predict market response to the transaction in cooperation with experts, offer solutions for unexpected problems and give advice about communication with the public. The research based on data of M&A in the period since 2008 until 2011 show that the significant role of consultants. Their role is much more evident as the good practice in EU, while in South East Europe is still only a rare case.

Future research should go towards more thoroughly analysis of cross-industrial and cross-national consultants' activities in M&A. Nevertheless the next

step should be the identification of consultants' impact on transactions success.

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