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# ASIAN MERGERS & ACQUISITIONS

Riding the Wave

VIKRAM CHAKRAVARTY  
CHUA SOON GHEE



# **Asian Mergers and Acquisitions**

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Published in 2012 by John Wiley & Sons Singapore Pte. Ltd., 1 Fusionopolis Walk,  
#07-01, Solaris South Tower, Singapore 138628

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ISBN 978-1-118-24709-9 (Hardcover)

ISBN 978-1-118-24712-9 (ePDF)

ISBN 978-1-118-24711-2 (Mobi)

ISBN 978-1-118-24710-5 (ePub)

Typeset in 10/13 pt. Photina-Regular by MPS Limited, Chennai, India.

Printed in Singapore by Markono Print Media.

10 9 8 7 6 5 4 3 2 1

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# Foreword

**A** SIA CAN BE A tricky place to do business. With its multitude of cultures and languages coupled with the fragmented nature of its markets and the diversity of its customers, the risks here are incredibly varied. The potential pitfalls are many, whether for a company intending to expand into Asia or an Asian company that is hungry for growth via acquisitions. Having run Asian businesses for several Western companies in the past decade, I have had direct experience with the challenges of operating in the region and, in particular, doing deals.

Yet it is hard to imagine a multinational corporation that would not have “expansion in Asia” somewhere near the top of its list of priorities. Indeed, after the significant downturn in most Western markets, Asia is the only sustainable growth story. Besides being the home of manufacturing for most of the world’s products, domestic demand in Asia has also seen a step increase as urbanization grows and more Asians get wealthier. This presents the perfect environment for game-changing acquisitions.

With all of these aspects in mind, this excellent and accessible guide to mergers and acquisitions (M&A) in Asia by Vikram Chakravarty and Chua Soon Ghee is timely, essential reading for anyone either within Asia considering growth through acquisition or outside Asia wondering how best to get in. With the distinction of being the first book on the subject over the past six to seven years, coinciding with a time when Asia has been on the rise, this book is a practical “thought map” to guide your M&A strategy for the region, punctuated with well-placed case studies that offer a quick grasp of the key issues.

In the first part of the book, the authors make the case for how a wave of Asian M&A will define the next decade and how companies that ride this wave will emerge bigger and bolder than ever before. Statistics, examples, case studies, and market comparisons give weight to this proposal. In the second part, the authors go on to identify what it takes to win in Asia and give a step-by-step guide on how companies can get it right. Years of consultancy experience,

coupled with high-quality analysis, have resulted in conclusions that are compelling and include insights that corporations will do well to consider and adopt.

The authors take the opportunity to share their extensive analysis of emerging prospects for M&A in the government-dominated sectors of Asia. Their insights into the need for more acquisitions in these sectors, both where it is appropriate and where it never will be, give both executives of state-owned enterprises and those seeking to do business with them a great basis for where their strategies should be pitched.

As Vikram and Soon Ghee point out, A.T. Kearney research has shown that fewer than half of all M&As are successful and only 25 percent of mergers in Asia deliver on their value promise. However, the right combination can reap great rewards. As leader of the global integration of Dyno Nobel following its 2005 acquisition by Orica, I know firsthand how significant value can be created if a company can get its integration and synergy delivery right. Techniques such as the 100-day plan and establishment of a clean room described in the book have been found to be critical in expediting the entire integration process. Readers will be able to relate to issues around leadership and management structure, communication challenges, seamless transfer of customers, cultural integration and the like. The difficult subject of managing cultural differences is explained in depth. Identifying and managing all of these issues and many others is essential in a good M&A implementation strategy and is dealt with in an excellent manner, with real-life examples and innovative suggestions on how to avoid pitfalls and accelerate value capture. Research has also shown that most of the value of an integration exercise needs to be captured in the first 12 months, failing which it becomes an uphill task to deliver the promised benefits. The preparation and planning described in the book are therefore vital to success.

Vikram and Soon Ghee's message is clear. The time for M&A in Asia is now. Asian companies have gained stature and confidence, and dealing with them from both within Asia and outside requires unique skills and techniques. This book provides the insights necessary to help achieve that winning combination, an understanding of why M&A in Asia is different, and then strategies for leveraging those differences to add value and opportunity to your deals. It is a compelling read, and I recommend it to anyone considering M&A in Asia. Enjoy the book and equip yourself to achieve outstanding, value-creating deals.

Sanjay Dayal  
Chief Executive, Asia  
BlueScope Steel Ltd.

# Preface

**W**E DID NOT START OUT wanting to write a book about Asian M&A. For the past decade or so we have been mulling over how to improve the competitiveness of Asian companies. After having seen the onslaught of Western multinational corporations in the late 1990s, Asian companies have risen in their global ranking and prominence. Indeed, there is a large number of firms that are now global household names, listed on U.S. or U.K. stock exchanges and increasingly featured in business school case studies.

In our opinion, many of these firms have achieved global excellence despite the poor industry structures in their home markets—where there is deep fragmentation, low differentiation, poor management practices, and the inevitable copycat strategies and price-based competition. To win, many Asian champions have had to expand abroad, acquiring established firms and building from there.

We see M&A as a critical driver of industry structure and future competitiveness in this region. However, mergers and acquisitions have been slow to come to Asia. Though deal activity is heating up in Asia, the industry endgames are still far away and dealmaking is still in its infancy. We expect the coming decade to be critical for Asian M&A and therefore the competitiveness of Asian industry. The Asian M&A story is expected to unfold rather differently, and perhaps unpredictably, from the patterns established in the developed markets of the West.

This book attempts to lay out the best ways to think about M&A and the associated industry consolidation, and explains how to make M&A work for Asian companies in their drive to become regional and global champions.

Vikram Chakravarty  
Chua Soon Ghee



# Acknowledgments

**W**RITING A BOOK IS hard work, and it could not have been done without the help and support of many colleagues and friends, especially those from our Southeast Asia unit. We would like to thank everyone who has contributed in ways large and small to our book, especially the following:

- We could not have written this book without Cris Prystay, who helped us craft it and put our thoughts into words, and Vu Kim Ngan, who was tireless in doing much of the research, as well as Patricia Sibó, T. Govindasamy, Janice Tan, Gerald Hoe, Jaron Tay, Francine Tan, Bai Zhiyong, and Akrit Soin, who helped out in one way or another in research, graphics, editing, and proofreading.
- We leveraged prior A.T. Kearney white papers, articles, and presentations for the book. Special mention goes to Jürgen Rothenbücher, who is one of our firm's leading thinkers on M&A and who has written extensively on the topic. There are also many others who have written on ideas we have touched on in this book. They include Joerg Schrottke, Naveen Menon, Martin Handschuh, Badri Veeraghanta, Mui-Fong Goh, Sumit Chandra, Sandra Niewiem, Sebastian Declercq, Phil Dunne, Simon Mezger, Christian Hagen, Pablo Moliner, Marcy Beitle, Arjun Sethi, Jessica Milesko, Alyson Potenza, Chee Wee Gan, Jeffrey Perry, Thomas Herd, Karambir Anand, Jian Li, Francesco Cigala, Kiran Karunakaran, Jason Miller, Tejal Thakkar, Abha Thakkar, Tammy Ku, Adam Qaiser, Rizal Paramarta, and Navin Nathani.
- A few partners and consultants have contributed time and energy to patiently expand on some of the ideas and examples we have incorporated in the book. Besides Chee Wee, Badri, and Karambir, whom we have mentioned above, we would also like to thank Yasushi Kubokawa, Akifumi Hirao, and Saurine Doshi for their contributions.

- Special thanks goes to Nick Melchior, who gave us the opportunity to work with a prestigious publishing firm, and Joon Ooi, who as unit head of Southeast Asia gave us unqualified support for the work.

Finally, this book is a deep collaboration between two authors who have worked closely over the past decade. We would like to give thanks to the large number of business leaders whom we have interacted with over the past decade, and who have helped us understand the world of business and the true essence of competitiveness.

# 1

## Asia Rewrites the M&A Rules

**C**ONSOLIDATION FOLLOWS A FAIRLY predictable pattern in developed economies in the West: Big fish eat little fish in the domestic market, and a small handful gains dominance of the pond. These dominant players start looking for targets abroad after they've built might and muscle at home. Domestic consolidation precedes global mergers and acquisitions (M&A).

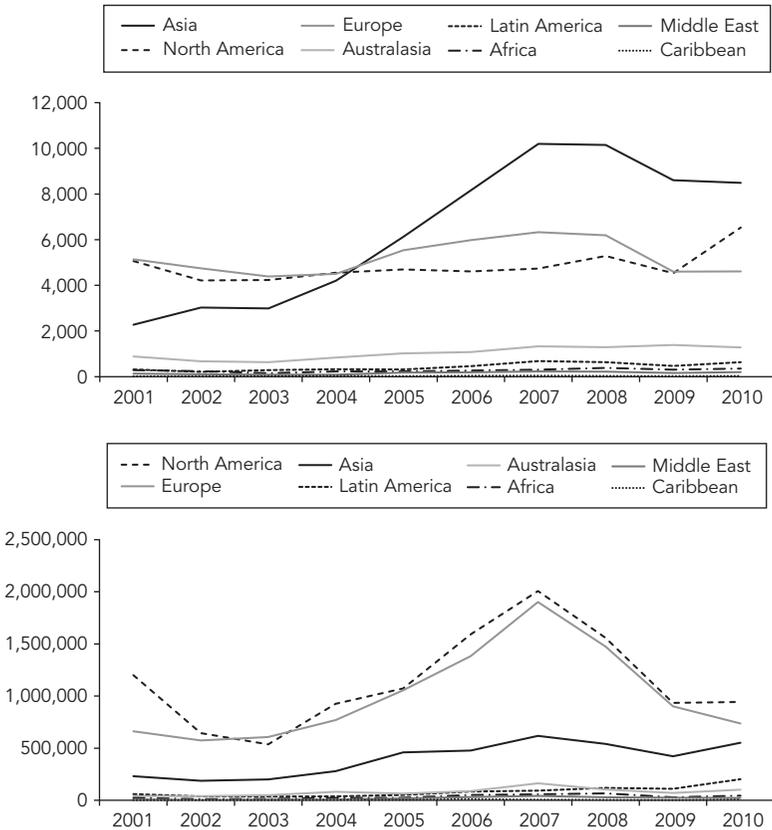
Nobody, however, told that to India's Tata Tea.

In February 2000, Tata bought Tetley Tea, a 160-year-old British company and one of the world's best-known tea brands, for \$431 million. Tata Tea, a relatively young company, was one of many players in India's large, diverse tea sector that had yet to go through consolidation. That didn't stop Tata from heading overseas or homing in on much bigger prey. Tetley Tea was three times the size of Tata.

Asian companies are rewriting the rules on M&A. Small Asian players are buying large Western brands. Asian companies that compete in crowded, fragmented domestic markets are snapping up competitors over the border instead of in their own backyard. Waves of consolidation are sweeping through Asia, but it won't play out in a textbook fashion. The reasons Asian companies undertake M&A are different, the way they approach M&A is different, and the way Asia's consolidation story will play out will be different, too.

## DEAL ACTIVITY IS ON THE RISE IN AN ASCENDANT ASIA

The plot of this particular story is starting to thicken. Asian companies emerged from the 2008 global financial crisis and entered the 2011 slowdown in a stronger financial position than many of their Western peers; they're relatively cash rich and hungry for acquisitions. Strong Asian currencies are giving these companies plenty of firepower as is the legion of investment banks competing to grow their loan books in Asia, one of the few growth markets around. Numerous sectors in the region's emerging markets, meanwhile, are ripe for

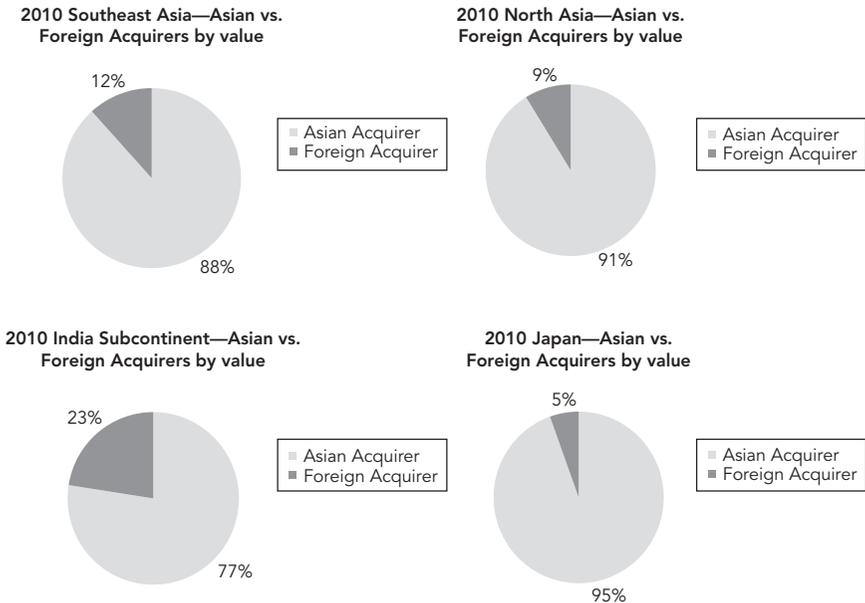


**FIGURE 1.1** Global M&A Deals by Volume (top graph) and Value (bottom graph, in USD millions)

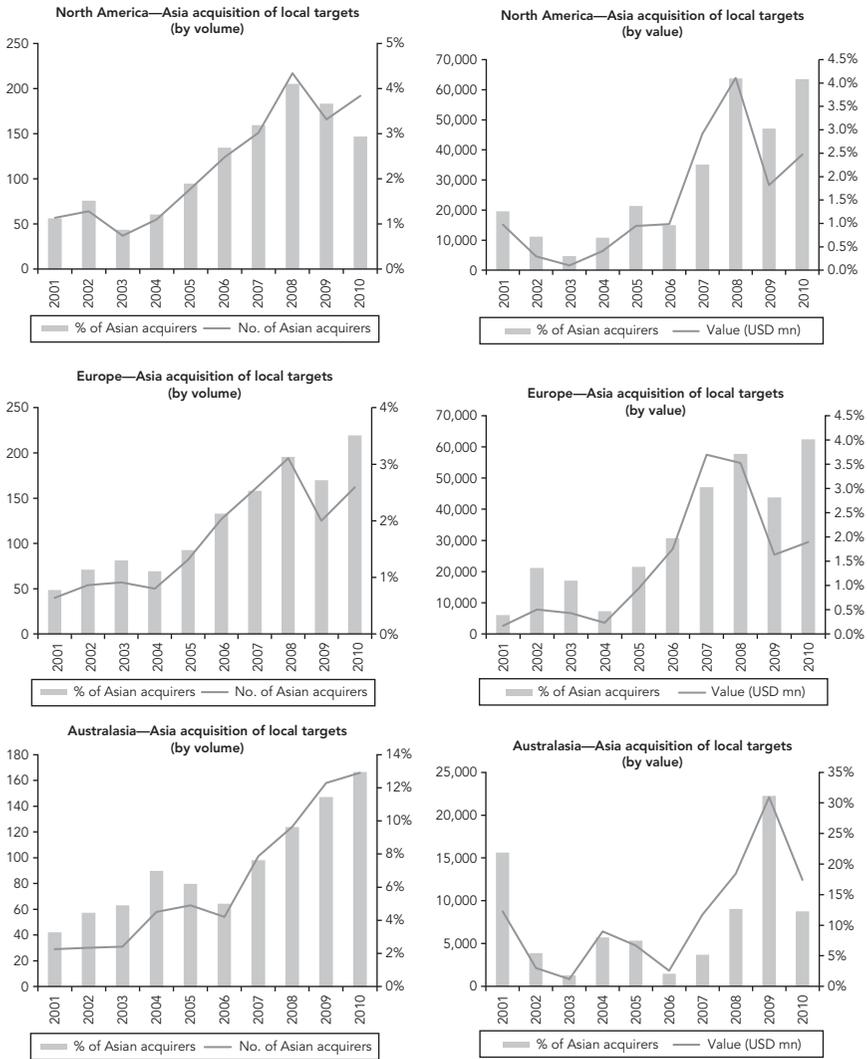
Source: Dealogic.

consolidation. Western companies, anxious to tap one of the world's strongest bastions of growth, want to get skin in the game. These multiple drivers are all playing out in the numbers.

Asia Pacific was the most active deal region in 2010, reporting over 8,300 mergers or acquisitions that involved an Asian company as the buyer or seller, according to Dealogic (see Figure 1.1). That figure outstrips Europe and North America by volume. North America and Europe account for more global M&A deals by value, but Asia is trending upward at a time when those two markets are declining. Asia nearly tripled the value of deals between 2001 and 2010, from \$230 billion to \$552 billion, and more importantly, it has increased its share of the world's M&A pie. Back in 2001, Asia's share of global M&A was one-fifth of North America's and one-third of Europe's share. By 2010, the picture was markedly different: Asia's share was about half of North America's share and slightly more than half of Europe's share, according to Dealogic.



**FIGURE 1.2** Asian versus Foreign Acquirers in 2010, by Value: Southeast Asia, North Asia, Indian Subcontinent, and Japan  
Source: Dealogic.



**FIGURE 1.3** Asian Acquisitions of Foreign Targets (by volume and value): North America, Europe, and Australasia  
 Source: Dealogic.

China and India are fueling this growth, with a growing appetite for acquisitions. China chalked up \$112 billion worth of in-country deals in 2010, up 120 percent from 2007. India’s M&A streak was equally hot. The value of deals done in India grew by 198 percent to \$45 billion. The number of in-country deals doubled in both markets during that same period.

Pull these numbers apart, and the story gets more interesting. Asian companies are driving most of the region's M&A boom, inside and outside Asia. They're snapping up domestic competitors, regional companies, and global brand names in Western markets faster than ever before. Asian companies are pouring into Europe and North America.

Asian acquirers accounted for 91 percent of deals done in North Asia in 2010, 88 percent of deals in Southeast Asia, and 77 percent in the Indian subcontinent (see Figure 1.2). The number of Asian companies making acquisitions in North America more than trebled between 2001 and 2010 and quadrupled in Europe in the same period (see Figure 1.3). They're having a huge impact, too. India's Tata, which also owns Jaguar Land Rover and Corus Steel, employs 40,000 workers and is now the United Kingdom's largest industrial manufacturer, according to *The Economist*. (For more on Tata, see *Tata Tea Leads Global Acquisition Charge*, in Chapter 3.)

Mergers and acquisitions are going to dominate Asia's business landscape over the next decade. Every company interested in Asia needs to understand how this will play out in their particular industry. Asian companies, meanwhile, need to invest more time developing a solid game plan. Deal activity may be picking up steam, but Asian companies are relative novices when it comes to M&A. Many Asian companies don't plan for it, and few executives have much merger expertise. We believe Asian companies that understand why M&A in Asia is different—and figure out how to capitalize on that—will emerge as champions of their industries. In Chapters 5, 6, and 7, we've created an M&A primer for Asian executives on how to plan and execute a successful integration.



## NATURAL PROGRESSION IN M&A, THE ASIAN WAY

Consolidation is a natural consequence of free market forces. Companies acquire local competitors when markets get crowded, growth slows, and margins sag. In Asia, certain barriers remain that impede and redirect the natural forces and currents of a free market flow. Government-linked companies dominate certain sectors and often resist consolidation; some industries in certain countries, meanwhile, remain protected, like Malaysia's oil, China's steel, and India's retailing industry. We focus on this trend in Chapter 4, and talk about how Asia's public sector could revitalize itself through M&A. Family-run companies also have a strong presence across Asia, and they don't always make decisions based on financial reasons alone. Many have rejected good acquisition offers to hang on to control.

More cross-border M&A activity is occurring in developing Asia than analysts would expect, given the stage of development of the region's economies. The classic call would be long on local consolidation and short on cross-border activity in the region's more fragmented industries. These made-in-Asia barriers, however, are driving acquisitive companies over the border or overseas earlier than you'd expect in a textbook consolidation wave.

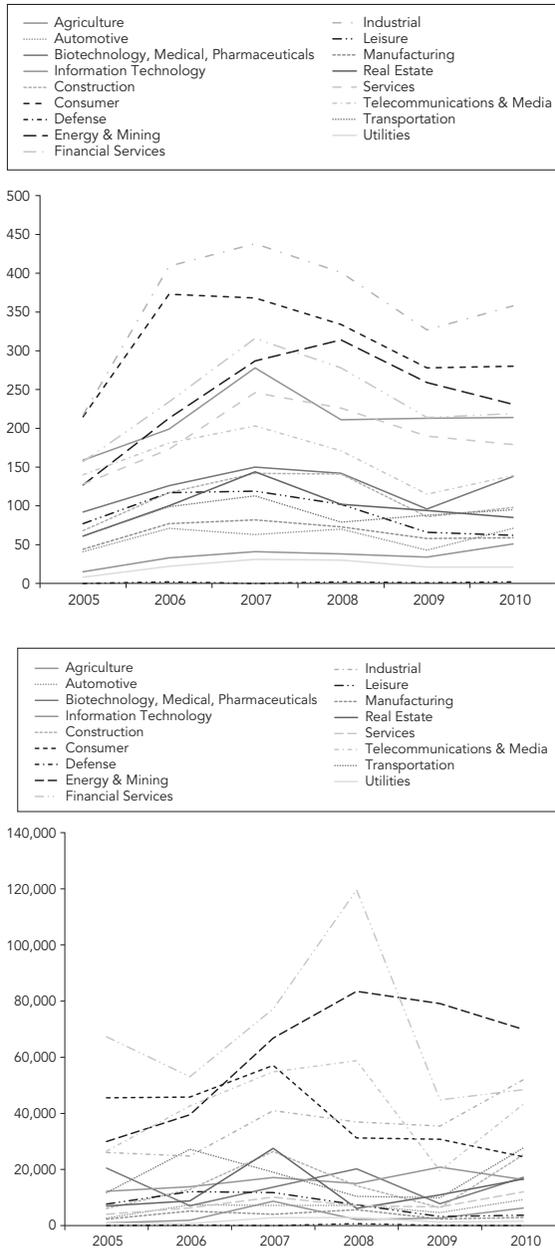
It's not just push—there's plenty of pull. Asian companies are moving fast to acquire regional or global competitors to gain access to new markets, new technologies, new brands, more resources, and better research and development capability. These companies want to use their capital to catapult up the value chain, in double time. We examine this trend in detail in Chapter 3.

Asia is also home to a diverse and fragmented set of consumer markets, which gives another twist to the consolidation story. Income levels are all over the map, with a wide range of affordability. A wide variety of ethnicities, languages, and cultures impacts consumer tastes and preferences. What customers in one country might need and want differs among the provinces, never mind among consumers in the country next door.

This particular scenario will redefine the outcomes of Asia's merger endgame. In the West, a small handful of large companies dominate a market after various rounds of consolidation. Two or three big players will typically command a 60 to 70 percent share. Free market advocates argue that industries naturally settle into a situation where an optimum number of sizeable players command control, earning economies of scale that allow them to thrive and pass the best prices on to consumers.

Asia's fragmented markets will give rise to series of sub-segments at different price points within each market. Coca-Cola, for example, might dominate a national soft drinks market, but local soft drinks that cost less and come in flavors that appeal to local tastes will dominate specific segments. Local companies with strong consumer insight will have the edge in segmented markets like this. Industries, meanwhile, will not be dominated by an "optimum" number of large companies. Consolidation will play out along these segmented lines, giving rise to what we call "local optima," meaning small clusters of local champions that will dominate different price points or subcategories. We go into depth on this in Chapter 2. Asian companies that can start planning now, while their industry is still in the nascent stage, can make tactical moves that will put them ahead of the curve before the industry matures.

Asia's industrial and consumer sectors, along with energy and mining, are the hottest deal sectors (see Figure 1.4). Asia's energy sector chalked up a whopping \$70 billion worth of M&A deals in 2010, according to Mergermarket.



**FIGURE 1.4** Asia M&A Deals by Sector, by Volume (top graph) and Value (bottom graph, in USD millions)

Source: Dealogic.