SECOND EDITION

INTELLIGENT M&A

NAVIGATING THE MERGERS AND ACQUISITIONS MINEFIELD

SCOTT MOELLER & CHRIS BRADY

WILEY

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To my wife, Daniela, and my children,
Christine, Andrew, Ellen, and Jonathan
SM

To my wife Anita, with love
CB

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INTRODUCTION TO THE SECOND EDITION

The first edition of this book was published in 2007, the year that set the record during the sixth merger wave for merger and acquisitions (M&A) activity – a level that was double the current levels as we write this book. It was often described as a period of "merger frenzy," and given the many failed deals from that era (most notably in the financial services sector, but in other industries as well), the number of deals was clearly too high.

It is therefore timely for an updated second edition of *Intelligent M&A*. The "pre-Lehman" bankruptcy world was very different from the world six years – and a global recession – later. The M&A market has changed as well, perhaps in some very healthy ways as more and more research is being published which shows that boards of directors and shareholders are much more reserved in their pursuit of consolidating activities, such as mergers or acquisitions. Those deals that do take place appear to be better grounded in strategy and priced more rationally. The froth is off the market. If we can be so bold as to say so, it appears that many of the recommendations in the first edition of this book have been implemented, although we certainly are not claiming credit for these changes but rather see the first edition as a reflection of the changes already underway at the time. More is still needed to continue to improve the success of M&A deals, and thus we have written this new edition.

Some things haven't changed in the intervening six years since that first edition, nor indeed since the first deals were done over a century ago. In the realm of corporate activity, mergers and acquisitions have played and will continue to play a defining role in shaping the corporate landscape. Research in 2012 from Sanford C. Bernstein & Co., the equity research firm, showed that the probability that an American Fortune 1000 company will pursue a significant merger in any one year is 30%. Given the breathtaking pace at which M&A transactions transform corporations and the sheer scope and scale of modern-day deals, it is no surprise that the work of investment banks and corporate finance boutiques has come to dominate the headlines. Yet, for all the bravura of M&A, such transactions also carry a high degree of risk as a result of the premiums paid and the organizational upheaval caused. Indeed, our studies show that 40–50% of a company is potentially at risk when an acquisition occurs. The lament heard after most failed deals is that certain elements were not known, indeed it will often be claimed that they could not have been known. Any intelligence specialist will tell you that all things are knowable – it is merely a question of how badly you want to know and how hard you are prepared to work to acquire that information.

For definitional clarity, when we talk about "business intelligence" (often called "competitive intelligence," particularly in the US) we are referring to the "business intelligence *function*" not the hard and soft information systems that have identified themselves as "b systems." The function itself (sometimes called "corporate intelligence") is a vital aid to managerial decision making in any industry and at any time. By furnishing companies and other organizations with detailed and timely information about the commercial and competitive environment, the "art" of intelligence enables companies to determine more accurately where they have been, to orientate themselves in the present, and to plan for the future.

No more so than in the field of mergers and acquisitions, where so much risk attaches, business intelligence acts as a robust yet dynamic tool, providing company executives and other decision makers with the capability and wherewithal to make the necessary rational business decisions that will enable them to lead their organizations towards achieving their desired corporate objectives. By systematically acquiring and analyzing data, information, and knowledge, business intelligence makes a significant contribution not only to establishing, but also maintaining, a long-term competitive advantage. This is especially critical in the often-hostile "heat of the battle" of an acquisition takeover.

The idea for the first edition of this book emerged seven or eight years ago from the normal office banter in the room the two authors shared at Cass Business School, City University London. At the time, Chris Brady taught an MBA course on Business Intelligence which drew on his own experiences as an intelligence analyst during his service in the Royal Navy. Scott Moeller taught (and still does) a course in Mergers and Acquisitions that attracts more students than any other elective in the business school, and builds on his many years in the investment banking and private equity worlds. We had opportunities to overhear discussions that the other would be having with students, faculty, and industry practitioners. We realized the interconnected nature of the two fields we each studied and decided to connect our two disciplines for the benefit of the students. The natural extension of that decision was to extend the result of our collaboration into the book you are now reading.

This book shows that by employing first-rate and even sufficient intelligence as part of the M&A process, companies are able to achieve a higher degree of commercial success from those transactions. We will provide examples where, unfortunately, the opposite is also true, when companies ignored obvious and sometimes not-so-obvious intelligence possibilities. In the bear pit of corporate finance, to enter into the realm of high risk/high reward deals other than with one's eyes and ears wide open is undoubtedly to tempt fate. In this day and age, only the bravest (or the most foolish) would willingly or knowingly do so. It is intelligence that provides the information that the eyes and ears transmit to the brain.

Using business intelligence techniques in a takeover is not simply a matter of doing some things better, such as due diligence where business intelligence techniques are already widely used. Instead what is required is a change in approach or method from the inception of the deal idea through to post-deal integration, which often takes years, if not decades, to complete. In fact, the bottom line regarding the common ground of business intelligence and acquisitions is that management must work to ensure that the process is linked in a meaningful and productive way from start to finish. Understanding the value of intelligence requires a change in mindset for most executives and organizations. This was true when we wrote the first edition and is perhaps even more relevant in an economy that is much less forgiving than in the middle of the first decade of the new millennium.

One successful example that we shall be discussing is that of Johnson & Johnson who proactively work to link their takeover actions with their strategic intent at every step of the way. We shall see how, instead of merely focusing their attention on clinching a deal, they remain absolutely committed to only pursuing targets that are continuously relevant to their strategy; they then follow through their actions in such a way that the expected value from the deal is created.

As we turn towards our conclusions, it will hopefully have become clear that business intelligence in all its shapes and forms adds ". . . color and context to the M&A environment . . . ," as the Corporate Development Director of Friends Provident plc told us seven years ago. This serves to oil the cogs of the M&A machine and enables deals to be maneuvered towards a satisfactory conclusion for all the parties involved. It is increasingly clear that the role of business intelligence – both unmistakable and irreplaceable – has the opportunity to transform the mergers and acquisitions marketplace, providing a pole star for participants, a focus for questioning, and a useful steer for information gathering. While ignored in the future at the peril of any participants in an M&A deal, business intelligence – however discreet and reserved – must constitute a core element that will drive successful transactions. Without it, modern M&A activity – defined and shaped by the complexity of our modern financial and commercial environment – would be entirely different. We have seen evidence of this in the greater success of deals conducted since the last merger wave started in 2003. Nevertheless, certain companies continue to struggle with their M&A deals. Hewlett-Packard Co., according to Bloomberg, wrote down over $20 billion in 2011 and 2012 because of four earlier deals: the merger with Compaq in 2002 ($1.2 billion, representing 4.7% of the deal's value) and the acquisitions of EDS in 2008 ($8 billion, which was 61.5% of the deal value), Palm in 2010 ($0.9 billion, a massive 114% of the deal value), and Autonomy in 2011 ($8.9 billion, 85.4% of the deal which had been concluded just one year earlier).

At his trial in January 2004, Joachim Funk, the former Board Chairman of Mannesmann (now part of mobile telephony global giant Vodafone plc) casually referred to hostile M&A deals as being somewhat ". . . reminiscent of a battlefield . . . ," no doubt a telling and perceptive description of the scene after many corporate transactions. Others are fond of quoting Sun Tzu and Machiavelli, or generals such as Napoleon and George Patton. Yet, while corporate language is replete with military jargon there is less usage of the term "intelligence," despite the fact that it is the use of intelligence in a commercial context – enabling companies to leverage their superior knowledge and insight to prevail over their rivals – which provides the greatest parallel between the universe of the soldier and that of the businessman. Those same military leaders were careful to note that they only acted when they felt they had the necessary intelligence at hand, and action without the necessary intelligence was reserved for either the inexperienced or desperate.

In any M&A transaction, company executives – like the generals in the midst of a military battlefield – ultimately need to rely on extensive intelligence as an aid to ensure that campaigns are waged, fought, and won for their shareholders with the greatest probability of success. Indeed, given the sometime abundance of corporate outfits and private equity houses chasing the same limited number of deals, intelligence becomes not just a "nice to have" but a fundamental and indispensable tool without which contestants should not consider entering the M&A "ring." This is particularly important in a period of recession, when any mistake will be amplified. Summed up by a journalist at *The Guardian* as ". . . the commodity that really matters in the knowledge economy . . . ," intelligence enables companies to get ahead of the game at the very moment that the corporate stakes are highest.

This book is structured to provide an introduction to the mergers industry and the field of business intelligence. It then works through the topics relevant to any M&A deal from the beginning, when the deal is only a strategic idea, through the post-deal period. In each phase, we show not only best practice but also how business intelligence techniques can be applied to improve the likelihood of a deal succeeding. As practitioners, we have included in each chapter a number of illustrative case studies from our own experience and those of others. Accordingly, the book is designed to provide ideas to develop further and is not heavy on proscriptive to-do lists. This material is designed to be used by decision makers in companies and indeed non-profit and government organizations contemplating merging or acquiring (or being acquired). There is also a personal element to being an employee or manager in a company that is going through an M&A deal. In the first edition of this book, we added a chapter to provide some hints about how staff can personally best survive a merger, either from the target or bidder's side. Scott has now developed this into a full book (*Surviving M&A: Make the most of your company being acquired* (Wiley, 2009)) for those who want further guidance on what they should personally do if their company is being acquired.

As also shown by the case studies in this book, each deal is unique. We have tried to provide examples from many industries, although geographically they are concentrated in the UK and the US. We believe that these examples will be very helpful for anyone engaged in the M&A field, especially in providing ideas from outside your own industry. We have also provided an extensive bibliography to steer readers to further examples and discussion. For many of the topics in this book – such as strategy, company valuation, and negotiation – an entire library could be filled with books written about those subjects that we have only been able to discuss within the context of the intersection of the fields of business intelligence with mergers and acquisitions.

We are indebted to a number of people in producing the research and text of this book. Two of our MBA students at Cass Business School, Robert Gershon and Tamara Kanafani, helped us with researching the role of business intelligence in mergers and acquisitions for the first edition, and much of that material

remains relevant and is included here; a number of other students and faculty too numerous to mention have also provided case studies or inspiration for sections of this book, but special note and appreciation go to Lisa Abshire, Javad Ahmad, Aparna Belapurkar, Ekaterina Chalova, Alina Chapovskaya, Tom Christie, Debi Davidson, Anna Faelten, Adam Grabowiec, Amit Gupta, Maslin Istaprasert, Yulia Korotkikh, Juan Martin Linares, Ana Maria Mora Luna, Natalia Mackowiak, Neil McFerran, Simon McGarry, Omotoye Makinde, Richard Odumodu, Otaso Osayimwese, Andrew Peters, Marianna Prodan, John Richardson, Jeetesh Singh, Ebru Ergun Toros, Didier Varon, and many other students of ours at Cass Business School, Steve Allan of Towers Watson, David Welsh of Insead, Philip Whitchelo of Intralinks, Chris Mouchbahani, and many others named throughout the book who provided quotations for us about the M&A market. Catherine Stokes and the editors at John Wiley have made sure that what is in our thoughts has been reflected properly on paper, although any errors are certainly ours and not theirs. And our families have been understanding in the time that we spent with the manuscript and not with them, now for the second time. Thanks to all.

CHAPTER 1

THE NEED FOR INTELLIGENCE IN MERGERS AND ACQUISITIONS

Mergers and acquisitions are an integral part of the global strategic and financial business landscape, whether one is part of the acquiring company, the target, a competitor, an advisor (including investment bankers, accountants, lawyers, and many others), an investor, a regulator, or someone living or working in the neighboring community.

Although fluctuating widely from periods of peaks and troughs of merger activity, the baseline size and growth of mergers is clear. In fact, the "slow" period of activity in 2002 was well in excess of the "peak" of activity in the late 1980s. Even the downturn following the financial crisis of 2007 and 2008 saw levels of M&A activity remaining well above $2 trillion annually for at least six years, which isn't much of a downturn when compared to levels only a dozen years earlier. At the time of writing, it is unclear whether M&A deal volume will increase or not from that level but, whether up or down, the absolute number of deals will certainly remain high.

Yet despite this impressive level of activity, mergers and acquisitions are often misunderstood and misrepresented in the press and by those who are engaged in each transaction. Deals, especially when hostile, cross-border, or among large companies, might be front-page news (and interestingly there are some days when *every* story covered on the first page of the *Financial Times* is about an acquisition), yet there is a great deal of conflicting evidence as to whether they are successful or not. This can sometimes be a function of senior management focus: for example, when we have observed boards during M&A deals, they often appear to spend more time discussing the new corporate name or the color and design of the new corporate logo than the key decisions regarding senior management positions or culture. Fortunately, our own research has shown improved performance from companies that make acquisitions, especially since the merger wave that began in 2003, so perhaps the focus on key integration decisions is changing.

Why do the public and many managers still believe that most deals fail? Partly, this is due to the propensity of journalists to write about the less successful deals. These make for great stories in the financial and popular press. Together with the (outdated) conventional wisdom that most deals fail, this creates a negative bias for the financial community that can result in a form of groupthink whereby investment managers and other equity analysts, as well as individual investors, are more likely to ignore positive information and mimic each other's negative investment decisions. This herd behavior has certainly resulted in many M&A deals not being accurately assessed on their own merits. In M&A, bad news appears to be a more popular subject with readers, who are more interested in value-destroying deals, than those executed smoothly, successfully, and often quietly.

That said, there do seem to be some inviolate truths about M&A deals:

1. Many fail to deliver the promised gains to shareholders.
2. Boards, CEOs, senior managers, and advisors pursue deals for personal reasons.
3. Success with one deal doesn't guarantee success in the next deal.
4. Deals have a momentum of their own and this means that they don't get dropped when they no longer make sense.
5. The deal doesn't end when the money changes hands; in fact, that point marks the start of the most difficult stage of a deal, the tough integration process that few get right.

Indeed, given the conventional wisdom that most deals fail, it must be that boards and chief executives either treat that conventional wisdom as applying to someone else or as hyperbole perpetuated by consultants and other advisors as justification for their services. Or it may be a matter of corporate "hubris" that refuses to see what is obvious and plan accordingly.

Some M&A failures have been dramatic. The AOL/Time Warner deal lost 93% of its value during the integration period as the internet service provider merged with the publishing company in an attempt to combine content with delivery. VeriSign, another internet-related services company, lost $17 billion of its $20 billion acquisition of Network Solutions in 2000, and its stock fell 98%. Failures are not unique to the United States. The Royal Bank of Scotland, together with Banco Santander and Fortis, purchased ABN AMRO in 2007; that deal contributed to the failure of Fortis and the semi-nationalization of RBS. It was pursued despite the signals in the marketplace which led to the financial crisis. Another classic example of failure – and one where the very basic elements of business intelligence were ignored – is Quaker Oats, a food and beverage company founded in 1901. In the brief case study that follows, look at the first word of the penultimate paragraph. It is the key identifier of an intelligence failure. The word is "following." Incompatibility of cultures is one of the biggest post-acquisition killers.

Quaker Oats

On November 1, 1994, Quaker Oats acquired Snapple for approximately $1.9 billion, becoming the third largest producer of soft drinks in the United States.

The Quaker Oats Company had been founded at the start of the 20th century, and its most famous product, Quaker Oats Cereal, originated in 1877. At the time of the initial acquisition, Quaker Oats was one of the leading manufacturers of cereal products in the United States, but it had also diversified into baby food, animal feed, chocolate (in Mexico), and honey (in the Netherlands). One of its most successful recent diversifications had been the acquisition in 1983 of Gatorade, a sports drink company. Under Quaker Oats' ownership, Gatorade had grown tremendously. This success contributed to the feeling within Quaker Oats that, because its main business was mature, it should focus on "investment in brands with high growth potential and divestment of lower growth, lower-margin businesses," as stated in its 1995 Annual Report.

Snapple was a trendy, slightly eccentric company, founded in 1972 by three entrepreneurs (two window washers and the owner of a health food store). Under the brand name "Snapple" (acquired in 1978), their product line had grown by word of mouth to become one of the best-selling fruit drinks lines in the northeast United States. They also sold iced tea drinks, which had been added in 1987.

Where Quaker Oats was an old-line national company, Snapple was a "New Age" company run as a regional family business. However, as such, Snapple did not have the resources to continue to expand, and with increased new competition from the largest soft drink manufacturers (Coca-Cola and Pepsi), they looked for someone to acquire them.

Quaker Oats thought that there were important potential synergies between Gatorade and Snapple. On the surface, it appeared that they could share distribution channels (reducing costs) and they had complementary geographic areas. Quaker Oats also hoped that its conservative culture could be invigorated by Gatorade.

Following the acquisition, it was determined that the pricing strategy was different for the two product lines, the distribution different (Gatorade used a warehouse distribution system whereas Snapple used a single-serve, refrigerated delivery system) and, most importantly, the cultures were not compatible (affecting integration, advertising, and many other areas where coordination was required). In addition, in the quarter just prior to the acquisition, Snapple had experienced a 74% drop in sales on a year-over-year basis, a fact that was only told to Quaker Oats a few days before the deal was finalized. At the same time as sales volumes were decreasing, the cost of integration and national rollout under Quaker Oats was rising.

Less than three years later, in 1997, Quaker Oats sold off its Snapple division to Triarc Corporation for $300 million.

In perhaps one of the more ironic stories of acquisition failure, in late 2013, G4S, a UK-based company which bills itself as the “world’s leading international security solutions group,” blamed “a short-term and over-aggressive acquisition strategy for a string of scandals,” according to the *Financial Times*. The new CEO announced that the company was considering disposing of 35 underperforming business, some of which had only been recently acquired. Brilliant that a security company that conducts due diligence and other intelligence-related functions for its clients has effectively admitted that it was no good at its own intel!

One challenge in trying to determine the success of an acquisition lies in how to define "success." Is it shareholder value? If so, over what period? Or should one look at sales growth? The ability to retain key customers and market share? Employee retention? Cost savings? And how would the company or companies have performed if they had not merged? Perhaps, as some have suggested, success should be defined by the publicized goals of the merging companies themselves and then measured against the achievement of those stated objectives.

No matter how it's measured, a fair degree of consistency has emerged in the results of studies that examined M&A "success" through the 20th century. Essentially, all of the studies found that well over half of all mergers and acquisitions should never have taken place because they did not succeed by whatever definition of success used. Although many studies based on deals conducted in the 1980s and 1990s found that only 30 to 40% were successful, more recent studies have found that this success rate is improving, yet still only to around the 50% level. Yet most companies that have grown into global giants used M&A as part of their growth strategy and without those acquisitions and mergers would not be the size that they are today.

This paradox raises the following questions:

- Can a company become a large global player without having made acquisitions?
- Is organic growth sufficient to become a leading global or even a leading national player?

The challenge for management is to reconcile the relatively low odds of deal success with the need to incorporate acquisitions or mergers into their growth strategy, or to figure out how to beat the odds and be successful in takeovers. This is where business intelligence techniques are essential.

Prior experience may not be a predictor of success, although some studies have shown that acquirers do better when making an acquisition that is similar to deals they have done previously and that serial acquirers – those that do two or more significant deals a year – also have a better success rate than firms that are less frequent acquirers of other companies. Indeed, these serial acquirers have a great impact on the M&A market. Accenture, in their 2010 study of serial acquirers, found that, although serial acquirers represented only 9% of all acquiring companies, they conducted 35% of all the deals as measured by number of deals and 44% of the deal volume measured by size of deal. We will provide many examples in this book of these serial acquirers, given their importance to the market. It does appear to be true that acquirers who are active, frequent buyers and who are willing to do complex and big deals outperform those who are inactive and conservative. This does imply that a set of best practices exist, as we will discuss in this book. Maybe practice really does make perfect, or at least better.

Here again the utilization of specific intelligence is central. Many studies have shown that relatively inexperienced acquirers might inappropriately apply generalized acquisition experience to dissimilar acquisitions. The more sophisticated acquirers would appropriately differentiate between their acquisitions. In a deal that will be discussed later, VeriSign appears to have failed with its 2004 purchase of Jamba AG despite having made 17 other acquisitions in the prior six years, many in related internet businesses. Intelligence cannot, therefore, be taken for granted.

DIFFERENT TYPES OF MERGERS AND ACQUISITIONS

There is even some confusion about the terminology used. Many have questioned whether all mergers and consolidations are really acquisitions. This is because the result – sometimes as much as a decade later – is that the staff, culture, business model, or other characteristics of one of the two companies becomes dominant in the new, combined organization.

Name changes reflect merger realities: Morgan Stanley

This reality of a merger can often be reflected in the name change. For example, in 1997 Morgan Stanley and Dean Witter Discover "merged." Although the new company was renamed "Morgan Stanley Dean Witter," within several years it was renamed just "Morgan Stanley." In a power struggle at the top in the initial years after the merger, the former head of Dean Witter (Jack Purcell) dominated and the former president of Morgan Stanley (John Mack) left to become the head of a rival investment bank, Credit Suisse.

That was not the end. In 2005, eight years after the original "merger," a palace coup of former Morgan Stanley managing directors forced the ousting of Purcell and reinstated Mack as head of the bank.

This was not a unique situation even for the brokerage industry as, over a decade earlier in 1981, the commodity trading firm Phibro Corp had acquired Salomon Brothers to create "Phibro-Salomon," yet the Salomon managers ultimately prevailed and the company was renamed Salomon Inc. Salomon was later acquired again, and today what remains of Salomon is part of the global financial powerhouse Citigroup.

Clearly, care should be taken in using the terms "merger," "acquisition," "consolidation," and other related words. In practice, however, these terms are used interchangeably. Additionally, "takeover" is a term that typically implies an unfriendly deal, but will often be used in the popular press when referring to any type of merger or acquisition. In this book, we will be as precise with the terminology as possible. Specifically, this means that when the term "acquisition" is used, it refers to a deal in which one company (usually the larger one) acquires another company: the buyer remains as a legal entity, albeit larger, and the target company ceases to exist as it is subsumed into the acquirer. "Merger" is when two companies come together to create a new, third, company; when that is done, the two previous companies cease to exist. As will be discussed in Chapter 10 on post-deal integration, there are rarely true mergers, as over time one of the two companies will dominate the new company. It should also be noted that there are many more acquisitions than mergers: of all deals since 2000, less than 10% are structured as mergers.

There are three major types of mergers/acquisitions which are driven by different goals at the outset and raise different issues for the use of business intelligence:

- **Horizontal** deals take place between competitors or those in the same industry operating before the merger at the same points in the production and sales process. For example, the deal between two automotive giants, Chrysler in the US and Daimler, the maker of Mercedes cars and trucks, in Germany, was a horizontal merger. The many consolidating deals in the mobile telecommunications industry in recent years would also fall into this category.

  In horizontal deals, the managers on one side of the deal will know a lot about the business of the other side. Intelligence may be easy to gather, not just because there will likely be employees that have moved between the two companies over time in the course of business, but also because the two firms will most likely share common clients, suppliers, and industry processes. These deals often include cost savings (frequently described as "synergies") as a principal deal driver because it is more likely that there will be overlaps and therefore redundancies between the two companies. These synergies can be both on the expense side, such as reductions in overlapping factories or staffing, and revenues, such as products that can be packaged together.

- **Vertical** deals are between buyers and sellers within the same industry, and thus represent a combination of firms that operate at different stages of the same industry. One such example is a merger between a supplier of data and the company controlling the means through which that information is supplied to consumers, such as the merger between Time Warner, a content-driven firm owning a number of popular magazines, and AOL, the world's largest internet portal company at the time of their merger. There is often less common knowledge between the two companies in a vertical deal, although there may still be some small degree of common clients and suppliers, plus some previously shared employee movement. Depending on the perspective of the firm, the vertical merger will either be a backwards expansion toward the source of supply or forwards toward the ultimate consumer. The 2003 acquisition of TNK (a Russian oil company with large oil and gas reserves but little Western refining capability or retail marketing) by BP (which had declining reserves and strong global marketing and refining operations) is one such example. We will visit this acquisition again, as well as the separation of the two companies in 2013.
- **Conglomerate** deals are between unrelated companies, not competitors and without a buyer/seller relationship (for example, the 1985 acquisition of General Foods, a diversified food products company, by Philip Morris, a tobacco manu-

facturer). Conglomerate deals do not have strategic rationalization as a driver (although often cost savings at the headquarters level can be achieved, or in the case of Philip Morris, it wished to diversify risk away from the litigious tobacco industry). This type of deal was common in the past, but has fallen out of favor with shareholders and the financial markets, although when they do occur they can benefit greatly from the more creative uses of business intelligence. For example, detailed scenario planning, involving simulations based on high quality information, can identify unforeseen problems that can drive such deals and provide a logical rationale.

Deals are either complementary or supplementary. A complementary acquisition is one that helps to compensate for some weakness of the acquiring firm. For example, the acquiring company might have a strong manufacturing base, but weak marketing or sales; the target may have strong marketing and sales, but poor quality control in manufacturing. Or the driver may be geographic: when Morgan Stanley made a bid to purchase S.G. Warburg in 1995, it wanted to complement its powerful position in the US market with Warburg's similar position in the UK and Europe. Similarly, Kraft, when it purchased Cadbury in 2010, sought Cadbury's strong market position in India, and several other emerging markets, as a complement to its own dominant position in the US. A supplementary deal is one in which the target reinforces an existing strength of the acquiring firm; therefore, the target is similar to the acquirer. A good example of such a deal would be when one cell phone company buys another, such as Sprint purchasing Nextel in 2005 to form Sprint Nextel. Most supplementary deals are horizontal.

The final descriptive distinguishing factor about a deal is whether it is hostile or friendly. A hostile deal is one in which the board of directors of the target company rejects the unwelcome bid. In these situations, the bidder expects to go directly to the shareholders to overrule the board. Because of the requirement that a hostile deal is one where the shareholders disagree with management and the board, hostile deals can only occur with public companies where management does not own over 50% of the shares. For all deals since 2000 where the target has been public, only 1% have been hostile at the point where the shareholder vote was taken. Since these are often large deals, hostile deals are around 7.5% of the total on the basis of value.

It is possible for a bid to be friendly, with the support of the board, but then turn hostile if there is a change in the board's position. This can happen when the target's board uncovers negative information about the buyer or if the terms of the deal change to make it less attractive (as might happen if the buyer's share price declines dramatically in a deal in which the target was being paid with shares). Similarly, a hostile bid can turn friendly, which typically occurs when the buyer increases its purchase price or changes the terms (perhaps replacing a share offer with full or partial payment in cash or agreeing to retain the target's management). For example, when Kraft attempted its purchase of Cadbury, the bid was unsolicited and initially hostile as the Cadbury board twice rejected Kraft's formal bids. Ultimately, Kraft improved the terms of its bid with a higher price and a larger proportion of the consideration being in cash, with the result that the Cadbury board changed its recommendation to supporting the deal.

THE MERGER WAVES

Merger activity tends to take place in waves – times of increased activity followed by periods of relatively few acquisitions. The waves have been growing in size: the peak of the most recent wave (the Sixth Merger Wave, as discussed below) had its most