M&A Strategies for Business Leaders to Drive Growth and Increase Profits

You may know that mergers and acquisitions have the ability to fast-track your company's growth, but also that most deals fail. Defy the odds with this complete guide to M&A strategy, in which veteran dealmakers show you how to spot and execute a winning transaction.

Included on this page, you'll find rationales of top-performing deals, negotiating secrets from top experts, details on how an issues sheet helps bridge M&A difference, as well as M&A case studies of tech giants, and many other helpful details on M&A strategies.

What Are Business M&A Strategies?

Mergers and acquisitions (M&A) strategy refers to the driving idea behind a deal. Companies' and investors' motivations determine the types of deals they pursue. Broadly speaking, the most common objectives of M&A fall into two main categories: improving financial performance and reducing risk.

To understand business mergers and acquisitions strategies, you first need to know the two main buyer types, each of which seeks to acquire companies for different reasons:

Strategic buyers undertake mergers and acquisitions to further their own strategic objectives — acquiring products or expertise, expanding markets, or gaining customers. Strategic buyers are more likely to be other companies, and these deals are called *strategic M&A.*

Financial buyers are interested in performing M&A transactions for the purpose of financial return, such as increasing operating cash flow. These buyers may acquire a company with the intention of exiting at a later date, either by selling the company or listing it on the stock market with an initial public offering (IPO). These deals are called *financial M&A*, and some financial buyers are professional investors.

Among these professional investors are *private equity firms* (PE firms), which seek to buy and hold companies for a cycle (often 10 years) before selling them at a profit. PE firms typically try to actively increase a company's value so that they can maximize profits and may do so by installing people they choose as top executives.

Venture capital firms are a subset of private equity firms that specifically target small, young companies that they believe have high growth potential. As such, venture capitalists court riskier acquisitions than do other private equity firms.

Strategic Rationales for M&A Decisions

Mergers and acquisitions are more successful when they achieve a valuable objective. Dealmakers refer to this objective as the transaction's *strategic rationale.*

Six strategic rationales underlie today's top-performing deals:

- **Improve a Company's Performance:** A company is acquired with the goals of streamlining to increase its value, slashing costs, improving growth in earnings per share, and widening profit margins.
- **Consolidate to Remove Excess Capacity:** A company absorbs another in its industry, so it can keep a check on production capacity and reduce it if necessary.
- **Improve a Product's Time to Market:** A larger, more established company takes over a smaller one with a promising product. Smaller companies often lack the resources to quickly get their offering to market. IBM, for example, has purchased technology products from smaller companies and then used its vast sales force to increase its revenue; Procter & Gamble's acquisition of Gillette was intended to improve their collective speed to market.
- **Acquire Technologies, Expertise, Products, and Resources:** A company buys a business because the acquisition costs less than it would to develop a technology, expertise, or product from scratch. Apple bought Siri for this purpose, and Cisco employed a similar strategy during the internet boom to rapidly expand its range of networking solutions. Companies such as Google and Facebook have made acquisitions to gain a target company's expert key staff and intellectual property.
- **Exploit Economies of Scale in Specific Industries:** A business leverages an opportunity to drastically lower operating costs by consolidating with another. For example, German automakers Volkswagen, Audi, and Porsche share some of their car platforms, so they can split the massive costs of developing new ones.
- **Invest in Young Companies with Lots of Promise:** A mature company acquires a young business because the established firm believes it can turn the upstart into a winner by investing resources and expertise. Johnson & Johnson did this with its purchase of the orthopedic device manufacturer DePuy, which then posted an annual growth rate of 17 percent over the next 12 years.

Some other strategic rationales have more mixed records of success:

- **Roll Up Companies in Highly Fragmented Markets:** A company buys lots of smaller operators in its same niche because there are too many small competitors for any of them to achieve economies of scale. Service Corporation, which runs funeral homes, began as a single business in Texas. It acquired 1,500 funeral homes and 400 cemeteries in 43 states because it knew how to share resources efficiently among these assets.
- **Consolidate to Reduce Price Competition:** An acquiring company believes that absorbing competitors will reduce price-cutting and give it more pricing leverage by increasing its market share. Doing this enables the company to get a better return on **its invested capital.**
- **Consolidate to Reduce Capacity:** A buyer believes that profitability will not improve until it eliminates an industry's excess supply or production capacity. These deals are often predicated on plans to retool or close factories.

- **Accelerate Expansion:** A buyer wants to expand its customer base and geographic markets and believes that an acquisition will achieve this more quickly than will organic growth. Sometimes, deals are motivated by an opportunity to cross-sell products — for example, a bank that buys an insurer hopes to sell both financial services and insurance to clients of both companies.
- **Transform a Business Entirely:** Executives and shareholders plan for a unified company to move in a direction that is completely new for one or both of the merged businesses. For example, Novartis was formed by the merger of Ciba-Geigy and Sandoz, but constituted a completely new company with a new culture and way of doing things.
- **Buy a Business at a Price Lower Than Its Intrinsic Value:** A company makes an acquisition because it views the target as a genuine bargain. This is a financially driven deal rather than a strategic one and is often followed by asset sales.
- **Deploy Excess Cash:** A company that has strong cash flow or is sitting on a lot of cash from a previous deal needs to put this money to work. Buyers in this category look for businesses that will help them continue to grow. In public companies, shareholders often exert pressure on the company to deploy excess cash in a way that achieves increased returns.
- **Achieve Vertical Integration:** A company makes a deal so it can control the production facilities, the raw materials, and, possibly, the distribution channels relating to its current business. For example, a manufacturer could achieve vertical integration by buying the supplier of its raw materials and its distribution network. The underlying rationale for this strategy is to reduce costs and increase market leverage.
- **Reduce Tax Liability:** So-called tax inversions occur when a company based in a higher-tax country buys another firm located in a lower-tax country and then restructures, so the acquiring company can become a subsidiary of the target. The objective is to pay a lower tax rate on corporate profits. Historically, U.S. and U.K. companies have sought inversions with Ireland as the preferred destination. These deals have become less common as regulatory and tax code changes have made them either less feasible or less profitable. Another tax motivation for M&A occurs when a target has unused tax losses and credits that the buyer can leverage.

Successful M&A Styles: Consistency Is Key

According to research in *Harvard Business Review (HBR)*, acquirers who buy more often have larger returns. The most successful are consistent buyers who make their purchases regularly throughout economic cycles.

Both strategic and financial investors want to know the hallmarks of successful mergers and acquisitions. Buyers want to buy low and sell high, but in an unpredictable environment, how do they give themselves the best chance of making smart purchases as often as possible?

Reporting their findings in *HBR*, Bain & Co. analysts examined 7,475 deals made by 724 U.S. companies over a 15-year period and tried to discover the relationship between a company's deal-making practices and its ability to deliver value to shareholders.

According to Bain & Co., there are several kinds of frequent buyers. Some buy consistently across boom and bust cycles. Some swoop in during recessions, while others try to pick smart purchases during periods of growth. And, some do neither, preferring to make their moves when the market hovers between bears and bulls.

The findings also showed that savvy dealmakers act a lot like cost-averaging investors in the stock market; these investors follow a systematic plan, investing a set amount at regular intervals and sticking to it through boom and bust, rather than trying to time the market. This style minimizes the risk of buying assets just before the market crashes and is supported by long-term trends for values to appreciate over the long run.

Of course, smart M&A decisions involve more than just timing.

What Makes a Company a Target for Acquisition?

To find out why companies become M&A targets, City University London's Cass Business School examined nearly 34,000 businesses. For private companies, being large and highly leveraged are the most significant predictors of being acquired. For public companies, being small and having low profitability are most important.

Private companies tend to become targets for acquisition when they're big, growing quickly, and highly profitable, and when they have high leverage and low liquidity, according to the research. Public companies, on the other hand, become targets for acquisition while they're small but fast growing and have low profitability, leverage, liquidity, and valuation.

One of the interesting takeaways from the Cass study, however, is that while definite patterns are visible, there is no absolute consensus among buyers over the hallmarks of a good acquisition candidate. The attractiveness depends in large part on what the purchasing company wants to get from the target company and what the buyer thinks it can do with the acquisition.

Essential Elements in a Successful M&A

As you progress toward a merger or acquisition, keep in mind that successful deals share some essential characteristics, including sticking to a timeline, offering benefits for both sides, possessing a strategic vision, and having a backup plan. Check your proposed transaction against this list:

- **Mutually Beneficial Deal:** Both parties approaching an M&A stand to gain something, even if it is only avoiding a less preferable alternative. That means there will have to be some degree of compromise. If it looks like one company is gaining a lot more than it is giving up — or vice versa — then that should be a warning that one party may not be fully committed to the deal.
- **Alignment with Future Plans:** An M&A deal is a strategic endeavor, and that means negotiators must have a clear vision of how it will benefit both the acquiring and the selling company. Also, each side in the deal must have a clear view of what its organization will look like after the transaction is complete.
- **Backup Plan:** Even the best-laid plans can go awry, and that is doubly true when there is more than one party involved in negotiations. What happens when negotiations stall — or hit a dead end? Know your plan B so you can set your bottom line in the negotiations.

- **Clear Timeline:** The strategic goals for M&A deals are often time-based, but negotiations between large companies can stretch on for months or even years. Therefore, it is important to have a roadmap of milestones and deadlines, so the process stays on track.

What Are Mergers and Acquisitions?

Mergers and acquisitions are types of deals in which two companies combine their assets. Although the terms are sometimes used interchangeably, mergers and acquisitions are not technically the same.

In a *merger*, two companies are combined. This may be a transaction among equals, but usually one side is bigger. The stronger company absorbs the purchased company, and the purchased company ceases to exist.

In an *acquisition*, the acquiring company buys most or all of the purchased company. The acquired company may be absorbed or combined with other operations of the purchasing company, or the acquired company may operate as a standalone business under its original name.

Main Types of Mergers and Acquisitions

There are four main types of mergers and acquisitions:

- **Horizontal Mergers and Acquisitions:** These take place between companies occupying roughly the same industry niche — in other words, between direct competitors. The idea of a horizontal deal is simple: Buy out the competition and eliminate them.
- **Vertical Mergers and Acquisitions:** These take place between companies occupying different positions in the same supply chain. The idea behind a vertical deal is for the acquiring company to improve its efficiency or quality or increase the number of products or services it can offer in one place.
- **Conglomerate Mergers:** These are between companies with very little in common. The idea is for one company to realize a business opportunity or mitigate a business risk.
- **Concentric Mergers:** These are between companies that offer different products to the same customer base. The idea is for the companies to pool resources and expertise in order to offer enhanced products or services in combination.

Another similar framework for M&A strategies is to classify deals by how closely aligned the target company is to your core area of business:

- **Synergistic:** The target is close to your company's area of core competency, and the opportunity to realize cost synergies is high.
- **Strategic:** The target is not as close to your area of core competency, but offers revenue and growth opportunities. This could be a company that has similar products, but different customer markets.
- **Complementary:** These opportunities offer little overlap with your current core business, and the synergies tend to be indirect.
- **Diversifying:** These are deals in which the target has no overlap with your current business. Diversifying strategies are the most difficult to execute profitably and successfully.

U.S. Trends in M&A: Will Deal Volume and Values Continue to Rise

In the United States, M&A activity has trended higher in recent years, driven by tax reforms and an easing of business regulations. Almost 80 percent of respondents in Deloitte's 2019 survey on M&A trends said they expect the number of closed M&A deals to grow in the next 12 months; half said they expect to see an increase in high-dollar M&A deals worth between $500 million and $10 billion.

Acquisitions in the tech sector have often generated the most buzz, but traditional business expansions aimed at growing customer bases and diversifying offerings are expected to increase as well.

In addition to a more business-friendly taxation regime and regulatory environment, a few other factors are driving the increased volume of M&A activity. First, M&A activity correlates with company valuations, and given the stock market's continued strong performance, acquiring companies have been more willing to pay premiums.

Second, private equity firms (professional investment firms that buy stakes in private companies) have historically tended to buy, build, and sell in cycles. Many investment analysts believe that as the stock market continues to perform well, we are approaching the selling stage of one of these cycles in the early 2020s. The proceeds from these sales represent a large pool of money available for the next round of deal-making.

Third, relatively low interest rates have kept investment returns on some assets low, and investors see M&A deals as an opportunity for higher returns.

A fourth factor driving global M&A activity is the liberalization of economies in the developing world. U.S. buyers are looking for promising companies that could produce high returns.

Several M&A experts predict that valuations are unlikely to go higher, especially if credit tightens.

"There is plenty of money on the sidelines, but I don't believe it will drive multiples higher in general. The one area in which it might push multiples up is add-on acquisitions. Acquirers are generally willing to pay a higher multiple for businesses where they believe they can achieve significant cost savings," says Harve Light, Managing Director of financial advisory firm Conway MacKenzie.

Paul S. Klick, Senior Managing Director of investment bank The McLean Group, which advises on mergers and acquisitions, says valuations have likely peaked: “It is hard to argue that things will grow and expand from here, so I think the real question should be, ‘Can we maintain ranges close to these highs?’… I do think the valuation ranges will continue into the next year at close to the current levels. I do not see a whole lot of movement in them continuing to expand,” Klick concludes.

How to Spot the Best M&A Opportunities

As deal valuations and volumes have risen in recent years, would-be buyers often feel that opportunities are diminishing for mergers and acquisitions that offer good value. Certainly, many dealmakers are having to search longer and more carefully.

Companies often enlist investment banks to advise them on mergers and acquisitions because these firms have expertise in valuing, financing, and finalizing deals. The right investment bank for your needs generally depends on how big your transaction is and how frequently you are pursuing deals. *Bulge bracket* investment banks are global firms that typically serve the largest companies. Boutique banks offer more specialized service, and there are investment banks that focus on middle market deals.

Economists generally believe a strong level of M&A is likely to continue because a lot of money is sitting on the sidelines. This money takes the form of cash on balance sheets, liquidity in investment funds that needs to be deployed, and profits realized from previous deals. Pressure to achieve superior returns on this money stokes interest in M&A, especially when interest rates are low and returns on investments such as bonds are less rewarding.

So, to spot strong opportunities for M&A, you need a structured and disciplined process, experts say. They offer the following advice:

- **Be Proactive:** Deal opportunities that fall into your lap (often described as opportunistic) or are suggested by the seller (called *reactive*) are less likely to offer potential for superior returns. In the case of a seller-initiated opportunity, the seller is probably offering this deal to multiple potential buyers. This scenario usually weakens the buyer’s negotiating stance, and you’d be wise to question why another buyer has not snapped up the opportunity before now if the deal truly offers value.
- **Have a Strategic Process:** Bringing strategy and discipline to your M&A search process increases your likelihood of success.

Following are the steps in a strategic search process:

- **Define Your Strategy:** What is the strategic rationale for your deal? You'll also want to set parameters, such as what product or service the target should offer, the maximum deal size, and the desired revenue and profitability of the target company.
- **Validate Your Investment Criteria:** Search to see how many companies fit your parameters by identifying potential targets through online searches, industry databases, and trade associations. If your search turns up a significant number of potential candidates (say 25 or more), then you have scope for an M&A program.
- **Screen and Prioritize Potential Targets:** Do more detailed research on the targets you identified and rank them in order of priority.
- **Reach Out to Targets:** Reach out to the target companies' leaders or enlist an investment banker to do so. Assess their receptiveness to a deal and seek access to confidential information to make sure your deal strategy is viable.
- **Manage a Funnel of Potential Deals:** Nurture your prospects and track where each of them stand. As with a sales funnel, the number of targets that progress through each stage will decrease. If you are serious about M&A, you'll want to have a healthy number of targets in each stage.

How to Evaluate an M&A Opportunity

There are four aspects that a buyer must consider when evaluating an M&A opportunity: the financial value of the target; the value of the assets to the buyer; the resale value of the target; and the strategic impact of the acquisition upon the buyer.

- **Financial Value of the Target:** The financial value of a target is the value, real and perceived, of a target company and its assets – put simply, what a company is worth. Of course, the financial value of a target may be less or more than a buyer is willing to pay for it.
- **Value of the Assets to the Buyer:** This is a related concept, but more subjective than the financial value because buyers can differ significantly in their valuation of assets. For example, suppose a car company that lacks a pickup truck in its model lineup has an opportunity to buy another vehicle manufacturer with a very popular pickup truck. This acquirer might value much more highly the opportunity to add an already successful pickup to its product line than would another company that already has its own pickup.
- **Resale Value of the Target:** This is simply what a buyer thinks they can get when they resell their new asset. The buyer will weight this value differently depending on the strategic rationale for their original purchase: Are they looking to sell off assets or break up the company? Or, are they only considering resale as a contingency plan?
- **Strategic Impact:** Of the four aspects, this is the most complex to evaluate because these effects usually involve multiple areas, such as market share, supply, distribution, technology, and human resources.

These evaluations are based on assumptions and subject to change. The competitive landscape continues to evolve as the deal is explored. A prized technology may fall out of favor, or new regulations may pull the rug out from under a geographic expansion plan.

The evaluation process begins with looking at the target's fundamentals. These include the following:

- Style and quality of management
- Size and market share
- Capital structure
- Current and expected profitability

The buyer also needs to consider what it is willing to pay, how it is going to pay this price, and what risks the purchase entails.

An emerging area of risk in M&A is cyber liabilities — i.e., when a company discovers data breaches and hacking theft. An acquirer may discover that a breach occurred years before an acquisition; still, that buyer assumes the liabilities in terms of stolen money and consumers' compromised data claims. For example, when Verizon acquired Yahoo in 2017, data breaches that came to light after the press announced the deal prompted Verizon to reduce the purchase price by seven percent.

All this is to say that due diligence is important. The cornerstone is to assess the financial health of the target by examining several metrics, including the following:

- **Growth:** Assess this using a metric like the target company's three-year compound annual growth rate (CAGR) in sales.
- **Profitability:** Measure this using the ratio of EBITDA to sales. EBITDA, which stands for earnings before interest, tax, depreciation, and amortization, is a measure of operating performance that is not affected by financing, accounting decisions, or tax liabilities. A high EBITDA-to-revenue ratio indicates greater profitability.
- **Leverage:** Express this as the ratio of debt to EBITDA.
- **Size:** This refers to revenue or unit sales.
- **Liquidity:** Measure this by the ratio of current assets to current liabilities, which should ideally be higher than one.
- **Valuation:** Many metrics cover valuation, including stock price-to-earnings ratio and stock market capitalization. Free cash flow and discounted future cash flow also indicate the profitability of a business.
- **Asset Value:** Express this as *book value*, which is total assets minus intangible assets. This equals the *carrying value* on the balance sheet and is an indicator of the liquidation value of a company. By comparing stock price to book value, you can get a sense of whether or not a company's market valuation is fair.

Lastly, companies that are looking to buy and sell at a profit in 10 years must ask whether there is an opportunity to create value that would allow them to turn a profit. These companies tend to buy at fair market prices rather than at discounts, which means they need to find a way to create additional value by increasing revenue or eliminating competition.

To evaluate this potential, consider the landscape that your target faces. Is the proposed acquisition in a good business with a manageable competitive environment?

Be sure to consider the long term, too. If the target's industry was to undergo a complete transformation, what do you speculate would be the source of the change, and how do you anticipate the target would fare? If a new business model, technology, or demand shift was to create potential

for disruption, would you as an acquirer be well positioned to successfully lead the target amid either upside or downside risk?

Many M&A scenarios anticipate a continuation of the status quo, but this kind of proactive evaluation is important for identifying less obvious risks. Of course, the remote possibility of a negative event should not deter an M&A that is otherwise sound. This process offers valuable stress testing.

What Are the Alternatives to Mergers And Acquisitions?

After carefully evaluating a deal, you may discover that a merger or acquisition may not be possible or may not represent the best choice. For either a buyer or seller, another action, such as an alliance, joint venture, or franchise, may do more to achieve the strategic rationale.

For example, if you find that the number of targets that meet your acquisition criteria is very small and that none is available for sale right now, your best strategy may be to work on building relationships with that handful of companies and positioning yourself so that you are the favored purchaser when they do become willing to sell.

In another trend that is becoming more common, companies that traditionally would have divested assets or business interests now sometimes want to retain an interest in the business, hoping to participate in the upside potential they believe the asset offers. So, instead of opting for a straight sale or spinoff, these companies are exploring alternatives, such as joint ventures, alliances, and franchising.

In a *joint venture*, two or more companies work together to realize a business opportunity or tackle a business risk. Each company contributes assets or funding and each holds a share of potential losses and returns. Usually, the joint venture involves creating a new business entity. In an *alliance*, the idea is similar to a joint venture: joining forces to address a specific issue. However, in an alliance, the participants limit the scope of collaboration more narrowly, and they do not set up a new entity.

In a *franchise*, a business licenses its assets and expertise to a third party for a fee in order to make a profit.

The Lifecycle of an M&A Deal

An M&A deal can be a long time in the making, stretching months or years from conception to execution. In that time, the deal will move through a number of stages and milestones. Here are the typical milestones in a merger or acquisition; also check out our [complete guide to M&A processes] for a more in-depth discussion.

- **Pre-Deal**

1. **Identification of Opportunity:** An M&A deal begins when an acquiring company decides that it has a strategic rationale to make an acquisition — or, less often, when a would-be seller decides they need to divest.
2. **Negotiations:** Negotiations begin once an acquiring company has reached a ballpark valuation for its purchase. The negotiations culminate with the preparation of a letter of intent (LOI) in which the parties state their agreed-upon terms.

3. **Due Diligence:** The acquirer conducts an exhaustive examination of the financial and operational health of the company it wants to purchase, a process called *doing its due diligence*. Assuming that due diligence doesn't turn up any problems, the two companies sign a definitive contract.

- **Post-Deal**

1. **Preparation for Day 1:** Purchasers must lay a lot of groundwork for the first day that the new business combination is active, called Day 1 in M&A jargon. Some integration steps may take place over weeks or months, but leaders have to make some decisions right away, such as who will be in charge of the acquired organization. Among the detailed questions they must answer are these: Will you merge systems (such as IT at the purchased unit) with those of the buyer, or will you eliminate them? How will you define and transmit the organizational culture?
2. **What to Do on Day 1:** The first official day offers management an important opportunity to set the right tone. You may want to plan events and training that explain how the new structure will function and calm any jitters among staff resulting from organizational change. Some buyers choose to hold a celebration or special day with speeches, town hall meetings, and refreshments. You will be making a first impression on the staff of the acquired company and will want to put your best foot forward, including minimizing glitches and snafus that may arise from the combined administration, systems, and networks.
3. **Integration:** The first one hundred days are a time of intense focus on integration. But, full integration can sometimes take years. Some M&A experts place extra importance on the integration of IT, given how crucial data and networks are to all businesses. These pros generally recommend that you do not take on multiple new projects until information systems are solid. A little later we will cover the main IT integration strategies that you use in mergers and acquisitions.
4. **Installation of New Leadership:** Acquiring companies often want to install new leaders in purchased units under the belief that fresh executives will be more enthusiastic about carrying out a new game plan and more loyal to the new owner than legacy leaders. Buyers must also prepare for the potential attrition and loss of star performers in the target company. Research dating back three decades shows that turnover among senior management rises at a merged company, with a quarter of top executives leaving within the first year and more than half leaving within the first five years.

Secrets of Successful M&A Negotiators

The strategic rationale for a deal often depends on executing it at certain terms, short of which the merger or acquisition may not be profitable. Of course, buyers always want to pay as little as possible, and sellers want to reap as much as possible. So, being a strong negotiator is critical to achieving your best outcome.

"No transaction is the same, no client is the same, and no M&A process is the same. Recognizing this reality at the outset is paramount and limits any idea of patterns or techniques that can be predictive of success," says Klick of The McLean Group. He continues, "From my experience, the best M&A negotiators are those who spend the time to work closely with their clients. They understand the nuances of a client's business, the competitive landscape, and industry issues."

As a formal field of study, negotiation theory is relatively young, but research has proliferated over the last three decades. Negotiation is a decision-making process that allows people with competing objectives to agree upon the allocation of resources. Expert M&A negotiators stress four things:

1. Preparation is critical.
2. Understand the role of irrationality in decision making.
3. Be aware of the common thought traps that can lead you to agreeing to a bad deal or abandoning a good one.
4. Recognize how timing and deal phase change leverage in negotiations.

Prepare Meticulously for Deal Negotiations

M&A pros say the most important part of your negotiation happens before you even reach the bargaining stage.

First, do a thorough analysis of your counterpart and prepare an exacting valuation of the target, whether you are a buyer or a seller. This will enable you to establish some important parameters:

1. **Your Best Alternative to a Negotiated Agreement (BATNA):** This lays out what you do if you are unable to reach an agreement.
2. **Reservation Value:** This is the least favorable price at which you would do a deal. For buyers, this is the maximum that they would pay; for sellers, it's the minimum that they would accept.
3. **Zone of Possible Agreement (ZOPA):** This is the range that is acceptable to both sides. This area lies between the two parties' reservation values.

Moreover, assess the strengths, weaknesses, opportunities, and threats for both buyer and seller. Understand how important it is to your counterpart to reach a deal. Is the seller strapped for cash? Is the buyer under pressure from activist shareholders to put excess cash to good work?

Do your homework on the individuals you are negotiating against. What is their reputation? What have they done in past negotiations? For example, if your counterpart is very sensitive to losing face, you may want to discuss delicate issues one on one rather than in a room full of people.

Your careful financial analysis of the deal will give you a strong justification for your opening bid, reservation price, and ZOPA and act as a check on succumbing to psychological manipulation.

Understand the Role of Irrationality in Negotiations

Historically, researchers who studied deal-making practices operated under the assumption that people were fully rational when they negotiated and made economic decisions. So, decision-making tools were built upon this assumption.

In the 1970s, however, the glaring reality that people often make irrational economic decisions forced researchers to abandon the assumption of full rationality and adopt a new one. In 1981, Roger Fisher and William Ury of the Harvard Negotiation Project published *Getting to Yes*, a book that became the new gospel for negotiators. In it, the authors argue that while most people think of themselves as reasonable, there is always part of a negotiation that is emotional or irrational. They suggested dealing with this phenomenon by using a method called "principled negotiation" in which the two sides

seek mutual gains. So, the buyer and seller look for ways to work together in order to increase value for both parties.

Around the same time, Daniel Kahneman and Amos Tversky at the University of Chicago came up with a new theory. They posited that humans were primarily irrational, rather than rational, and relied on cognitive shortcuts, heuristics, and outright fallacies when making decisions. Kahneman and Tversky, in their bestselling book *Thinking Fast and Slow*, suggested that humans did have the capacity to make rational decisions via thought processes that the authors termed "System 2;" they noted, however, that System 2 was usually subordinate to the impulsive, irrational "System 1" processes.

So-called cognitive bias often leads to subtle errors in thinking that interfere with rational decision making. Because we have limited resources (of time, energy, or attention), the brain takes shortcuts to simplify its task. Among these shortcuts are such things as *confirmation bias*, i.e., the tendency to favor information that reinforces your existing beliefs, and *anchoring bias*, which is when you tend to put too much weight on the first piece of information you learn.

Successful M&A negotiators understand how they can turn System 1 thinking to their advantage. According to the System framework, stakeholders in M&A negotiations are, at heart, irrational, which means they can be nudged toward decisions that aren't always in their absolute best interests.

Common Traps in Deal Decisions

Despite best intentions, negotiators can fall victim to traps that lead to poor M&A decisions.
The *agreement trap* occurs when you agree to a deal that is worse than your BATNA. This may happen inadvertently if the other party withholds information, is dishonest, or succeeds in convincing you that the deal is better than it really is.

Human reluctance to walk away from a deal because you have invested a lot of time, expense, and energy in the negotiations can propel you into the agreement trap. The *sunk cost fallacy*refers to the phenomenon in which we are biased to avoid losses.

Moreover, you can find yourself in the agreement trap because you may be so invested in the relationship with the counterparty and your desire to succeed that you do not recognize that walking away is the better decision.

Another error of thinking, called the *mythical fixed pie* of negotiation, leads negotiators to abandon deals that are better than their alternatives. This fallacy is driven by the belief that there is a fixed amount of resources, making deals either wins or losses.

In reality, there are many variables (beyond price) at work in a deal. These can include timing, financing, contractual clauses (such as non-competes), and future relationships. Ideally, negotiators should see that they can make tradeoffs among a variety of issues — giving concessions where they can while sticking to hard boundaries where they can't — and reach compromise rather than killing a deal.

Recognize How Timing and Phase Change Leverage in Negotiations

The strength of your negotiating position isn't static; your influence varies over time. Sellers have the most leverage early in the M&A deal process, while buyers' leverage increases the closer a deal comes to a final contract.

This makes sense when you consider that during the early phases, the seller may have multiple interested suitors. The potential buyer has to make its strongest case and beat out the competition to get the seller to sign a letter of intent.

Once the seller has executed the LOI, they are then (usually) negotiating exclusively with just one buyer, and leverage begins to shift to the acquirer. The seller may begin to worry about news leaks of an impending deal and fear that key employees may leave and that large customers may look for an alternative supplier. So, the seller faces time pressure to consummate a deal.

In addition, the seller may be emotionally invested by this stage if its leaders have plans for how the company will use money from the sale, if owners or executives get financial rewards for selling, or if any of these stakeholders have already imagined themselves moving on or retiring.

Resolving Thorny Issues in M&A Negotiations

M&A negotiations can be high-pressure situations, and some brinkmanship is likely. To facilitate an agreement, develop an issues list. This document lays out thorny issues, the positions of the two sides, and suggested compromises or final resolution. Making this list gives you a clear idea of the obstacles, provides a framework for discussing disagreements, and removes some of the heat from negotiations.

Strategies Used to Defend Against a Corporate Takeover Attempt

Not all targets are open to acquisition. Sometimes, when the target has rebuffed a buyer, that buyer will attempt a hostile takeover, trying to convince their company's shareholders to back the proposed deal or simply buy enough shares in the open market to win the target. So, target companies that aren't interested in acquisition have developed strategies to repel hostile takeover bids.

The *staggered board* defense involves appointing members to the board of directors in a staggered fashion and, thus, composing a board with varying tenures: say, some with two years and others with four. By staggering tenures, it will take years for company leaders to roll over a currently opposing board into a more acquiescent one, and that's too long for many buyers.

The *supermajority* means requiring a large majority of shareholders, such as 80 percent, to approve a takeover, which makes it harder for a would-be buyer to acquire a controlling interest.

A *fair price amendment* bars a buyer from offering different prices to different stockholders. Another alternative is issuing dual stock classes so that shareholders can buy stock that does not carry voting rights.

A *poison pill* is a kamikaze tactic wherein the target company harms itself should it be acquired. Variations on the poison pill defense include higher management doing the following: threatening to quit, selling a prized asset to a competitor of the acquiring company, or offering company stock at a discount if a buyer gets a significant minority of shares.

A *white knight* is a compromise in which a target company agrees to an acquisition by a buyer that it prefers — a so-called white knight — in order to avoid a hostile deal with another buyer.

Lastly, taking on lots of debt or issuing junk bonds that reach maturity when your company is acquired can make a purchase prohibitively expensive

Case Studies of M&A Business Strategy at Tech Giants

The technology sector has been a hotbed for M&A, and Silicon Valley's giants offer case studies in different M&A styles.

- **Google:** This multinational behemoth has acquired over 230 companies at a total price of tens of billions of dollars. The company's philosophy is to try fast and fail fast. Google, a subsidiary of Alphabet Inc., buys lots of companies, sticks with the ones that work, and quickly ditches those that do not. Google's acquisition strategy prioritizes gaining key staff and innovative technologies that it will develop. Often, when the tech giant acquires a company, that company is absorbed and does not continue as a distinct entity. Google looks for acquisitions that fit its core business of information access.
- **Facebook:** Conscious of how fickle social media users tend to be and what happened to MySpace and Orkut, Facebook seeks to snap up promising competitors. The two prime examples of this strategy are Instagram and WhatsApp. Facebook targets competitors that have already reached a critical mass. Because of this strategy (i.e., buying proven concepts), the company pays more than it would for development-stage offerings. For example, the company paid about $19.3 billion for WhatsApp in 2014.
- **Microsoft:** For much of its history, Microsoft had a lackluster track record of finding and executing deals that enabled the company to expand on its dominance as a software provider. The firm has made more than 200 acquisitions, but has missed out on some paradigm-shifting advancements in the cloud, on mobile, and in social spaces, such as multimedia sharing. More recently under CEO Satya Nadella, however, the company seems to have strengthened its strategy and has pursued deals in the cloud and on mobile.
- **Oracle:** This company may not be as well known as Google, Facebook, or Microsoft because its customers are enterprises rather than consumers, but the company has always had a big appetite for acquisitions in the cloud and SaaS spaces. Oracle's purchases have been aimed at maintaining its dominance in cloud-based enterprise solutions and, more recently, at extracting more revenue from its customer base by investing in new vertical offerings.
- **SAP:** Like Oracle, this company makes acquisitions to protect and expand its position as an enterprise solutions provider. SAP seeks to integrate acquisitions into its existing businesses, and its purchases of cloud-based services have resulted in increased revenue from the cloud sector. One of SAP's most famous recent acquisitions is the late-2018 purchase of Qualtrics, which specializes in tracking customer sentiment online.
- **Apple:** The world's most profitable public company implements its acquisitions strategy largely under the radar, making a very small number of deals and quickly bolting the acquired technologies on to its own offerings. Apple uses this approach because it already has a hugely successful but small product line and is reluctant to significantly alter the Apple customer experience. The iPhone producer makes exceptions only for incremental technologies that the company is absolutely sure will improve its own products and services. So, when Apple buys, it buys small and usually shuts down the acquired business after it has gotten the tech it wants.
- **IBM:** An early tech giant that fought to keep itself relevant, IBM has invested heavily in cloud infrastructure and SaaS acquisitions; the company has experienced significant revenue growth in both these areas. Big

Blue considers its $34 billion acquisition of open source cloud software provider Red Hat (announced in 2018) to be a game changer that will make IBM the top hybrid cloud provider.

- **Salesforce:** This company has consistently made acquisitions, notably the $6.5 billion purchase of integration software Mulesoft, with the aim of developing its software ecosystem for B2B cloud software. Other acquisitions strengthened its sales software by adding functionality, such as email, document sharing, and social media marketing. Salesforce targets vary in size, but observers have predicted that the company's strong organic growth will minimize its reliance on major purchases.
- **Twitter:** The company has tended to buy small, spending significantly under $500 million per deal, in a reflection of its own youth and moderate size. Twitter has focused on purchases that add new functionalities to its platform. Unlike Salesforce, however, Twitter needs to make more purchases in order to grow (according to the experts). Nevertheless, the social media company has focused on the Twitter platform itself, rather than on platform extensions (as Facebook has done).

How M&A Affects Industries: Convergence, Consolidation in Healthcare, Etc.

Mergers and acquisitions can reshape industries, so let's look at how these trends have played out in a few key spaces.

Healthcare M&A Trends

The U.S. government has blocked some horizontal M&As on antitrust grounds, notably barring local or regional hospital mergers that regulators believe would have anti-competitive effects. But, the government has supported other horizontal deals as well as vertical deals.

For example, physician practice groups, pharmacy benefit managers, and hospitals in major urban areas have experienced a high degree of concentration. Private equity firms have aggressively been acquiring physician practices and putting them under joint control, according to a study in the *Annals of Internal Medicine*. Private equity firms acquired an estimated 102 physician practices in 2017. The Physicians Advocacy Institute and consultants Avalere Health say that hospitals acquired a further 8,000 doctor practices from 2016 to 2018.

A notable vertical mega-deal in healthcare was drugstore chain CVS Health's $70 billion acquisition of health insurer Aetna in 2018. Other vertical combinations have included the $67 billion merger of insurer Cigna and pharmacy benefit manager Express Scripts. Healthcare company UnitedHealth has announced the acquisition of DaVita Medical Group, which operates 300 medical clinics. Similarly, health systems that operate hospitals, primary care practices, and specialty clinics have begun offering health insurance plans and their own drug supply networks.

The motivation for M&A in healthcare has been to lower costs and increase coordination of patient care via consolidation that generates efficiencies. However, multiple research studies have shown that efficiencies have generally not been as big as expected and that savings have not been passed on to consumers. U.S. healthcare costs continue to rise faster than in other countries, and increased concentration has translated into less competition and more pricing leverage for providers.

Banking M&A Trends

Meanwhile, consolidation in banking has promised similar benefits — increased operational efficiencies and a broadened scope of operations and services. Increased size through acquisitions and mergers may also benefit consumers because bigger banks are much less likely to fail.

The banking sector features a high degree of differentiation among competitors on the basis of customer service. Customers place a lot of weight on their trust in and relationships with financial service providers. Acquisitions and mergers can undermine both of these if culture shifts, policies and products change, jobs disappear, and staff assignments to customers alter.

Light says that two trends are driving M&A in financial services: “Regulated banks are looking for technology companies that will enhance their payment systems. Non-regulated institutions, such as finance companies, are looking for targets (other finance companies) that will help them build a critical mass.”

Technology M&A Trends

The technology sector has generated a lot of publicity — much of it negative — about how consolidation enables tech companies to acquire personal information from disparate sources and connect data points in order to build out highly detailed user profiles. Consumers worry about their privacy.

On the plus side, M&A has helped drive innovation in the tech sector. Growth in venture capital funds has made much more money available to fund the development of promising new technologies, and deep-pocketed acquirers are bringing innovations to market much more quickly and effectively than some startups could.

Head of The McLean Group’s technology and telecommunications practice, Klick anticipates cyber security will continue to generate deals: “The cyber sector in and of itself has had tremendous volume in M&A activity. I expect it to continue to be one of the highest volume areas for years to come.” Klick notes that “This is because of the prevalence of technology solutions out there, from a doorbell provider to large enterprise solutions. Our lives become more and more digital on a daily basis, and each solution opens the door to a new threat. Protecting our information and privacy remains the paramount issue for all companies.”

Best Practices for Successful M&A Deals

Research consistently finds that the majority of M&A deals fail to deliver: Sixty percent to 83 percent, according to data from *Harvard Business Review* and KPMG, fail to increase shareholder returns, and a large proportion of these deals actually destroy shareholder value. Only 14 percent of respondents in a recent Grant Thornton study say that M&A deals surpass their expectations for increased income or rate of returns.

Several factors influence the success of an M&A, and the buyer has little or no control over some of them. Think of interest rate fluctuations, changes in business regulations, new global trade and investment policies, increased taxes, skewed stock market valuations, political instability, or just the boom and bust of economic cycles.

Nevertheless, many companies overcome these challenges and use M&As strategically to drive growth. These winners control what they can by being smart about selecting, negotiating, and managing their M&As. Here are some best practices commonly used by M&A leaders:

- **Create a Dedicated M&A Team:** Many moving pieces must come together for a deal to succeed. The best practice to manage and optimize with these variables is to establish a team that deals specifically with M&As; this is especially important if deals are a regular occurrence for your company.
- **Maintain Discipline in Target Selection:** Stick closely to the target criteria you defined in your M&A process, such as alignment with your strategic objectives and benchmarks for financial performance. Doing this vastly reduces the likelihood of pursuing deals that prove to be a bad fit or developing irrational enthusiasm for a deal.
- **Seek Quality:** Pros say that strategic buyers should prioritize the potential for synergies and the strength of the target business. While great deals occasionally come along, you must nurture acquisitions; as Warren Buffett advises, over the long term, it's much better to buy wonderful companies at fair prices than to buy fair companies at wonderful prices. Pick winners and back them to help them grow.
- **Use Technology to Manage M&As:** Companies that are strong in M&A work hard to minimize risk, and they know that winning a deal can hinge on a slim information advantage or careful due diligence. So, these top acquirers leverage technology to optimize their deal process. Applications manage key M&A steps, such as financial analysis, virtual data rooms, post-deal integration, and pipeline management, and general project management tools can make sure nothing slips through the cracks.

  A new generation of tools based on artificial intelligence is expanding the range of capabilities by providing more insight and analysis into industry relationships, competitor activity, and investment patterns. These AI solutions use analytics on data streams to prioritize investments, manage transactions throughout the lifecycle, and speed up regulatory compliance.

  Additionally, templates can often help you define your strategy at the outset, as well as stick to plan down the road. To get started, check out our complete guide to M&A templates, all of which are free to download.
- **Be Mindful of Chemistry:** Compatibility of goals, culture, and people management principles between acquirer and target can make or break a deal, even though these factors are hard to quantify. Of course, perfect chemistry is as unlikely between companies as it is between people, but a bad fit is bound to be a real M&A headache. Here are some aspects to consider:
  - Makeup and management style of leadership team
  - Customer relationship style
  - Mission and goals
  - Degree of internal alignment
  - Agility and adaptability
  - History
  - Culture

Many corporate leaders have trouble talking about culture in concrete terms, which is not surprising given how subjective it is. Organizational researchers have created some paradigms to help. Consultant and Pepperdine University Visiting Professor Kent Rhodes coined the "Seven Ms" of organizational culture, borrowing terms from several different disciplines to describe the pillars of corporate culture:

1. **Metallurgy:** This is the culture that surrounds the organization's approach to everyday work.
2. **Mythology:** This is the story of the organization, which may be a narrative of greatness or a tale of tragedy.
3. **Missiology:** This refers to how existing employees bring new recruits into the fold — or block them out.
4. **Meritocracy:** This is the awarding of opportunities and rewards based on contribution and ability.
5. **Modality:** This refers to the method of approaching organizational problems.
6. **Mores:** These are the moral and ethical standards that undergird the company's work.
7. **Mettle:** This refers to the spirit or strength of character of both the individual and the team.

For a merger or an acquisition, use these Seven M's to evaluate how compatible the two organizations are. When there's a lack of fit between company cultures, even a merger that seems perfect on paper can generate friction between employees at all levels.

"The M&A deal process is like the dating game: Even initial strong chemistry is not an indication of long-term success or what will make for a good marriage," says Jennifer J. Fondrevay, Chief Humanity Officer of Day 1 Ready M&A consultancy. "More important than that initial 'perfect chemistry' is having genuine respect for what the other company brings to the table and an understanding that the respect is mutual," she explains.

- **Focus on the Staff:** Staff at both the acquiring and acquired companies may have fears about what the deal will mean for them. Will there be job losses, changes in roles and responsibilities, or new ways of doing things that make their jobs harder? These worries can hurt company performance by sapping morale and productivity, motivating key staff to job hunt and reducing support for new strategic plans. You can mitigate these effects with clear communication and a performance management system that recognizes desired behavior.
- **Remember, Sometimes It Just Won't Work:** Some deals will fail, regardless of what you do. That's why smart dealmakers play the percentages and try to make many good deals instead of a few great ones.

IT Integration Strategies for M&A

Managing the combined information systems of newly merged or acquired companies is a top priority. To realize the strategic rationale underlying an M&A, you need to be able to quantify, measure, and track assets and performance. Following transactions, there are some common IT integration strategies:

- **Minimal Integration:** Especially when a newly acquired company is going to continue to run as a largely independent unit, it may make sense to integrate IT systems to the least extent possible, while still being able to generate the data you need.
- **Favored Child:** In this approach, you expand the best IT system (from either the acquirer or the acquired company) to cover the entire company.
- **Patchwork:** Use the strongest assets and systems from both **companies and combine them.**
- **Scratch:** Build a new IT structure that serves the new entity from the ground up.
- **Outsource:** Assign a contractor to build, manage, and support the necessary IT infrastructure.

Why Do Merger and Acquisition Deals Fail?

What do we mean when we say a merger or an acquisition has failed? The benchmark for success is whether an M&A meets the deal's initial strategic rationale, so success will vary depending on your objective. But generally, acquirers expect a purchase to bring long-term operational and financial gains that exceed the price they paid.

M&As can go wrong for a number of reasons. Research from Bain & Co. suggests poor cultural fit may be the primary one. When cultures clash, everyone is on edge. Then, there are the intertwined problems of a lack of differentiation between the merged companies, a dilution of brand strength, and the resulting confusion among customers. M&As carry a major risk: A company can lose what originally made it special.

Poor leadership and mishandling of the integration phase can aggravate these challenges. Light of Conway MacKenzie says that the most common reasons for failure are incomplete due diligence, overvalued cost savings, and lack of complete integration strategies.

Acquirers can overlook critical operating areas during their due diligence process. "One example is an insufficient review and understanding of work in process and what really needs to be done to convert WIP to finished products," Light explains. "Another example is a shallow understanding of future work that has been awarded. Take an auto supplier that has been awarded parts for a new vehicle launch. You must complete a deep review of capital expenditures, launch costs, and forecasted volumes," she says.

Similarly, buyers are often overly optimistic in forecasting cost savings that they can reap from an acquired company. Beyond administrative efficiencies, which are relatively straightforward, it is challenging to predict other types of savings. "Operational/manufacturing cost savings are typically overstated due to unforeseen complexities in plant integration," Light concludes.

Moreover, acquirers frequently do not build enough time or cost into integration plans, especially for technology integration, where extensive data cleaning may be necessary to combine systems, Light says.

Managing Marketing and Communications in Mergers and Acquisitions

A critical but often underappreciated element of merger and acquisition strategy is communications, both internal and external. Effective communication can forestall opposition to a transaction, keep clients from defecting, reassure employees, and minimize public backlash.

Specialist public relations firms focus on communication during mergers and acquisitions and can be a helpful addition during a deal. Following are the major categories of communication relevant to mergers and acquisitions:

- **Marketing and Branding:** Names and positioning of surviving companies and products
- **Media Relations:** Press releases and outreach to key outlets, including local, national, and industry-specific media
- **Investor Relations:** Presentations, deal documentation, and messaging with important shareholders and financial analysts
- **Sales Support and Supplier Relations:** Outreach and information to clients and suppliers concerning how the changes will affect the way they do business with you, including anticipated changes in account teams, pricing, distribution, and more
- **Government and Community Relations:** Shepherding the deal through regulatory reviews and informing affected local communities as well as providing information about the deal to stakeholders like neighborhood associations, trade groups, unions, and environmental groups
- **Internal Communications:** Explaining the deal to staff, including job cuts or reassignments, changes to company strategy and benefits, timeline, new leadership, and other details

Establish a cross-functional team that can take charge of M&A-related communications. A team might bring in HR, finance, sales, procurement, and other departments, depending on the stakeholders. Ask the team to brainstorm likely concerns and objections that the deal will face — and formulate responses. Then, draft a campaign to carry out your messaging, including press releases, social media, advertising, speeches, and information sessions, using proxy advisory services and printed collateral.

Here are some of the concerns that often arise:

- **External:** Will this affect customer service? What will be the name of the new company? Is management changing? Which company is in control? Will prices go up? Who is my point of contact now? Will the company be cutting jobs or closing locations? What will be the impact on nearby communities?
- **Internal:** How do I explain the deal to customers? What is the new hierarchy? Will we get new sales collateral? How will this affect my job? Who will I report to? Will there be cost cutting or job reductions?

Fondrevay emphasizes that “Content and timing are tricky and can have legal consequences: Who do you tell what information and when, and what do you say?”

“By taking the time to anticipate people’s reactions and expectations and focusing on the communication strategy in the M&A deal pre-planning, this upfront effort can go a long way toward setting up the deal for success,” she explains.

Based on interviews with 60 executives, Fondrevay's book about how to optimize the human side of M&A sheds light on the process: "One of the key lessons learned was about how the vision behind the merger or acquisition is communicated to stakeholders right at the beginning: People need to see themselves contributing to the vision." She recommends some guiding principles for M&A communication:

- Don't "sell the vision" like it is a product.
- Do sell the vision through story — bring the company journey to life.
- Don't make promises (you likely can't keep).
- Don't hand off your talking points to an outside consulting firm; authenticity is key.
- Do have a third party help you define your communication strategy, so you are prepared for every question and conversation; consistency of message is critical.

Important Terms to Know in Mergers and Acquisitions Strategy

Understanding mergers and acquisitions requires becoming familiar with the terminology. Some terms are commonplace in business news, such as hostile takeover, but others are more obscure.

- **Acqui-Hire:** An acquisition that is carried out so the acquirer can obtain the target company's talent
- **Acquirer:** A company that is pursuing the acquisition of another
- **Acquisition:** The purchase of a complete or controlling interest in one company by another. The buyer is typically the larger of the two companies. In an acquisition, the buyer's brand and identity usually remain largely unchanged, while the purchased company's brand and identity may disappear. Acquisitions may be either friendly or hostile.
- **Arm's Length Deal:** A transaction in which both sides act independently in their own best interests without any coercion or collusion. In arm's length deals, the participants usually have no ties. In contrast, deals among relatives or companies with common shareholders usually have many ties.
- **Boom and Bust:** Cyclical periods of economic growth and recession
- **Buy or No Buy:** The make-or-break characteristics of a deal from the purchaser's perspective
- **Capacity:** The ability to do something; in business, typically the ability to produce
- **Capital at Risk:** A representation of the greatest possible loss that could occur (usually) within a specific period of time
- **Conglomerate Deal:** When an acquirer purchases a target in a different industry
- **Consolidated Merger:** A merger that dissolves both participating companies in order to form a new legal entity
- **Cost Synergy:** When two companies are able to reduce costs to a greater extent in combination than they would be able to do on their own
- **Definitive Contract:** A document that, once signed, binds a buyer to pay for an acquisition and a seller to divest the asset
- **Demerger (also Spinoff):** The undoing of an earlier merger, i.e., when a single entity breaks up into multiple smaller ones
- **Economies of Scale:** Cost savings that a business can realize by increasing the size of its operations

- **Economies of Scope:** Cost savings that a business realizes by producing multiple different products simultaneously
- **Excess Returns:** The difference between the rate of return on a risky investment and a risk-free investment, wherein the latter is equivalent to some form of secure short-term government bond
- **Free-Rider Problem:** Classically, this occurs when people who benefit from shared or public resources are not willing to pay for them. But in M&A, the problem can manifest as small shareholders being unwilling to tender their shares to a takeover bid unless the bidder offers to buy their shares for a price that reflects all future gains the deal will deliver.
- **Friendly Acquisition:** In a friendly acquisition, the buyer's intent to buy is aligned with the seller's intent to sell.
- **Horizontal Deal:** When a company purchases a competitor in the same industry
- **Hostile Acquisition or Takeover:** In a hostile acquisition, the seller does not want to sell to the buyer. The buyer must sidestep the seller's management, often appealing to shareholders directly, to acquire control of the company. The buyer then usually ejects the management and the board.
- **Letter of Intent (LOI):** A document in which one party states its intention to do business with another. A letter of intent does not contain the minutiae of a deal, only its broadest strokes.
- **Leverage:** In the context of negotiation, this is the capacity of one party to bring another closer to its preferred negotiating position. Leverage also refers to the use of debt to finance a deal.
- **Merger (also Merger of Equals):** A deal which combines the buyer and the seller to form a new entity. In this scenario, to a large degree, both companies lose their old brands and identities, though one company is often understood to be the survivor. The parties in a merger are typically similar in size. As a rule, mergers are friendly.
- **Organic Growth:** The rate of growth that a company is able to achieve on its own — that is, without being acquired or merged
- **Purchase Price:** The dollar cost of an investment or acquisition
- **R&D:** Research and development. This may refer to a department in a company that is in charge of developing new products and services.
- **Revenue Synergy:** When two companies are able to increase revenue to a greater extent in combination than they would be able to do on their own
- **Reverse Takeover/Merger:** When a private company acquires or merges with a public one, so the private company can skip the long and complicated process of going public itself. A reverse takeover can also refer to a small company acquiring a larger one.
- **Return on Invested Capital (ROIC):** The percentage return that a company makes over the amount it invested in capital
- **Roll-Up:** An M&A strategy in which an acquirer buys many smaller firms in the same field and merges them in order to gain economies of scale
- **Statutory Merger:** A merger in which the acquirer survives and the target is absorbed
- **Strategic Merger:** When a buyer carries out a merger, so the buyer can better pursue its strategic objectives by obtaining advantages such as synergy, expanded customer bases, and increased brand strength.

- **Target:** A company that an acquirer pursues
- **Triangular Merger:** When a shell company (that is a subsidiary of the true acquirer) acquires a target company and then merges with it
- **Value Creation:** In M&A terms, creating value means taking steps that increase the worth of a business or asset.
- **Vertical Deal:** When a company purchases another company that occupies a different position in the same supply chain

Execute you M&A Strategy with Smartsheet for Project Management

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Use Smartsheet to create consistent project elements, increase speed, and improve collaboration with scalable options that fit individual work preferences. Hold yourself and your team accountable, improve visibility into team priorities, and ensure nothing slips through the cracks.