Leading Practices from Global Acquirers

The march toward globalization and cross-border deal-making has been increasing and evolving. In order to gain a deeper understanding of leading global M&A practices, KPMG has sponsored an analysis by Professor Nancy Hubbard of Goucher College. The result of this collaboration is a book by Professor Hubbard, *Conquering Global Markets—Secrets from the World's Most Successful Multinationals*.

The book is based on a KPMG survey of 160 companies and a series of high level interviews with over 70 senior executives[1] conducted by Professor Hubbard. Several of the more surprising results of the research are summarized below and we hope they will stimulate discussions among M&A practitioners.

A significant percentage of companies prefer regional domination to a global approach

A global expansion strategy provides companies with numerous benefits. Sixty-one percent of respondents viewed themselves as global and said that they were motivated primarily by a desire to gain access to new customers and markets. Multinational firms also felt that they needed to expand globally in order to serve their own multinational clients.[2]

Although the benefits are numerous, those interviewed said that their companies experienced increased risks in operating in multiple markets. When investing in emerging markets, they noted the existence of political risk and the challenges of obtaining the right market knowledge. Companies also had to deal with managing their own internal resources, which were often stretched during international expansions.

To combat some of these risks, a significant percentage of respondents (32 percent) indicated that they chose to achieve a regional, as opposed to a global footprint.[3] Becoming regionally dominant allowed those companies the advantages of gaining some of the benefits of globalization, while limiting financial and management expenditures. These regional players focused on a specific geography (Europe) or on regions that shared certain characteristics, such as a common language (an Anglo-American approach).

Large M&A deals provide the fastest results

Once a company decides to go global, it still must decide which business arrangement will best serve its needs. Companies need to evaluate a host of factors that range from available resources to market acceptance to cultural fit. And even companies with the resources to pursue a greenfield investment or to make a major acquisition may not be able to do so because of local regulatory or legal restrictions.

M&A provides the quickest impact

M&A deals are the primary method that companies use to enter into international markets. According to those interviewed, they chose to make a significant investment not because of issues of control, but because an acquisition provided the fastest way to enter into a new market. An M&A deal also allowed the acquirer to tap into an existing market supply and did not create any issues of oversupply, which a greenfield project might generate.

The good news for acquirers: deals are becoming more successful. In fact, 38 percent of participants indicated that their acquisition created

[1] The companies interviewed spanned numerous regions and industries and included, among others: British Aerospace, Bank of China, Bayer, Cadbury Schweppes, Ford Motor Company, Sony, and Teva. A more detailed synopsis of the book, which was prepared by KPMG and contains more detailed insights from our practitioners can be found here: http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/conquering-global-markets.pdf.

[2] Interestingly, very few respondents indicated that they were moving into less developed markets as a way to cut costs.

[3] Only seven percent of respondents described themselves as "domestic" companies.

"significant value," and 24 percent said that their last deal created "some value." Many of these deals were more successful because the acquirers did not unduly integrate and allowed targets to operate as stand-alone entities. This more limited approach to integration combined operations only in areas where intra-firm collaboration was needed and resulted in fewer integration problems and greatly improved employee retention.

Greenfield investments are most successful

Greenfield investments were the most successful market entry mode reported by survey participants. Fifty percent said that their greenfield investment was "very successful," compared to 36 percent of those who invested through M&A and 28 percent who invested through a joint venture. This success can be partially explained by the reasons that a greenfield investment was chosen. While market entry remained the top reason (41 percent), following a customer into a new market was the second most popular reason for a greenfield investment (23 percent). Therefore, a large percentage of companies were able to use existing customers to quickly generate revenue through an existing client base.

Strategic alliances and joint ventures remain unloved

According to respondents, their least favorite mode of market entry was a strategic alliance. In fact, over 80 percent of participants said they would avoid using joint ventures if any other form of market entry was available. In general, respondents said that they invested in a strategic alliance if it was the best option because market entry was restricted or if the market was not enough of a priority to warrant a fully owned operation. Some executives said that their companies used a strategic alliance as a defensive mechanism to develop a collaborative, rather than a competitive relationship with a local player.

Developed market dealmakers can benefit from adopting an emerging market approach

During the research for this project, it became clear that companies that are based in emerging markets and are themselves active deal makers have a very different approach than companies based in developed markets. Global, emerging market companies (which Professor Hubbard refers to as "high growth world globalizers") tend to have flatter organizational structures and less bureaucracy. They were able to make decisions more quickly and were more flexible, creative, and pragmatic in their approach to market entry. This is not surprising since many of these companies are much younger and smaller than their counterparts in the developed world. Still, companies from the developed world may be able to improve their growth strategies by adopting some of these approaches.

Companies reluctantly view China as a required destination

Because of the size of its consumer base and its rapidly expanding middle class, participants noted that they felt they had to at least explore a Chinese strategy. Participants said that they found China an increasingly difficult place to do business with increased competition from domestic firms, ever more demanding joint venture partners, and a rising cost of local labor. Those who achieved success had several factors in common. Although not always available because of legal constraints, the most successful investments were greenfield investments where companies maintained control over their technology and HR functions. Although harder to achieve, joint venture success was most likely in cases where there were clear and agreed upon goals, mutual trust, and good local management teams.

Conclusion

Globalization is an important business strategy for companies based in both the developed and emerging markets. Companies can be successful using M&A, greenfield investments or joint ventures. However, each market entry option brings its own risks and benefits and requires a unique due diligence focus. Companies should also be aware of the benefits of a regional approach and an emerging markets perspective, and understand the risks and rewards of entering the Chinese market.

For more information, please contact:

Dan Tiemann
Global Head of Transaction Services and Americas Head of T&R Partner, KPMG in the US
T: 312-665-3599
E: dantiemann@kpmg.com

Steve Miller
Head of Integration & Separation Partner, KPMG in the US
T: 281-216-5016
E: stevenmiller@kpmg.com

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