BOOK REVIEWS

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Winning the Merger Endgame: A Playbook for Profiting from Industry Consolidation

Graeme K. Deans, Fritz Kroeger, and Stefan Zeisel (McGraw-Hill, New York; 2003; ISBN 0-07-140998-X) $39.95

REVIEWED BY CORNELIS A. REIMAN

The authors of this book make the bold assertions that all industries tend to consolidate, they follow a similar course in doing so, and the outcome of proposed mergers can be predicted. Knowing this provides a robust tool for strategic planning. This is of particular interest to consultants on mergers and acquisitions (M&As), who can plan their advice, assignments, and client relationships accordingly. This is also important for all consultants to management, since mergers and acquisitions affect all areas of an acquiring or target organization. Consultants to all functions in both organizations can improve decision-making and operational effectiveness, so as to obtain synergies and reduce expenses. This is especially true if they know why mergers and acquisitions work, or do not, and can then implement that knowledge before a merger commences.

To support the proposition that merger activity is predictable, this book rests upon a sound foundation of longitudinal research, a rigorous piece of work with results that cannot be easily disputed. The authors (each from A. T. Kearney) began by accessing details from two databases. One was the Securities Data Corporation, which tracked 135,000 mergers and acquisitions from 1990 to 1999. The authors selected deals that were greater than US$500 million, with less than that not being considered significant in a global context. They looked only at publicly traded companies quoted on national exchanges and only at mergers where one party had 51% or more of the final deal. In addition, they used A. T. Kearney's proprietary Value-Building Growth database, which tracks more than 25,000 global firms that altogether represent 98% of the world's market capitalization. Such rich sources of data provided the basis for a ten-year in-depth study of 1,345 M&A cases by 945 acquiring companies. This is an impressive and comforting analysis.

The book contains nine short chapters and an appendix with methodology and M&A data. The first part introduces the nature of corporate consolidations, the research and methodology that the authors used, and the resultant Endgame Curve. The authors plotted the degree and speed of market concentration in major industries and found a pattern that spans about 25 years for any industry. This is the Endgame Curve.

This research and the extensive experience of the authors lead them and us to believe that consolidation is inevitable, unavoidable, and inescapable, and that all industries are global. Of particular interest, however, is the authors' view that revenue growth over the length of the Endgame Curve is relatively stable, but that profitability rises if corporations follow the Endgame Curve. As a result, they say, long-term success depends upon riding up the Endgame Curve, and finally feeding the need for mergers and acquisitions.

To explain the Endgame Curve more fully, the second part of the book devotes a chapter to each of the four stages of the predictable merger endgame.

1. In the Opening Stage, industry players have no or low market concentration; for example, newly deregulated industries, start-ups, and spin-offs from established industries. Telecoms, many service businesses, utilities, and insur-

ance fit here. And it's here that the first consolidators may appear.

2. In the Scale Stage, size begins to matter and major players emerge and begin to consolidate, producing concentration rates as high as 45% in some industries. Growth comes primarily from internal and external strategies. Examples are chemical and drug manufacturers, breweries, and automotive suppliers.

3. In the Focus Stage, we find successful players that extend core businesses, reduce or eliminate secondary units, and aggressively outgrow their competition. Examples are automotive and aircraft OEMS, toy manufacturers, truck builders, and aerospace suppliers.

4. In the Balance and Alliance Stage, a few players dominate an industry and concentration rates are as high as 90% in such industries as defense, tobacco, shoes, and soft drinks.

The third part of the book is dedicated to New Imperatives and Future Outcomes. The chapter "CEO Strategies for Endgames" indicates the need for those in the uppermost echelon of an organization to be clear on where their firm is located on the Endgame Curve before deciding what their growth strategy should be. Executives must take a global view and adjust their strategy to reflect their position on the Endgame Curve, and cross-industry opportunities for growth must be pursued. The skills required for all executives—as well as Board Directors—will vary in relation to that positioning.

The chapter "The Stock Market Connection" provides interesting commentary on the direct correlation between industry consolidation and the stock market. The authors predict that the Dow Jones Industrial Average will grow fourfold by 2010 due to sustained merger activity. This is the main event that justifies the Endgame strategy.

The concluding chapter, "The Endgame Vision of 2010" sees a future where megamergers are commonplace. The authors predict a US$1 trillion merger. To accept that requires understanding the management challenges, the global culture, the major players, competitive information, an agenda focused on current and proposed Endgame positioning, the need to stay ahead of the industry growth curve, and careful screening of merger opportunities in order to become the long-term dominant player. Assessing the management team for those tasks, as well as evaluating product breakthroughs for spin-off potential, are also necessary; as is the need to check systems to ensure that they facilitate future business integration. Finally, organizational culture must be up to the challenge of future mergers.

The appendix is also interesting and worthwhile. It expands on the Endgame methodology and presents data from 1,800 of the largest M&A transactions from 1998 to 2001, by value of the deal, acquirer, target company, target industry, and announcement date.

The book is liberally sprinkled with corporate examples that add to the reading and learning experience. It is, therefore, much more than the playbook the title suggests. It is, indeed, a handbook for all to review their stance on, and understanding of, M&A activity. It is an extraordinary piece of work, one that is well-founded, convincing, and remarkably easy to read.

The reality, of course, is that not every merger or acquisition succeeds. Original research completed by the authors in 1999 indicates that almost 60% of M&As failed to increase shareholder value. More recently, the rate is 50%. Even so, in this book the authors show a strong correlation between companies riding their Endgame Curve and successful mergers. So, this book is surely one not to miss if you are an M&A specialist. And since all functions of a business are deeply affected by M&As, all consultants to management can be more useful if they understand the facts in this book, where their clients are on the curve, and where they should be heading. Both consulting assignments and client partnerships can be planned accordingly.

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