
# INVESTMENT BANKING EXPLAINED

## AN INSIDER'S GUIDE TO THE INDUSTRY

SECOND EDITION

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# Strategies for Value in M&As

Most advisors would tell you that there are three key ingredients for success in M&As: a strong strategic rationale for the transaction, an extensive due diligence, and an effective integration of the businesses. This chapter explores these three fundamental components of a successful M&A transaction.

## The Strategic Rationale for an Acquisition That Creates Value

In a well-known article published in the *Harvard Business Review* in 2001, Professor Joseph L. Bower analyzed a thousand M&A deals valued at over $500 million in the United States between 1997 and 1999.[1] For Bower, the strategic rationale for an acquisition that creates value typically conformed to at least one of six archetypes: (1) overcapacity deals, (2) product-line extension, (3) financial deals to improve the performance of the target company, (4) geographic roll-ups, (5) M&As as R&D, and (6) industry convergence deals.

In 2017, an article by McKinsey consultants Marc Goedhart, Tim Koller, and David Wessels adopted some of Bower's archetypes, and the authors identified six types of successful acquisitions.[2] Contrary to Bower, their work was not based on statistics but rather on their advisory work with companies. For them, the strategic rationale for an acquisition that creates value typically conforms to at least one of the following six archetypes: (1) removing excess capacity from an industry (similar to Bower's over-

capacity deals), (2) creating market access for products (Bower's product-line extension), (3) improving the performance of the target company (a goal that Bower assigns to financial buyers), (4) exploiting a business's industry-specific scalability, (5) acquiring skills or technologies (M&A as R&D for Bower), and (6) picking winners early and helping them develop their businesses. For the McKinsey consultants, two of Bower's archetypes—geographic roll-ups and industry convergence deals—are harder strategies to follow successfully.

This analysis gives IBs tools for evaluating M&A strategic rationales that create value. In Bower's findings, overcapacity and product-line extension deals were the most common, with, respectively, 37 and 36 percent of the transactions. These two types of deals are illustrative of the two simple equations to be discussed in more detail in Chapter 16: product-line extension deals belong to the $2 + 2 = 5$ synergy equation on the revenue side (more clients or more products sold to clients). Overcapacity deals illustrate the other equation, $2 + 2 = 3$, on the cost side (the combination of two firms permits the reduction of operating costs and capital expenditures).

The third-largest category, with 12 percent of the sample, included deals in which a multi-business company sold a division to a financial acquirer. Geographic roll-ups were next, with only 8 percent. Finally, the last two categories, M&As as R&D and industry convergence deals, were still uncommon. Let us examine these archetypes in more detail.

## Overcapacity M&A Deals/Removing Excess Capacity from an Industry

Overcapacity M&A deals are aimed at reducing capacity and duplication in mature industries through consolidation to obtain cost synergies. As industries mature, they typically develop excess capacity, and giant competitors must be trimmed down to fit shrinking world markets. Bower provides two examples: one in the banking industry (Chemical Bank merging with Manufacturers Hanover and then with Chase in the early 1990s) and the other in the automobile industry (Daimler-Benz merging with Chrysler in 1998). The McKinsey consultants take the example of chemical companies looking for ways to get more production out of their plants, even as new competitors, such as Saudi Arabia in petrochemicals, continue to enter the industry. Companies often find it easier to shut

plants across the larger combined entity resulting from an acquisition than to shut their least productive plants without one and end up with a smaller company.

On paper, this looks perfect. The acquiring company (part of an industry with excess capacity) will eliminate capacity, gain market share, and create a more efficient operation. And this explains why overcapacity is the more often used rationale for acquisitions. However, according to Bower, few of these deals have been judged successful after the fact. The reason is that they "are usually win-lose games: the acquiring company keeps open more of its own facilities, retains more of its own employees, and imposes its own processes and values. Employees of the acquired company don't have much to gain. As with any win-lose scenario, the loser doesn't make it easy for the winner." For the McKinsey consultants as well, the bulk of the value often accrues to the seller's not the buyer's shareholders. In addition, all the other competitors in the industry may benefit from the capacity reduction without having to take any action of their own (the free-rider problem).

## Product/Market Extension, Creating Market Access for Products

These acquisitions extend a company's product line or its potential markets. For Bower, "[s]ometimes these are like geographic roll-ups; sometimes they involve deals between big companies. They also involve a bigger stretch (into a different country, not just into an adjacent city or state)." Bower mentions three telling acquisitions: Snapple by Quaker Oats, Peoples Department Stores (Canada) by Marks & Spencer, and Nuovo Pignone (Italy) by GE. The first two were failures; the latter, though, was a real success. For Bower, the chance of success of these deals hinges on the relative sizes of the acquirer and the target. It also depends on the experience of the acquirer: serial buyers have a better chance to be successful in integrating the two cultures.

The McKinsey consultants are more precise: they focus on transactions accelerating market access for the target's (or buyer's) products. They give the example of IBM, which acquired 43 companies for an average of $350 million each between 2010 and 2013. "By pushing the products of these companies through IBM's global sales force, IBM estimated that it was able to substantially accelerate the acquired companies'

revenues, sometimes by more than 40 percent in the first two years after each acquisition."

Here is another example. In 2004, the global manufacturer of laundry and dish products Procter & Gamble (advised by Merrill Lynch) acquired fellow consumer products company Gillette (advised by Goldman Sachs and UBS) for $57.5 billion. The transaction created a company with the power to fight for shelf space at a time when gigantic retailers such as Walmart were calling the shots. The combination enabled both companies to distribute their products more cheaply and to remove duplicate costs. Working together, they could more rapidly react to consumer preferences changes.

## Financial Deals

Increasing the profitability of the acquired firms is what the best private equity firms do as I will explain in Chapter 18. Such an opportunity most often arises when a business was underperforming, and its potential wasn't plain for other acquirers. Financial acquirers must quickly identify the factors to increase the acquired firm's efficiency. Put simply, once they buy a company, they establish financial controls and radically reduce costs, and they work with management to create a road map to accelerate revenue growth and increase cash flows.

## Economies of Scale

Economies of scale can be important sources of value in acquisitions when high volumes of manufacturing or sales lead to lower unit costs and the introduction of competitive technology. For example, the addition in 2017 of Mitsubishi Motors to the alliance between car manufacturers Renault and Nissan to create the Alliance Renault-Nissan-Mitsubishi generated additional synergies from joint purchasing and logistics because the largest purchasers had more bargaining power and achieved lower prices. But there were other sources of economy of scale resulting from deeper localization and joint plant utilization, common vehicle platforms, technology sharing, and an expansion of their combined presence in both mature and emerging markets while preserving brand differentiation among the three automobile companies. I discuss the various synergies taking the Alliance as an illustration in Chapter 16.

## Pick Winners Early and Help Them Develop Their Businesses

For the McKinsey consultants, making acquisitions early in the life cycle of a new industry or product line, long before most others recognize that it will grow significantly, is a winning strategy. Picking winners early and improving the performance of the target company are also what financial firms do, as shown in the preceding section. But it is also a strategy of some big companies to acquire startups and give them access to resources they couldn't possibly acquire on their own. For instance, Cisco, the leading provider of Internet of Things (IoT), bought Jasper Technologies for $1.4 billion in 2016. In one year, the number of customers had grown 157 percent. Cisco had identified a winner at the very edge of the market potential for IoT management, and by pushing Jasper's products to its customer base, Cisco contributed to the massive increase in business.

## M&A as a Substitute for R&D/Acquiring Skills or Technologies

Innovation-through-acquisition deals are a way to acquire a technology instead of developing it in-house to build a market position quickly in response to shortening product life cycles. Both Bower and the McKinsey consultants cite Cisco as an example. Cisco Systems, the network product and services company, acquired 71 firms in the Internet server and communication equipment fields between 1993 and 2001 to assemble a broad line of network solution products. Cisco's sales increased from $650 million in 1993 to $22 billion in 2001, with nearly 40 percent of its 2001 revenue coming directly from these acquisitions. By 2009, Cisco had more than $36 billion in revenues and a market cap of approximately $150 billion. After more than 200 acquisitions, Cisco annual revenue for 2017 was almost $50 billion and its market cap $200 billion.

These deals are extremely difficult to pull off, which probably explains why they are not very frequent, outside of serial acquirers like Cisco. While buying technologies is easy, making them pay off is not. According to Wharton Management Professor Saikat Chaudhuri, the innovation-through-acquisition strategy presents four major challenges:

- Integrative complexity because of technological incompatibilities
- Integrative complexity because of the maturity of the target company

- Unpredictability of a product's performance trajectory (technical uncertainty)
- Unpredictability of that product's market (market uncertainty)[3]

While *complexity* challenges in innovation acquisitions are real, visible, and significant, it is the *uncertainty* variables—the unpredictability of markets and product success—that present the larger challenge for purchasing firms, according to Chaudhuri. Purchasing firms can help themselves by buying only companies that bring along limited uncertainty. The nice thing about this is that the strategy is reversible: either you grow by acquisition or you sell if you fail in your strategy. This gives more business to the IBs!

## Geographic Roll-ups and Industry Convergence M&A Transactions

For the McKinsey consultants, these two last strategies identified by Bower are less successful. Geographic roll-ups are the traditional "big fish swallowing small fish" to combine customers, channels, and geographies. Roll-ups are designed to achieve economies of scale and scope by rolling up competitors in geographically fragmented industries and achieve higher revenues than individual businesses can. According to Bower, this is how industry giants get built. Many industries exist for a long time in a fragmented state: local businesses stay local, and no company becomes dominant regionally or nationally. Eventually, companies with successful strategies expand geographically by rolling up other companies in adjacent territories. The large accounting firms were assembled this way. So were the superregional banks, many hotel chains, and the large chains of funeral homes.

The McKinsey consultants give the example of Service Corporation International, which grew from a single funeral home in Houston to more than 1,400 funeral homes and cemeteries in 2008. Service Corporation's multiple locations in individual cities could share vehicles, purchasing, and back-office operations. They could also coordinate advertising across a city to reduce costs and raise revenues. But these cost savings can be realized only if the acquired units are near one another. And successful roll-ups can only happen in special situations. Another inconvenience of roll-up strategies for McKinsey is that they invite copycats. As others tried to imitate Service Corporation's strategy, prices for some funeral

homes were eventually bid up to levels that made additional acquisitions uneconomical.

On the positive side, roll-ups may solve a broad range of problems. For the acquirer, the deal resolves problems of geographic entry and local management. For the target, it reduces problems of insufficient size and scarcity of resources. Roll-ups are often a win-win proposition; consequently, they're easier to pull off.

The other very difficult M&A strategy is called *transformative*, what Bower calls "industry convergence M&A transactions." The purpose of deals of this kind is nothing less than "to exploit eroding industry boundaries by inventing an industry," according to Professor Bower. "Success depends not only on how well you buy and integrate but also, more important, on how smart your bet about industry boundaries is." These deals are rare, which is a good thing because they are often unsuccessful. It takes a lot of nerve to justify a merger, with all the risks of integration and disruption to people's lives, on one's bet about industry boundaries! For the McKinsey consultants, "transformational mergers are rare, however, because the circumstances have to be just right, and the management team needs to execute the strategy well."

The 2000 merger between AOL and Time Warner, later known as the worst M&A transaction in history, was a transformative deal. For Columbia Professor Rita Gunther McGrath, "[c]ertainly the lawyers and professionals involved with the merger did the conventional due diligence on the numbers. What also needed to happen, and evidently didn't, was due diligence on the culture."[4]

A key success factor for all M&As is an extensive due diligence not only on the numbers but also on the culture. Due diligence on the numbers not only must be conventional, but the assumptions behind the synergies also need to be checked.

## Extensive Due Diligence

Documenting assumptions is a way of rationalizing the synergies. Two deals in the automotive industry, DaimlerChrysler and Renault-Nissan, illustrate the role of due diligence in M&As. Both transactions were announced in marriage terms, DaimlerChrysler as a merger of equals and Renault-Nissan as an alliance. Both took place at about the same time, Renault-Nissan (1999) coming a year after DaimlerChrysler (1998). Both

were in the automotive industry. Both were overcapacity mergers. But the results could not have been more different: DaimlerChrysler was one of the worst M&As in history, and Renault-Nissan one of the best.

## DaimlerChrysler

While the pre-deal discussions between Daimler and Chrysler lasted four months and focused on the transaction structure, the negotiations between Renault and Nissan lasted nine months and assessed the potential for synergies in detail.

In the following I analyze the minimal due-diligence process during the DaimlerChrysler deal. On May 7, 1998, Juergen Schrempp, CEO of Daimler, and Bob Eaton, CEO of Chrysler, announced a merger of equals between Daimler-Benz, the German maker of Mercedes-Benz luxury cars, and Chrysler Corp., the American producer of minivans, Jeeps, and Chrysler automobiles. As I explained in Chapter 14, a merger of equals is a transaction where neither company is "taken over" by the other, and the new board of directors is made up of an equal number of directors from each of the two companies. The deal created a new giant in the automobile industry, with $155 billion in sales. The key problem in the automotive sector at that time was an estimated overcapacity of nearly 25 percent, which had reduced the profitability of car manufacturers to 3 to 5 percent. As explained earlier in this chapter, overcapacity M&A deals are aimed at reducing capacity and duplication in mature industries through consolidation to obtain cost synergies. "In the end the acquiring company has greater market share, a more efficient operation, better managers, more clout, and the industry has less excess capacity."[5] With the merger, DaimlerChrysler achieved an 8.4 percent market share worldwide. The biggest manufacturers at the time were General Motors and Ford, with market shares of about 15 percent each, followed by Toyota with 10 percent.

On paper, the fit was indeed perfect, and in the end, DaimlerChrysler should have achieved *a more efficient operation, better managers, more clout*. In the mid-1990s, Chrysler Corporation was the most profitable automotive producer in the world, but it lacked the infrastructure and management required to be a truly global automobile company. The more prestigious and technology driven Daimler-Benz wanted to diversify its product line and distribution channels. The two carmakers were complementary by region and by product. They expected a cost reduction of

$1.3 billion in 1999 alone and an increase in cross-selling by integrating Daimler-Benz's competencies in technological innovations with Chrysler's ability to rapidly introduce products into the marketplace.

But DaimlerChrysler's share price lost around 50 percent within a year and a half following the merger. Why? Because in this kind of merger it is important to integrate well and quickly, and Daimler and Chrysler did not seem to be able to integrate their very different cultures and processes quickly enough. The German management culture could not be imposed on the American processes. Nobody ever said that the first was better than the latter. The main sources of Chrysler's energy, the top leaders of Chrysler's manufacturing, engineering, and public relations departments, left quickly when they learned that their fate was to be subordinated to the functional bureaucracy in Stuttgart. In other words, DaimlerChrysler did not get *better managers and more clout*.

Another reason for failure of the transaction was the lack of due diligence directed at valuing the synergies precisely during the merger discussions. In a suit brought by various Chrysler shareholders against DaimlerChrysler, one can read that

> Schrempp and Eaton were the primary negotiators for Daimler-Benz and Chrysler. Over the course of several meetings, the two CEOs discussed various aspects of the proposed merger, including the tax consequences of incorporating the new company as an American corporation, as a German Aktiengesellschaft (AG), or as a corporate entity in another nation such as Holland. Schrempp and Eaton discussed the feasibility of joint management shared equally among executives from Daimler-Benz and Chrysler. Eventually, the term "merger of equals" was used to describe the proposed transaction.[6]

The parties spent more time on the transaction technicalities and the governance structure for the combined company than on a precise and detailed analysis of the potential synergies. The major points of discussion involved providing a tax-free transaction for both companies' stockholders, how best to meet the requirements of a cross-Atlantic transaction and sharing of management roles consistent with the parties' conception of a "merger of equals." The valuation teams devoted more effort to the structure of the transaction than to detection of the synergies and their valuation.

The background of the transaction shows clearly how one-dimensional it was.[7] In mid-January 1998, while he was attending the Detroit International Auto Show, Juergen Schrempp visited Robert Eaton to discuss the possibility of a business combination, given the likelihood of consolidation in the worldwide automotive industry. Toward the end of the month, Eaton telephoned Schrempp to suggest a meeting. On February 5, 1998, the Chrysler board was briefed on the discussions between Schrempp and Eaton. A week later, Eaton and two colleagues met with Schrempp and a Daimler-Benz management board member. After a discussion concerning the consolidation that was likely to take place in the automotive industry and the complementary nature of the companies' respective product lines and markets, they decided to consult with their respective financial advisors.

On February 17 and 18, 1998, representatives of Daimler-Benz and Goldman Sachs met with representatives of Chrysler and Credit Suisse First Boston (CFSB) to discuss various transaction structures. The simplest structural solution, a direct merger of Daimler-Benz and Chrysler, was not possible under German law. During that week and the next, representatives of the two companies and their respective financial advisors and legal counsels met again to discuss the transaction structure. They agreed on five objectives:

- The transaction should maximize value for both companies' stockholders.
- It should be tax free to Chrysler's US stockholders and tax efficient for Daimler-Benz AG.
- It should have the post-merger governance structure of a "merger of equals."
- Optimally, it should be accounted for as a pooling of interests.
- The surviving entity should be a German stock corporation.

During these meetings, various tax, corporate, and management issues were discussed with a view toward developing a transaction structure that would accommodate the parties' objectives. On March 2, 1998, the two CEOs met in Lausanne, Switzerland, to discuss governance and business organizational structures for a combined entity. On March 5, 1998, the Chrysler board was updated concerning the status of the discussions with Daimler-Benz, and it was informed every two weeks thereafter. The two

executives in charge of the project, Gary Valade for Chrysler and Eckhard Cordes for Daimler-Benz, met on March 6 to conclude that the working teams should continue to meet to refine the structural alternatives that were then under discussion. In addition, Valade requested that Daimler-Benz provide Chrysler with its preliminary thoughts on valuation.

On March 5 and 17, representatives from each party's legal and investment banking teams met in New York to continue their discussion with respect to alternative transaction structures. On March 19, representatives of Chrysler and CSFB met with representatives of Daimler-Benz and Goldman Sachs to discuss valuation matters. On March 23, the Chrysler board was updated concerning the status of the discussions with Daimler-Benz. On March 26, representatives of Chrysler and Daimler-Benz met at the offices of CSFB to discuss the progress of the working teams, valuation analyses, governance, and structural matters. During late March and throughout April, the legal and investment banking teams continued to discuss and refine their analysis of the appropriate business combination structure.

On May 3, 1998, the Daimler-Benz management board unanimously approved the combination agreement and the transactions. The Chrysler board did the same on May 6. Late in the evening, in London, all constituent parties signed the combination agreement. The next morning, the signing was publicly announced, less than four months after the first contact between the two chairmen. The merger of equals had been consummated.

The marriage of Daimler and Chrysler was promised to rock the global automobile industry and provide a blueprint for international consolidation on an epic scale. But it was not to be. Nine years later, on May 14, 2007, DaimlerChrysler AG announced that US private equity investment firm Cerberus Capital Management took over an 80.1 percent stake in newly founded Chrysler Holding for $7.4 billion, a fraction of the $36 billion deal that had created the "marriage made in heaven." And on April 30, 2009, Chrysler filed for chapter 11 bankruptcy protection.

## Renault-Nissan

Now let us see what Renault-Nissan did differently. On March 27, 1999, the two CEOs of French Renault and Japanese Nissan Motor Co. announced that they had signed an agreement for a total partnership "which will create the fourth largest automobile manufacturer in the

world, while providing growth and profitability to the two partners." The goal of the Alliance Renault-Nissan was to set up a powerful binational group within a balanced partnership focused on performance. Renault invested 605 billion yen (US$5.1 billion) to acquire 36.8 percent of the shares of Nissan Motor Co. By 2004, Nissan's share price was 3.3 times its price in 1999, and in 2018, the Alliance was the world's largest automotive group by sales volume.

Renault and Nissan were unlikely candidates for success: both were large, bureaucratic organizations, and they both suffered from the increased competition in the automobile industry. Both had permanent employment systems. Neither company's management model was clearly better than the other.

In 1998, Renault was a company with total sales of $37 billion; it produced 2.2 million vehicles of all types, from passenger cars to light commercial and industrial vehicles. Renault had no debt and $1.9 billion in cash. The biggest shareholder was the French state, with around 44 percent; the remaining 56 percent was held by private shareholders and Renault employees. All told, the company was valued at $8 billion in 1999. Renault wanted to become a major player in the consolidating automotive industry. It was a very European firm and it had no presence in Asia or North America.

Nissan, a global firm with 22 subsidiaries in 18 countries and a strong presence in Asia and the United States as well as Europe, was the second-largest carmaker in Japan. With total sales of $51 billion, it produced 2.7 million vehicles annually, of which 2.2 million were passenger cars. Nissan had more advanced technology and higher quality cars than Renault; nevertheless, the company had run into trouble in the 1990s when demand for cars flattened. Overcapacity and a lack of new models led to decreasing profitability. Nissan was losing not only money but also market share. The Japanese firm had a very low capacity utilization (about 50 percent) and poor financial performance, including very high leverage. With its huge debt ($21 billion) that was 2.5 times equity, Nissan was in serious financial difficulties. From January 1997 to October 1998, Nissan's share price had declined by around 60 percent.

On September 10, 1998, Renault and Nissan signed a commercial and industrial memorandum of understanding to analyze the potential synergies between the two firms. Deal teams often make simplistic and optimistic assumptions about how long it will take to capture synergies

and how sustainable they will be. In Renault-Nissan, their role in due diligence was to help assess synergies, function by function. These extensive due diligences on the potential for synergies lasted eight months. The chairman of Renault explained in February 2001, "Before taking a stake in Nissan, we did a lot of homework. We arrived at an analysis where we felt that this was a good company with management problems. There was a major effort to build a good understanding of the state of the company, the technical, engineering and the financial sides. We had looked into it for six to eight months. We had many meetings from July 1998 up to March 1999, when we sealed the deal. During these meetings, with top management, we wanted to get people to know each other before agreeing. In many marriages today, people go for marriage without knowing each other well. There was a good personal relationship before we started, and we have worked to maintain that with top meetings once a month and many meetings on an intermediate level."[8]

From July to March 1999, twenty-two working groups involving more than 200 people from the two firms and their advisors, Merrill Lynch for Renault and CSFB for Nissan, were formed to assess specific projects and potential synergies. It turned out that there was an excellent fit between the two firms in terms of markets, products, and production sites. By combining forces, Renault and Nissan created the number four player in the world automobile industry, with a 9.1 percent market share. Nissan was the answer to Renault's scale problem. Not only did Nissan have a broader international base than Renault, but the footprints of the two companies were complementary: Nissan had a strong position in Japan and a significant share in North and Central America and Europe; Renault was essentially a European manufacturer with a presence in three international markets of consequence: South America, Turkey and the Middle East, and Eastern Europe. The product lines of each firm were strong in key volume segments and complementary in all categories. Finally, there was a fit in industrial production, with the possibility of common platforms and cross-supply of products in many markets. Renault and Nissan expected to save $3.3 billion from these synergies in the 2000–2 period alone and $3 billion annually thereafter.

But the culture shock that beset the DaimlerChrysler merger was taken very seriously. Merging the cultures of Daimler with Chrysler was problematic from the get-go. DaimlerChrysler was a merger of equals, but the management was not evenly divided between the two companies. The

question is crucial: if the most creative staff members are demotivated, reluctant to share their knowledge and collaborate, or simply leave the ship, the hoped-for synergies will have no chance of succeeding.

## Effective Integration of the Businesses

From the outset, Renault wanted to forge an alliance of equals, contrary to the win-lose strategy imposed by Daimler on Chrysler.

In the Renault-Nissan deal, the word *acquisition* was never said. Nissan was not "taken over" by Renault. In any case, Renault could not afford to take on all of Nissan's debt, so it had to be content with a minority investment in the Japanese firm. But, as in any good judo move, what was a weakness became a strength. The chairman of Renault hailed the Alliance's spirit in the previously mentioned article: "Traditional mergers in my view run the risk of looking inward more than outward. When it is [a partnership] 13,000 kilometers away, with different languages, and where people look different and behave differently, you are always reminded that you are different. You have to accept this as a fact and not try to ignore it. We sent a management team to Nissan. We said to the people we were sending that you aren't representing Renault. You are sent by Renault to work for Nissan."

Despite the good fit between the two businesses, it was clear to both sides that there would be many barriers to overcome, starting with language and cultural differences. Questions about potential culture clashes cropped up repeatedly at the two companies' press conference on March 27, 1999, which one reporter compared to having sushi with Chardonnay! The press release,[9] however, explained that 11 Cross Company Teams (CCT) were assigned the task of promoting all possible synergies to be implemented by each of the partners. Four of these teams were focused on manufacturing ("product planning and related strategy," "powertrains," "vehicle engineering," and "purchasing and logistics") and seven other teams were assigned to marketing and sales in different geographical areas. Apart from the "product planning and related strategy" group, each group was led by a manager from one company, the deputy leader being an employee of the other.

The successful implementation of the detailed plan for post-merger integration went very far in the Renault-Nissan case because it became an

essential part of the Alliance's structure, still in place after 20 years. This unique way of working encourages dialogue and cross-company teamwork and brings out the best in both cultures. It enabled Renault to learn from Nissan and Nissan from Renault. It encouraged an alliance team spirit. Yet, it also respected the fundamental differences between the two independent companies.

This organization has remained a model of cultural integration for many M&A transactions, and it will be beneficial to give a few more details. A strategic management company, Renault-Nissan BV, jointly and equally owned by the two partners, was created, with a board of four members from each company, to steer the Alliance's medium- and long-term strategy and coordinate joint activities on a worldwide scale. The board focused on strategic direction, significant new opportunities for collaboration, and the progress of the Alliance relative to industry benchmarks.

This strategic management company was responsible for the overall integration and for optimizing the synergies. In more ordinary M&A structures, this role is assumed by an integration steering committee. The Renault-Nissan's steering committees, chaired by a member of Renault's or Nissan's executive committee, proposed the priority subjects for the Alliance board meetings; oversaw the activities of the CCTs, the functional task teams (FTTs) and task teams (TT); and helped implement Alliance joint projects. The CCTs were the key groups that explored new opportunities and synergies. CCTs covered all the major areas of both companies: product planning, research and advanced engineering, vehicle engineering, power train engineering, manufacturing, and purchasing, plus there were CCTs covering all sales regions and exploring greater synergies between the two companies. FTTs assisted the work of the CCTs. When an opportunity or a problem arose, the FTT studied the CCT pilot for a project to either identify a new synergy or program or solve an issue that the CCT could not agree on.

If the issue could not be solved at the FTT level, it was referred to the appropriate steering committee. If it still could not be solved, it would go to the Alliance board meeting. Task teams helped CCTs with specific assignments; they were created whenever specific issues arose and worked on each issue until it was resolved. By 2014, Renault and Nissan had completely converged their activities in areas such as engineering, manufacturing, and supply-chain management (SCM).

## The Role of a "Deal Owner"

A key to successful mergers is its *deal owner*, the high-performing manager responsible for the deal from its start to the companies' eventual integration. The CEO of Renault appointed his COO, Carlos Ghosn, as deal owner very early in the process, as a prerequisite for continuing negotiations with Nissan. Carlos Ghosn explained how he got involved: "It was in March of 1999 that I got the call from Louis Schweitzer, CEO of Renault, asking me if I would be willing to go to Tokyo to lead a turnaround at Nissan, the struggling Japanese motor giant. . . . In corporate turnarounds, particularly those related to mergers or alliances, success is not simply a matter of making fundamental changes to a company's organization and operations. You also have to protect the company's identity and the self-esteem of its people. Those two goals—making changes and safeguarding identity—can easily come into conflict; pursuing them both entails a difficult and sometimes precarious balancing act."[10]

Carlos Ghosn was appointed COO of Nissan in May 1999. He picked French executives who had volunteered to go with him to Japan and said that if the project failed, they would all resign. But Nissan could not be managed by top French executives alone. As Ghosn wrote later: "I knew that if I had tried simply to impose the changes from the top, I would have failed. Instead, I decided to use as the centerpiece of the turnaround effort a set of cross-functional teams. I had used CFTs in my previous turnarounds and had found them a powerful tool for getting line managers to see beyond the functional or regional boundaries that define their direct responsibilities."

In July 1999, Carlos Ghosn established nine CFTs to review in three months the company's operations and to come up with recommendations both for returning Nissan to profitability and for uncovering opportunities for future growth. CFTs were made up of approximately ten members, all drawn from the ranks of the company's middle managers, that is, people with line responsibilities in different functions. Each team had two "leaders" drawn from the executive committee of Nissan to serve as the team sponsors. Their voices would balance each other, so that no single function's perspective would dominate. The areas covered by the CFTs ranged from research and development to organizational structure to product complexity. For instance, the manufacturing team had four subteams, which reviewed capacity, productivity, fixed costs, and invest-

ments. Altogether, some 500 people worked in the CFTs and subteams. The result of the CFTs' three-month review was a detailed blueprint for the turnaround, the Nissan Revival Plan, which was released to the public in October 1999.

In September 2017, the Renault–Nissan Alliance included Mitsubishi, one year after Nissan acquired a controlling interest in Mitsubishi, making the Japanese automaker an equal partner in the Alliance. The Alliance announced its Alliance 2022, a six-year plan that has set a new target to double annual synergies to €10 billion by the end of the plan. Carlos Ghosn said: "Today marks a new milestone for our member companies. By the end of our strategic plan Alliance 2022, we aim to double our annual synergies to €10 billion. To achieve this target, on one side Renault, Nissan and Mitsubishi Motors will accelerate collaboration on common platforms, powertrains and next-generation electric, autonomous and connected technologies. From the other side, synergies will be enhanced by our growing scale. Our total annual sales are forecast to exceed 14 million units, generating revenues expected at $240 billion by the end of the plan."

According to the Alliance, it sold one in nine cars worldwide in 2017, ranking as the world's largest producer of light vehicles by sales, with 10,608,366 units sold.

In Chapter 16, I will explain how to analyze the synergies in an M&A transaction using the Alliance Renault-Nissan-Mitsubishi as an example.