



AOL Time Warner

Glossary

dot-com boom rapid growth of internet-based business

protagonists most important people involved in a particular situation

falter weaken

spot identify

herd instinct natural inclination to follow others rather than act alone

Mergers and acquisitions

Spring in their steps

Some notes for company bosses out on the prowl

¹ AFTER a long hibernation, company bosses are beginning to rediscover their animal spirits. The \$145 billion-worth of global mergers and acquisitions announced last month was the highest for any month in over three years. There are now lots of chief executives thinking about what target they might attack in order to add growth and value to their companies and glory to themselves. Although they slowed down for a while because of the dot-com boom, they are once again on the prowl.

What should CEOs do to improve their chances of success in the coming rush to buy? First of all, they should not worry too much about widely-quoted statistics suggesting that as many as three out of every four deals have failed to create shareholder value for the acquiring company. The figures are heavily influenced by the time period chosen and in any case, one out of four is not bad when compared with the chances of getting a new business started. So they should keep looking for good targets.

³ There was a time when top executives considered any type of business to be a

good target. But in the 1990s the idea of the conglomerate, the holding company with a diverse portfolio of businesses, went out of fashion as some of its most prominent protagonists – CBS and Hanson Trust, for example – faltered. Companies had found by then that they could add more value by concentrating on their “core competence”, although one of the most successful companies of that decade, General Electric, was little more than an old-style conglomerate with a particularly fast-changing portfolio.

⁴ Brian Roberts, the man who built Comcast into a giant cable company, was always known for concentrating on his core product – until his recent bid for Disney, that is. It is not yet clear whether his bid is an opportunistic attempt to acquire and break up an undervalued firm, or whether he is chasing the media industry’s dream of combining entertainment content with distribution, a strategy which has made fortunes for a few but which regularly proves the ruin of many big media takeovers.

⁵ If vertical integration is Comcast’s aim, then it will be imperative for

Mr Roberts to have a clear plan of how to achieve that. For in the end, CEOs will be judged less for spotting a good target than for digesting it well, a much more difficult task. The assumption will be that, if they are paying a lot of money for a business, they know exactly what they want to do with it.

⁶ If CEOs wish to avoid some of the failures of the 1990s, they should not forget that they are subject to the eternal tendency of business planners to be over-confident. It is a near certainty that, if asked, almost 99 per cent of them would describe themselves as “above average” at making mergers and acquisitions work. Sad as it may be, that can never be true.

⁷ They should also be aware that they will be powerfully influenced by the herd instinct, the feeling that it is better to be wrong in large numbers than to be right alone. In the coming months they will have to watch carefully to be sure that the competitive space into which the predator in front of them is so joyfully leaping does not lie at the edge of a cliff ■