CZECH UNIVERSITY OF LIFE SCIENCES IN PRAGUE

FACULTY OF ECONOMICS AND MANAGEMENT

DEPARTMENT OF MANAGEMENT

Success Factors in Mergers and Acquisitions

Diploma Thesis

Author: Bc. Jiří Cafourek

Supervisor: prof. Ing. Ivana Tichá, Ph.D.

2014, CULS in Prague

©

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE
Department of Management
Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Cafourek Jiří

Economics and Management

Thesis title

Success factors in mergers and acquisitions

Objectives of thesis

Based on the critical review of a selection of recent acquisitions to identify critical success factors facilitating synergies achieved through acquisitions. With adequate level of generalization to develop a check list of actions leading to successful acquisitions.

Methodology

Theoretical part: critical review of literature related to acquisitions and synergies. Practical part: analysis of selected real life cases dealing with acquisitions, identification of key success factors and types of synergies achieved, development of check list based on generalized pattern.

Schedule for processing

Critical review of literature - 06/2013
Analytacal part - 10/2013
Synthesis and proposed key success factors - 01/2014
Final synthesis and submission - 03/2014

The proposed extent of the thesis
60-80 pages

Keywords
acquisitions, critical success factors, Pixar, Walt Diseny

Recommended information sources

ACCENTURE. Accenture Aerger, Acquisition, Divestiture and Alliance Services. 2013.
BROWN, Carolyn. The five types of successful acquisitions. December 22, 2010. COOLS, Kees, Kermit KING, Chris NEENAN a Miki TSUSAKA. THE BOSTON CONSULTING GROUP. Growing Through Acquisitions. May 2004
MILANO, Gregory. Do acquisition premiums matter?: A herdlike mentality leads many companies to acquire more at the top of the stock market cycle than at the bottom. July 29, 2011

Strategic Management Journal
McKinsey Quarterly

The Diploma Thesis Supervisor
Tichá Ivana, prof. Ing., Ph.D.

Last date for the submission
March 2014

Electronic approval: March 18. 2014	Electronic apporoval: March 19. 2014
prof. Ing. Jan Hron, DrSc., dr. h. c.	**Ing. Martin Pelikán, Ph.D.**
Head of the Department	Dean

I do hereby declare that I have been working myself on my diploma thesis, which is titled “Success Factors in Mergers and Acquisitions”. It was written under the direction of my supervisor prof. Ing. Ivana Tichá, Ph.D. and I have used only the references and sources, which are mentioned in the thesis.

In Tuklaty, 11.3. 2014

Acknowledgement

I'd like to thank my supervisor prof. Ing. Ivana Tichá, Ph.D. for the consultations and provided advice for my thesis and also to my family for supporting me during my studies.

Success Factors in Mergers and Acquisitions

Faktory úspěchu ve fúzích a akvizicích

Summary

The work starts with an introduction whose purpose was to outline the overwhelming complexity of M&A strategy but at the same time its huge growth and competitive potential, which is being widely exploited by success driven companies.

The first part of this work was devoted to identification of key success principles, which would link most successful deals in M&A history. Eventually there was identified several success factors based on the analysis of current and recent findings in the field of mergers and acquisitions. Identified success factors were one by one described with introducing, often different, perspectives of ground-breaking researchers in this field.

In the second part of this work, the acquisition of Pixar animation studio (Pixar) by The Walt Disney Company (Disney) is analysed in detail. It starts with a brief history of the company that is essential for better understanding of the motives and overall background that led to the merger. Subsequently the acquisition is assessed based on the identified success factors for which information were available (with regard to Pixar's acquisition). Eventually, based on the conducted analyses the final conclusion, of how the acquisition stood against the selected critical success factors, is drawn.

Furthermore, a new approach how to tickle a M&A potential is introduced. An approach that should provide an insight into the deal's attractiveness (with respect to risks associated with the deal) prior to any commitment or any deeper research.

Key words

Acquisition

Merger

Strategic Alliance

Success Factor

Synergy

Souhrn

Tato práce začíná úvodem, jehož hlavním účelem bylo nastínit obrovskou komplexitu užíváni strategie fúzí a akvizic, ale zároveň jejich obrovský potenciál v podobě růstu a konkurenceschopnosti, který je široce využíván úspěchem hnanými společnostmi.

První část je zaměřena na identifikaci klíčových faktorů úspěchu, které stojí za všemi úspěšnými akvizicemi poslední doby. Na základě analýzy současných a nedávných studií v oboru fúzí a akvizic, bylo nakonec identifikováno několik faktorů úspěchu. Identifikované faktory úspěchu byly postupně popsány, rovněž byly uvedeny, mnohdy rozdílné, názory odborníků v této oblasti.

V druhé části práce je detailně analyzována akvizice filmového studia Pixar společností Walta Disneyho. Pro lepší pochopení motivů a celkové situace jež vedla k akvizici, je nejprve stručně popsána historie společnosti. Následně je akvizice ohodnocena na základě identifikovaných faktorů úspěchu pro které byly dostupné informace týkající se dané akvizice. Na základě provedené analýzy je sepsáno závěrečné zhodnocení a doporučení.

Rovněž je uveden nový postup, jak zhodnotit atraktivitu a rizikovost zamýšlené akvizice před jakýmkoliv závazkem ze strany kupující společnosti.

Klíčová slova

Akvizice

Fůze

Strategická aliance

Faktor úspěchu

Synergie

Content

1 Introduction **10**

2 Aim of work and methodology **12**

2.1 Aim of the Work **12**

2.2 Methodology **12**

3 Theoretical Part **13**

3.1 Sound Strategic Logic **13**

3.1.1 Proven Value Creating Strategies 14

3.1.2 Proven "Accompanying" Value Creating Strategies 19

3.2 Other Success Factors **22**

3.2.1 Premium Price and the Timing of the Acquisition 22

3.2.2 The Size Matters 24

3.2.3 Due Diligence 26

3.2.4 Understanding of Regional Differences 27

3.2.5 Be Risk Aware: Count with the Worst Hope for the Best 27

3.2.6 Cash x Equity, Aligning Incentives, Earn-outs 28

3.2.7 Integration 30

3.2.8 Practice Makes Perfect 39

4 Analytical Part **41**

4.1 Disney Buys Pixar **41**

4.1.1 The History of Pixar 41

4.1.2 The Strategic Alliance Between Pixar and Disney 42

4.2 Analysis of Acquisition **44**

4.2.1 Strategic Logic 44

4.2.2 Perfect Match 45

4.2.3 Proven Value Creating Strategies 46

4.2.4 Cash x Equity, Aligning Incentives, Earn-outs - Steve Jobs - CEO of Apple Computers the Largest Disney´s Shareholder 49

4.2.5 Understanding of Regional Differences - Acquisition within the USA 50

4.2.6 Communication 50

4.2.7 Premium Price and the Timing of the Acquisition - Overpaing x Buying Market Leader 51
4.2.8 The Size Matters - Access to Disney´s Resources 53
4.2.9 Practice makes perfect - the list of Disney´s acquisitions 54
4.2.10 Proactively Manage the Soft Issues - Long-term Settlement 55
4.2.11 Risk assessmant 59

5 Conclusion 61

6 Resources 64

7 Appendix 73

1 Introduction

Since the old times blacksmiths have sought to alloy tin and copper in a hope for getting much stronger and durable metal – bronze. But such outcome is only possible when these two separate minerals are mixed together in the correct ratio and under the right conditions, then, and only then are the blacksmiths reworded with an alloy whose features outstrip those of the originals.

Acquiring companies is not much different – you want to merge two separate firms in a hope for getting one much stronger whose qualities will also exceed those of the originals. But same as it is with bronze funding, here also companies need to follow some rules should they be rewarded with desired outcome.

The process of merging one firm with another in a hope for getting something more than is the mere sum of separately operating firms, is professionally known under the name "Synergy". The origin of the word itself is derived from a Greece word *synergos, meaning "working together"* and for better understanding is often being expressed by mathematical equation 2 + 2 = 5 [27]. Simply put, there is a synergy when it is possible to operate two separate businesses more profitably under the control of one united business.

When applied to deals and valuation theory, both companies win, if the synergy is achieved. The shareholders of the acquired company receive an acquisition premium, which represents an extra monetary value against company's current market valuation. The buyer realizes shareholder premium by capturing synergies that generate value that exceeds what is required to justify the premium price and therefore, as it summarise consultants from PricewaterhouseCoopers Company, synergies are fundamentally the only tangible justification for making any acquisition [28].

Here are some numbers to demonstrate how much value is involved in mergers and acquisitions deals. The 2012 Global M&A deal volume after two years of growth dropped by 4% - from 30,116 transactions in 2011 to 28,829 in 2012 according to WilmerHale report from 2013 on M&A activity. However, global M&A deal value increased by 19percent to $2.57 trillion in 2012, up from $2.16 trillion in 2011. In the United States, the volume of M&A activity in contrast to the world trend increased by 6percent, from 9,831 transactions in 2011 to 10,419 in 2012. The deal value due to a spate of large transactions

increased even more, jumping by 22percent to $1.33 trillion in 2012, from its 2011 $1.09 trillion value [41].

In Europe, the deal volume fallowed the global trend and contracted by 8percent, from 13,323 transactions in 2011 to 12,260 in 2012. However the deal value increased by surprising 91percent up to $1.42 trillion from its 2011 total value of $741.3 billion. The Asia-Pacific region experienced growth both in deal volume and value. The number of Asia-Pacific deals increased by 7percent, up to 9,344 transactions from its total number of 8,759 in 2011. The total deal value rose by 13percent from $679 billion to $769.5 billion. Companies for more than 20 years almost every year increase the volume and value of mergers and acquisition transactions. And according to the forecast made by financial market specialist the trend in M&A activity will continue to grow [41].

2 Aim of work and methodology

2.1 Aim of the Work

The aim of this work is to identify, based on analysis of up-to-date mergers and acquisitions research reports, whether there are some common success factors in merger and acquisition (M&A) deals – factors through which successful deals distinguish themselves from their failing counterparts.

Consequently, the identified success factors should be used for an analysis of selected recent acquisition, to see, whether there could be find any practical utilisation in deals evaluation prior to any deeper commitment.

2.2 Methodology

The methodological approach used in the first part of the work was based on study of secondary data, scientific articles and reports and on specialised literature.

For identification of success factors in mergers and acquisitions was primary used of reports and articles published by management consulting companies who have assist to many organisations on their way through mergers and acquisitions.

3 Theoretical Part

"The question behind every deal should be: "How will buying this asset make my existing business more valuable, and how will I bring value to the asset I am buying" [1]?

3.1 Sound Strategic Logic

Although often underestimated and overlooked by many acquirers this is the most primary step that can be found in every meaningful research. Every acquisition needs to be backed up by clear strategy with achievable deliverables [15]. Mergers[1] and acquisitions must be about more than just numbers - the primary focus when selecting a target should be about whether it fills a company´s strategic gap [6]. According to consultants from McKinsey Company [12] the most successful M&A were always based on well-articulated value creating strategies.

Many present researchers agree that managers often try to justify their intentions that led to acquisition by reaching for broad menu of reasons why it was a smart strategic move and how a new organisation will benefit from it – but, as results show, in practice these strategies seldom return any value. "Often, it is not until after the deal is done that the strategic rationale is made up to justify the acquisition to the stock market" [5]. Acquirers always need a well-articulated strategy that adds value to the business [55]

Acquiring companies need to clearly identify where does the deal take them and how it can enhance their current business, for example "this deal will plug the gap in the portfolio of our products and help us to access new customers and retain our leading position". As consultants from Bain & Company explain: "A clear deal thesis shows where the money is to be made and where the risks are" [17]. Should the new company be more

[1] The term merger refers generally to a „merger between equals“ and acquisition in which the management of the acquiring company controls the management of acquired company. According to Weber , experience shows that even if the newly merged companies declare a “merger between equals”, within days or weeks it is clear to everyone involved, who of the parties is controlling and who is being controlled. This work therefore does not make any distinction between both terms and uses them interchangeably [35].

efficient and more competitive, according to Roland Berger consultants , all potential synergies need to be identified well in advance so when comes the right time they can be easily leveraged and in the right order fully exploited [60].

According to Porter should the acquisition turn out to be successful it needs to fulfil at least one of these three following conditions:

- Buyer posses unique skills that will turn target´s business into more valuable company.
- Buyer posses special assets that will turn target´s business into more valuable company.
- The acquisition improves position in buyer´s existing business [44].

3.1.1 Proven Value Creating Strategies

The list below contains proved value creating strategies that were selected based on analyses of recent and present researches.

Accelerate Market Access for the Target´s (or Buyer´s) Products or Services

This strategy is a typical example in which buyer posses assets that make target's business more valuable [44].

In this strategy often one company with well-established global distribution channels and sales-force decides to buy usually substantially smaller company with great innovative products that typically lacks behind its potential due to its un-ability to reach the whole market. After an acquisition takes place, target company´s products are incorporated into acquirer´s much broader and more established distribution channels that cover significantly greater market share, and through them the growth in revenue is quickly accelerated [44]. Acquisition of world's top alkaline battery maker – the company Duracell by Gillette in 1996 is a good example how economies of scope can work in favour of acquirers following this strategy [62].

Gillette, the US consumer company mainly known for its high quality man's razors with its enormous global distribution network bought in late 1996 Duracell International

Inc. Since batteries and man's shaving products are both relatively small consumer products with no significant differentiation, Gillette by pursuing this strategy could leverage its product distribution force by starting using its assets (Gillette's global distribution network for razors) for additional products (newly acquired Duracell batteries) with little or no extra cost and thus add significant value to the deal and increase its revenue. The opportunity here was also with regard to geographical content, with Gillette being well established at foreign developing countries, there was an appealing opportunity to leverage its distribution force and bring Duracell's products at these markets [62].

As consultants from McKinsey explain, this strategy proved it-self valuable particularly in pharmaceutical industry where small companies with innovative products often lack the sale force of the bigger companies to nurture relationships with the many doctors they need to promote their products. As a result bigger companies often acquire the smaller ones and use their distribution channels to accelerate entry into markets of the newly acquired company´s products [19].

But it does not mean that this strategy is relevant only for pharmaceutical industry, it has also proven as a very valuable strategy in a technological industry, namely for companies such as Cisco and IBM [26], [3].

IBM by pursuing this strategy in its software business between the years 2002 to 2009 has acquired 70 companies for about $14 billion and managed to increase their revenue on average by almost 50percent in the first two years and by another 10percent in next three years - IBM enabled to its acquirers to access global markets, which they had lacked [19]. According to McKinsey consultants IBM is a great example how can "accelerate market access for the target´s (or buyer´s) products" strategy work excellent in acquirer's favour when executed in multiple series of acquisitions [26].

But as Sherrman points out an acquirer can also use this strategy to accelerate access to the market for its own products. Procter and Gamble did this well when it acquired Gillette that was at that time well established in some markets where P&G was lacking behind its competitors or was not present at all and vice versa. By working together they were able to access these markets much more faster than they would if they remained working as two separate business. Disney acquiring Marvel in 2009 gained access to new contact channels and product development. Another recent example is acquisition of Merril

Lynch by Bank of America - here Bank of America gained access to much broader spectrum of financial services [61].

Get Skills or Technologies Faster or at Lower Cost than They Can Be Built in-house

This strategy is a typical example in which target's business posses skills or technologies that make acquirer's business more valuable [44].

In an industry with rapidly changing technology, companies might find them-self unable to adequately respond to the constantly modifying environment with only internal development. Therefore organisations with an access to necessary resources often look outside of the company for potential target that would help them to preserve or even gain a leading position in their market [3].

Cisco, as a former chief strategy officer in Cisco Company Mike Volpi describes, found itself one day in a position when it was lacking behind its competition and a new product called "switches" was threatening to its leading position. They assumed they could build better switching products by building on the existing Cisco´s technology foundations [3].

But there were three main problems:

- It would take a substantial **amount of time** to develop such products.
- The result was **uncertain**.
- The existing products were far more **ahead of Cisco** [3].

Therefore Cisco decided to buy Crescendo Communications, a privately held networking company providing high-performance workgroup solutions to the desktop [25], which addressed ideally all three issues associated with internal development and resulted in a huge success, providing Cisco up to the year 2011 with excess of $10 billion in revenue and significant amounts of profit. As Volpi explains, this huge success was an incentive that put into motion an avalanche of acquisitions that over the next seven years until 2011 escalated up-to 75 concluded deals [3].

Improve a Target Company´s Performance (Value of Control)

This strategy is an example where buyer posses a certain skills - through which it will make the target´s business more valuable [44].

Market for Corporate Control (MCC) is basically based on this strategy. It says that when incumbent management of some company is not performing in the best interest of its owners (shareholders) it activates a takeover mechanism that disciplines and replaces inefficiently acting teams of managers [36].

McKinsey summarizes this as mainly cost cutting strategy in order to improve margins and cash flows with some acquisitions where managers will also need to take steps to accelerate revenue growth [12]. To the contrary of that Volpi argues that acquisitions justified only by pursuing cost cutting synergies should always be viewed with a gimlet eye. Although he admits that cost reductions might work well in fast growing markets he persists the opinion that expense cuts are much less relevant compare to growth-accelerating synergies like revenue and operational scale [3]. Researches from AT Kearny admit that when used in reasonable amount it can bring significant value to the deal however they consequently add that overexploiting of this strategy could according to them put in jeopardise long-term objectives/survival of the firm [59].

Empirical evidence on the Value of Control resulting from research conducted by Bhide who examined the motives behind 77 acquisitions in 1985 and 1986 indicates that a typical characteristics of companies that became aim of hostile takeovers due to their under-performance were as follow: Target firm for hostile takeover has on average earned return on equity lower by 2.20% than other firms in the same industry. Returns for shareholders were lower by 4.00% than the market average and the last characteristic was a very low shareholding of the insiders, only 6.50% [50].

Every acquirer that decides to pursue such strategy needs to reconsider whether the bad performance of the company is a result of poorly performing incumbent management (which can be improved) or whether the poor performance is attributable to the macroeconomic environment (which cannot be controlled).

Consolidation

Consolidation strategy is an example of strategy that should improve buyers' position in their current business. It puts great emphasize on conditions under which is executed so it can really turn into "value creating strategy" [44].

According to consultants from McKinsey Company only few situations give companies a clear, compelling reason to take on a big deal's (deals worth more than 30percent of acquirer's market capitalisation) risks and integration complexity – consolidation strategy is just the strategy that belongs to these situations [19].

For organisations in industries characteristic with high level of consolidation and slower growth, such as oil and gas or mining might be growth opportunities significantly limited – but even in such highly consolidated industries companies might find success in big deals, especially when significant economies of scale exist. When there is clear strategic fit, then, even big deals can create great value and enhance acquirer's performance rapidly [44].

In highly consolidated industries or industries that are about to consolidate companies often have to act swiftly and are pushed to carry out consolidating acquisitions in order to retain their leading positions so they are not outrun by their competitors and do not end up with the "leftovers". Acquisition of Gillette by Procter and Gamble is a good example of such situation - former Gillette's CEO commented on their acquisition: "I believe the consumer product industry needs to consolidate," said in his statement, "I'd rather lead it than end up with the leftovers" [57]. However the question whether the deal gets approval from regulatory office stands out.

Researches from McKinsey Company also emphasize the fact that particularly larger deals require strong execution and should not be pursued by inexperienced acquirers or at least not without any external help and guidance [19].

Companies have also pursued consolidation strategy in order to remove excess capacity from their industries. Though substantial value can also this way be created, the value that is created ends up in seller's shareholders, not the buyer's [12].

3.1.2 Proven "Accompanying" Value Creating Strategies

The following three strategies also belong to the group of proven value creating strategies, but they better work rather as "accompanying strategies". This means that they should rather never be exercised as “standalone strategies” – (the only strategy that is company pursuing in the deal) but should be used as accompanying strategies – strategies that will be accompanying one of the four above described strategies (or more) in the deal. Then, when this is true, the company is well positioned to generate above average synergies [12].

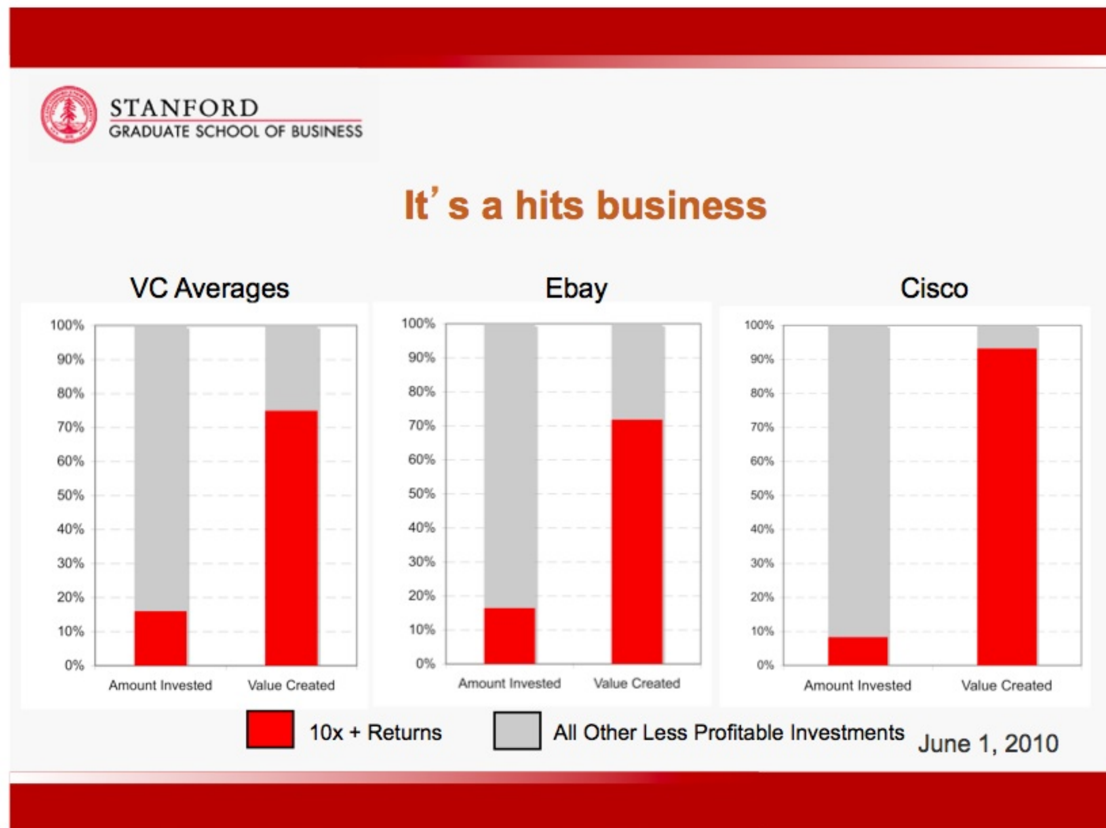
Pick Winners Early and Help Them Develop Their Business

Volpi uses an interesting analogy in which he compares acquisitions to venture capital business. He explains that in venture capital most of the investments in investor´s portfolios do not return any value, which is a thing that is generally accepted by all investors since every venture capital investor aims for the small proportion of investments that eventually work out and create an enormous value that makes up for those that were not successful [3].

At Cisco, according to Volpi, 58percent of invested capital returns become unprofitable, another 33percent yield only approximately 20percent of the total return value, but the remaining 9percent is the part where it gets interesting**.** "The magic comes from 9percent of the fund´s invested capital, which produce outsized returns - 5x to 50 (or more) the original investment. These outliers make the VC asset class work" [3].

By presenting these data Volpi tries to change a mind-set of how to view acquisition strategies. He explains that instead of looking at them as only one-time events, companies should rather view them as part of portfolio and accept the probability that most of them will not work. "It´s only when you assume a certain failure rate to be the norm and believe in the occasional massive success that the probability and expected value equation begin to work in your favour" [3].

FIGURE 1: COMPARISON OF VENTURE CAPITAL BUSINESS TO ACQUISITION STRATEGY [3].



This is all to say that in order to make the strategy "Pick winners early and help them develop their business" work, acquiring companies will need to rigorously scan the external environment to be able to spot early in the life cycle of new industry or product line a company that has a promise of imminent growth, before others see its potential [12]. By pursuing this strategy companies will not avoid making multiple bets, therefore as explained earlier by Volpi - companies that decide to pursue this strategy need to accept the fact that some of the acquisitions will fail, this means that they need to commit them-self to pursue a multiple series of acquisitions and not turning away when first five fails as there is a high possibility embodied in this strategy that they will indeed fail [3]. Consultants from McKinsey also highlight the need for necessary skills and patience to nurture the newly acquired business [12].

Buy Cheap Strategy

According to Porter market for companies (the market where sellers can sell companies and buyers can buy a companies) is quite well organised and relatively efficient which should eliminate any opportunity to achieve above average profits by pursuing "Buy cheap strategy". When company has sound management and profitable future the bidding will be high, conversely when the company is poorly managed and requires massive inflows of capital the sale price will be low relative to the book value [44].

Researchers from McKinsey Company put this strategy on their list of "Harder strategies", strategies that may generate value but based on their experience they seldom do. As they explain, should this strategy work, acquirer needs to buy a company below its intrinsic value. According to their opinion such opportunities are rare, but occasionally market overreacts to some negative information related to the company and such opportunity may arise. But it should be noticed, that for acquirer to gain control over a target company, it needs to pay a premium over the current market value to its shareholders. This premium according to researchers from McKinsey Company is on average around 30percent of the preannouncement price of the target´s equity. When a company is pursued by multiple acquires, the premium rises significantly and as a result this premium may destroy any value that could be generated by this strategy [19].

3.2 Other Success Factors

"IN NEARLY ALL OUR RESEARCH, COMPANIES THAT DEVOTE MORE CAPITAL TO ACQUISITIONS TEND TO OUTPERFORM THEIR PEERS"[3].

3.2.1 Premium Price and the Timing of the Acquisition

The price paid for the deal is probably something where opinions of researchers clash the most.

According to Weber the key determinant based on which researches from economic and finance areas determine a success of acquisitions is a stock movement of acquiring companies first few days after the merger. Explanation of the stock movement of a given company is simple – if the stock rises, the deal is considered to be successful and if it falls, the merger is described as a failure. The basic assumption behind this assessment is that the value of the companies' shares at the stock market should fully reflect all available information. One of the publicly spread conclusions with regard to acquisitions is that only stockholders of the acquired company profit, whereas the stockholders of acquiring company do not. The main idea behind this conclusion is that the acquiring company often pays a premium that by far exceeds the value of potential synergies that could be gained out of the deal. As a result of that, capital market identifies this valuation error and reacts by the change of the stock price. But this theory often shows wrong. For example after the announcement of Daimler-Chrysler merger, its stock price rose immediately. However, two year after the merger it dropped on its value by 50% [35].

According to McKinsey even when acquisition is based on a sound strategic logic, overpaying can destroy any potential value that could be gained from the acquisition. Question what is the "right price" comes to mind [19].

Rankine is of the opinion that in reality the term "right price" does not exist. He explains that companies are worth only what the acquirers are prepared to pay. Particularly when attractively looking deal appears it may lure a substantial amount of potential buyers and as a result the price during the bidding process can escalate very high, ultimately

making the deal unattractive. Therefore, every buyer needs to have prepared a realistic valuation of a deal and a so-called "walk-away price" - a price after which the deal stops being attractive. By paying price above the "walk-away price" company could expose it-self to the risk of not being able to retrieve value that would justify all the energy and resources that where put into M&A process [55].

Milano in his article "Do Acquisition Premiums Matter?" explains how companies should rather concentrate on what absolute price they pay instead of how large premiums for control over the targets they give out. He describes how companies tend to carry out acquisitions at the top of the stock market cycle which in turn increases the price paid and thus drains value-creation potential from the deal. This he backs up by data from past ten years, when the total U.S. acquisition volume was nearly 70% higher during the five years period when the S&P 500 was above average compare to years when it was below average. He also argues that the boards of the selling companies often require higher premiums to cede control over the companies when the stock markets are down. Because of these higher premiums, according to Milano, acquisitions volumes tend to be lower, since executives of acquiring companies often worry too much about paying high premiums relative to target companies´ value. "The median transaction premium in 2009 was 34% (the time when the stock market was down), which seems expensive when compared with the 21% premium in 2006 (the time when the stock market was up). It turns out that despite the higher premium, the absolute price paid in 2006 was a 25% higher multiple of book value — 3.0- as compared to 2.4 in 2009. When the stock market is low, it can be worthwhile to pay a higher premium if needed" [9].

Of the same opinion are researchers from Boston Consulting Group (BCG) M&A Research Centre. Having analysed more than 4,000 completed deals, they discovered that acquisition premiums are much less significant in evaluating a potential profitability of intended deals. The absolute multiples, according to them, are what really matter. This should highlight the importance of understanding the target´s fundamentals and strategic fit. As they say: "In fact, paying above-average premiums for the right target-with relatively low multiples-is often the route to success" [2].

Analytics from Accenture have a slightly different perspective. They admit that timing can be important but it is not everything, companies, according to them, can add

value through M&A at any time of the economic cycle. In their work they are explaining their perspective why the best timing for M&A is during the ride up to the peak of a bull market and why not to acquire when the market is falling down or during the early phases of an economic recovery [4].

According to them the most value creating M&A took place in the years 2003-2005. As these were the key "bubble economy years". They attribute this thrive time for M&A to inflated demand, abnormally cheap credits and also to generally lower costs resulting from lower commodity prices, cheaper energy and raw materials. This all together creates an environment that significantly increases company's chances for success. Conversely the year 2007 when the economic cycle reached its peak and the early post-crises recovery year 2009 were true opposite of the thriving years 2003-2005 and most of the value destroying deals in only three industries that destroyed value from M&A from 2002 to 2009 (retail, energy, and infrastructure and transportation) took place just in 2007 [4].

In practice because of the relatively high premium prices many companies rather choose internal development instead of acquisition since it is often considered as a cheaper choice of strategy to pursue - but as Ansoff explains it does not always have to be true since internal development must include in its budgeting forecasts variances in the estimates and the uncertainties of the results [43].

3.2.2 The Size Matters

Generally speaking, the success of big deals, according to McKinsey consultants, mainly depends on industry's characteristics – such the level of consolidation, the speed of growth etc. And to the contrary of that, success of smaller deals tends to depend on the capabilities of the acquiring companies [26].

Based on the analysis of complete available data from a sample of 3,190 M&A transactions between the years 1992-2006, BCG came to a conclusion that deals above $1 billion destroy on average twice as much value compare to deals below $1 billion. It should be added that the likelihood of value destruction goes in hand with growing size of the targets relative to the size of acquiring companies. The research came up to the result that companies worth more than 50% of the acquiring company´s value destroy nearly twice as much value than targets worth less than 10% of the acquirer value [2].

Similar findings were presented by analytics from Accenture. According to them smaller companies clearly tend to perform in M&A better than their bigger counterparts. The smaller size is valid for both - targets and even for acquirers. They attribute it to a flexibility of smaller companies to embrace and digest changes that accompany every M&A. Further according to them for smaller deals is easier to conduct sufficient and credible due diligence. And last but not least the resources required for governing complex merger integration efforts are easier to mobilize in smaller deals [4].

They explain that among the studied sample of big acquisitions (deals that exceeded $20 billion) there were only few wins that could justify the amount of efforts that were put into making the Acquisitions successful, with emphasize on the fall-off in performance in deals that were not as successful. They warn that big deals encompass a higher risk of moving away from company´s core business and strategy. Further according to them misaligned incentives represent a potential threat to bigger corporations since managing teams are often compensated based on company´s growth and which in result may push the teams into acceptance of deals with minimum or none at all strategic logic in behind [4].

Rankine puts emphasize on proportional size of the targets (size of the target relative to the size of the acquirer). By giving an example of BMW´s failed acquisition of Rover demonstrates how important is sufficient advanced pre-deal preparation and subsequent deal execution with the emphasis on amount of needed resources - not only financial but also management. He refers to a research conducted by AMR International, which results clearly say that in order to ensure that buyer posses sufficient amount of integration resources the ideal target should be about 5-10% of the acquirer´s size [55].

On the other hand according to findings by researchers from McKinsey Company it does not have to be true. In the article "When big acquisitions pay off" present a relatively higher tolerance with regard to the size of the target´s company and state that deals worth 30% or more of the acquirer´s capitalisation should be viewed with a sceptical eye, as these acquisitions are extremely resources demanding complex processes. But they also explain that there are exceptions, if the acquisition is coherent with the pursued strategy then even big deals may be the right choice and can create significant value to shareholders. Here McKinsey offers a good example of a situation when even a big deal may become a sound strategy to pursue: Companies in highly consolidated industries, such as for example oil,

gas or mining, may find themselves in a position when they realize that their options for organic growth are very constrained and that due limited options there is no strategic "right size" target for acquisition. On such rare occasion, when a company is able to identify a large target with a very clear strategic fit, and with a potential (for example) of huge economies of scale, then, even a big deal may be worth to pursue [19].

3.2.3 Due Diligence

Proper due diligence[2] should be part of every pre-deal target's evaluation. However based on evidence there were cases in mergers and acquisitions´ history in which firms bankrupted themselves when they omitted to conduct detail due diligence.

According to Rankine The main purpose of due diligence is that it should identify a black holes in the deal [55]. Ferranti, the leading-edge defence electronics supplier based in Scotland, went bankrupt after it blindly relied on KPMG's rehashed audit of ISC. If it instead conducted a proper commercial due diligence and tried to contact some of ISC's (non-existent) customers, it would never undertake the acquisition [31].

Proper legal due diligence could have also saved British and Commonwealth Holdings plc., a financial services company that bankrupted it-self over Atlantic Computers' leasing deals due to poor legal and financial due diligence – "accounting discrepancies" were discovered in Atlantic's books - the company had been giving away free computer time to clients, but recorded it in its books as if the clients were paying for the computers at the market value [33].

Another example of failed acquisition due to poor financial due diligence represent Cendant Corporation, a New York-based provider of business and consumer services mainly within the real estate and travel industries. In 1998 the company Hospitality Franchise Systems (former name of Cendant Corporation) acquired CUC International, a direct marketing company for USD 14 billion. Early after the merger a huge accounting fraud has been uncovered – it was reported that CUC's Vice Chairman inflated the

---

[2] Due diligence in its broadest meaning involves either an investigation of a business or person prior to signing a contract. When applied to Merger and Acquisition strategy, it represents a process through which an acquirer evaluates a target company or its assets for an acquisition [36].

company's revenue by USD 500 million – after the market learned about the news Cendant's share's price dropped dramatically resulting in approximate USD 14 billion lost in market value [34].

3.2.4 Understanding of Regional Differences

Based on the research conducted by Roland Berger's consultants (in which they analysed a performance of 8,000 European companies), European companies are better positioned to understand and thus to deal with any regional differences that acquiring companies often encounter during their acquisition process. These regional difference can take form of different cultures, political stability, legal regulations, languages, health and safety provisions, liability issues, taxation, labour law, warranty provisions, etc. As European continent is very fragmented in geographical and culture context, European countries, according to Roland Berger's study, have a significant advantage compare to their US located counterparts, since they understand that the rules of the game can be very different in their neighbouring country. "Unlike in the USA, varying standards and legal provisions in different countries often make it impossible to simply "cut and paste" existing production forms and business processes onto new acquisitions "as is"[7].

3.2.5 Be Risk Aware: Count with the Worst Hope for the Best

In an uncertain world, acquisitions needs to be conducted based on valuation of expected synergies raised from merging two separate companies. However in reality these expected synergies often do not turn out to be the same as the synergies that are actually delivered. Ordinary, companies in their investment decisions seek to transfer this uncertainty/risk factor into quantifiable unit through which they adjust expected cash flows so they mirror most accurately the potential reality. However every evaluation is specific as are the evaluations of synergies coming out of merging businesses, therefore some companies have developed an interesting approach of how to overcome or better how to deal with this uncertainty [58].

As consultants form McKinsey Company describe, best performing companies from their research have develop a special practice - during their due diligence process when they estimate a value of intended deal, they always calculate with the bare minimum – they

try to set synergy estimates to lowest point that fully reflects all the risks and uncertainties which are inevitably associated with time constraints that accompany such deals. In result, they mainly concentrate on cost cutting synergies that are easier to calculate and they translate a value gain from expected synergies into very conservative numbers to ensure that these synergy estimates will be easily achievable once the deal is approved. But the best performing companies go even further – when the deal is approved, they reassess their synergy estimates into much more ambitious targets and former goals serve only as a performance baseline – the minimum they expect. Some companies even conduct "idea generation sessions" where teams of a newly merged company are asked to generate ideas about growth related opportunities. As consultants from McKinsey Company explain – it is not rare that at the end of the session acquirers often uncover significant new synergy opportunities [19].

3.2.6 Cash x Equity, Aligning Incentives, Earn-outs

"Cash Is King" is a headline of an article published in study called The Brave new World of M&A conducted by consultants from BSG. They analysed 3,190 M&A transactions between the years 1992-2006 and came to the conclusion that M&A transactions paid only in cash have a much more positive impact on value than deals that rely only on stock, a mix of stock and cash, or other payment combinations. They accredit this excellent performance of cash-only deals to a message of "confidence" they send to the world. Explaining when company pays for the deal purely in cash it is a sign of confidence to the market that even though significant money are in stake the acquirer has carefully calculated the potential benefits from the deal and is assure of earning higher returns than is the cost of capital. They are even of the opinion that for companies not so strong in their cash position, is worth, if reasonable credit rating allows it, to increase their debt to be able to finance the transaction only in cash rather than even a partial use of equity [2].

Likewise, consultants from Bain Company, as one the main contributors to the success of recent acquirers who managed to increase shareholder value by pursuing M&A strategy, view financing the deal only by cash. According to them cash deals encourage better due diligence and more-realistic pricing [17].

To the contrary of that consultants from Accenture are of completely different opinion and support their position in this matter with interesting arguments. In their article named "Myth: Cash is king" admit that within four days from an announcement of intended deal market views and rewards deals financed purely in cash with higher optimism than those financed by at least partially with equity. They accredit it to the same reason as consultants from BCG - which is a "sign of confidence". But, as further explain, within a longer time-frame (24 months) the initial value creation edge of "cash only deals" is being step by step eroded and eventually completely overwhelmed by "equity financed deals" in deal´s actual results - ability to retain key employees, products launches and so on. This all remains valid despite the fact that equity financing is mainly used in deals greater than $ 20 billion, which are, as explained before, more difficult in their execution. It does not change even a fact that the average premium price for equity-financed deals is usually significantly higher [4].

An interesting and more "tangible" view brings to this issue Volpi who without any doubt promotes stock financed acquisitions. Equity financed deals according to him help to retain acquired employees, but most importantly, stock financed M&A aligns the incentives for both parties - it is in everyone involved best interest to increase acquirer´s stock price in value [3].

He explains how it is important and often overlooked to create a concept of aligned incentives. According to Volpi the most common pitfall in deal structures represent earn-outs. This is what he thinks of them: "At Cisco, we structured all kinds of *earn-outs*[3]. The key thing we learned: avoid them at all costs" [3]. He sees as the main problem that it creates a conflict between both companies right from the beginning. The problem with metrics that measure performance of new entity, as he further explains, is the fact that after the deal there is no longer an objective one like a target´s stock price that would align both parties. "After deal metrics" like revenue, earnings, market share, key customer wins etc., all these metrics can be "gamed" or better say "manipulated" in favour of both participants according to their need, thus the incentives do not align common objectives in a long term

[3] Earn-out refer to a contractual provision stating that the seller of a business is to obtain additional future compensation when the sold business achieves certain goals, usually of a financial character [36].

[3]. For example revenue - the seller can in a short-term artificially boost revenue in order to hit the agreed targets (which ignores and often hurts the long-term thrive of the firm). Conversely buyers often like to agree on net income targets, which can be easily manipulated to buyer´s need - buyer can for example speed up capital expenditures and thus deliberately push down the net income [56].

Accenture further explains how market´s more positive reaction to "cash only deals" announcements can be derived from recent history. When the stock market was not as efficient as it is today, acquirers were keen to use equity for financing their growth expenditures when they believed it was overvalued. But according to them nowadays in an era of plentiful and cheap credit is the situation completely different and equity is being viewed by companies as a more scarce and valuable resource that organisations mainly use to finance only those deals in which they have a greater confidence of success [4].

3.2.7 Integration

As mentioned in one of the BCG´s study - integration is the phase in which the differences between experienced and un-experienced acquirers are often most evident. It is the phase of M&A where planned synergies should convert into reality [5].

According to analytics from Deloitte Company poor execution of integration planning and the process itself may lead to harsh results, lost focus on everyday operations, lost of key employees and to un-fully exploited synergies [14].

Consultants from Roland Berger company conducted a study "Operations Efficiency Radar 2010" according to which most of the acquirers is aware of their weaknesses but four out of five managers admit that due to their lack of experience and resources, they are often unable to do right decisions under often very constrained time pressures. As a result preparation for integration of the two businesses suffers, as does the consequent post merger integration itself. "Unrealistic deadlines, vain haggling over titles and positions, lack of resources and negligent controlling can all too quickly derail the entire process" [60].

The list below contains elements of the integration process there were identified by current researchers as most vital for successful integration of a new entity into existing business.

Smart Use of Time Between Deal Announcement and the Official Change of Control

Consultants from AT Kearny Company strongly advocate for the smarter use of pre-merger period, the time when the two organisations await for regulatory approvals to be finalized. They propose a process, which they call a "JumpStart", during which companies should review identified synergies and start planning for the integration so they can gain a "JumpStart" once the regulatory authorities give permission for execution of intended merger or acquisition [59].

As the main problems that are often seen to stand in a way to any more meaningful pre-deal integration preparation are legal and regulatory constraints. According to AT Kearny due to these constraints many conventional M&A lack in their pre-merger integration planning. "The teams have access to a one-way, incoming flow of information during the integration process, but can provide only limited feedback - just enough to comply with either regulatory or self-imposed information-sharing constraints" [59]. To overcome these constraints companies may use third parties, which can manage the information exchange through so-called "clear rooms" which will allow them to plan their integration while remaining complaint with legal and regulatory constraints [59].

According to AT Kearny consultants, the pre-merger window should be used primarily for the integration planning in fallowing five areas: growths, sales, supply chain, procurement and IT.

- **Growth** - they warn against looking at it as a redundant since growth is the aim of most M&A. But as they explain - many acquirers lose focus on the growth targets as they are occupied by many more practical-operational and at the moment what seems to be as a "more urgent issue" resulting from lack of pre-deal planning. They also warn against concentrating too heavily on cost cutting synergies - they may look as easy to deliver but when over-exploited they may harm in a long run joint growth opportunities.

- **Sales** - here, as every researcher mentioned in this work, consultants from AT Kearny also highlight the importance of keeping in mind customers and to make customers´ satisfaction one of the integration team´s priorities. Further they encourage using a clean room for assessment of benefits and implications resulting from synchronizing policies.
- **Supply chain** - Even though they admit that to bridge differences in manufacturing strategies is not an easy task, they advocate that by analysing months in advance the unit costs and redesigning the new supply chain that would reflect the needs and characteristics of the newly merged companies, delivers and enormous payoff to the post-merger organisation.
- **Procurement** - here they encourage to avoid typical merger focus on economies of scale - made possible by increased market power and rather to firstly review the best practices of industry leaders - which may for example lead to outsourcing low-cost components from China, which surprisingly for many acquirers may exceed the benefits from local suppliers discounts gained from newly increased market power.
- **IT** - it is a common thing that immediately after the M&A takes place IT departments, call centres and help desks can expect sudden work/information-overload and should be prepared to operate at a full capacity. Pre-merger planning should be used to identify potential threads associated with integration of intranets, payroll systems, customer call centres and messaging applications. Also integration teams need to make sure in advance that chosen systems can handle imminent post-deal information-overload [59].

Following this process according to AT Kearny should both, speed up and increase the quality of the integration. As a result companies will not only highly increase the odds of fully exploiting desired synergies but also they will significantly shrink the time of reaping the strategic rewards than if they have used a conventional merger-planning process [59].

Communication, Communication and Communication

Executives responsible for the integration need to make sure that all stakeholders, especially employees and investors understand the strategic logic behind the acquisition,

they need to understand what is expected from them, what are the post-merger integration targets and milestones. It is a good practice for a senior management to go among employees and communicate the vision and to be seen as an active participants and leaders of the integration [11].

Consultants from Accenture are of the same opinion, they also emphasize the importance of clear and early communication to stakeholders. Here is what they say: "A detailed, integrated communication plan must be developed for each key stakeholder group-especially, employees, customers, suppliers, local communities and financial analysts - and implemented immediately after the merger announcement" [6].

According to consultants from Deloitte Company, it is essential for senior managers to recreate former visions for newly integrated organisation. All expected sources of benefits need to be identified and well communicated across the whole organisation, which in turn should make it easier for their accomplishment [14].

Integration process is a very stressful process filled with many uncertainties, which often lead to misunderstood messages and to spreading of undesired rumours. Therefore Denzil Rankine emphasize that communication needs to be clear, rapid and consistent with ensuring that identified key points are well understood and, if needed, repeated and monitored constantly [55].

Structuring the Integration Programme / Bringing Identified Synergies to Existence

In the phase of evaluation of target´s business - when company estimates what may the target´s business be worth (based on both - financial and value driven evaluations) an acquirer should gain relatively accurate idea about all potential synergies that can be gained from merging the two business together. So when the two business finally merge and the integration part comes along, the acquirer needs a systematic approach on how to prioritise its integration efforts, only when the acquirer is fully aware of what are the key value sources and risk elements of the deal, only then can the acquirer come up with a truly effective integration agenda [6].

According to consultants from Accenture, the primary focus needs to be concentrated around the areas that create the most value and the whole integration program needs to

operate with the main purpose to leverage these key value creators and ensure that they receive sufficient attention and inflow of resources with special emphasize on all customer related activities, primarily their retention [6].

Consultants from Roland Berger developed an interesting framework to help integration managers decide how to prioritise their activities based on four criteria when it comes to synergy realisation. The four criteria are:

- **"Efficiency:** What is the (monetary) value of the synergy?
- **Speed:** How quickly can actions unfold their full impact?
- **Sustainability:** Is it one time effect or permanent saving?
- **Culture:** Will employees be able to understand and accept the action" [60]?

In order to be able to correctly use this framework every synergy that has been identified by integration managers needs to be separately taken into account and adequately evaluated based on these four criteria. But how to decide what takes precedence over what? This is something where Roland Berger´s analytics admit that prior experience helps but they offer few "rules of thumb" that may help with the decision process:

- "Quick and easy takes precedence over slow and complicated.
- Speed of implementation beets optimized costs.
- Priority is given to actions that keep customers and employees on board.
- Swift revenue gains can silence the sceptics, give a boost to supporters and allay the fear of job losses " [60].

A schedule map that would describe what happens first and what happens next with clearly defined milestones which will break down the integration process into manageable stages needs to be prepared [60]. Before implementation of any new process, especially those who directly relates to firm´s customers, integration managers need to make sure that controlling mechanisms are in place and ensure that the relevant issues were tackled before they have adverse effects on performance [5].

Separate the Post-merger Integration Process from the Core Business.

According to BCG´s researchers the integration is so complex, time and resources consuming process that requires its own dedicated teams of employees responsible solely for the smooth run and full exploitation of desired synergies [11]. When selecting people who will be responsible for the integration process, then, according to Deloitte analytics, one key characteristic should stand above others - it is an ability to meet targets within a pre-determined time frames [14].

Based on the transformation survey conducted by analytics from McKinsey Company the deals in which the CEO was significantly involved were six times more likely to describe the deal as successful. But as they consequently explain – it is quite easy in smaller deals for a CEO to get involved even with the less important issues. Though it might not affect the integration process in the small deals, in bigger deals this might become critical and therefore certain boundaries need to be set. CEO's in best performing companies that were involved in larger deals focused only on one or two areas where their opinion mattered the most – the rest was delegated on empowered group of senior leaders. This way had the CEOs enough time to focus on protection of base business. They offer an example of one of their clients in which CEO with his acquired top team (target's company CEO and CFO) for several hours every few weeks to discuss only the most challenging issues – all other matters were handled with the integration leader who only reported to firms CEO [19].

According to Roland Berger consultants in the front of selected integration teams should stand a full time employed post merger integration (PMI) manager who would be answering straight to the CEO. This should give him an adequate freedom and authority to act whenever it is needed. According to one of their studies three out of four managers expressed their agreement with PMI managers being fully employed and solely responsible for the new company´s integration and thus to be completely dedicated to the integration process with no other distractions standing in the way. However in practice, according to the conducted research, this showed to be reality only in one third of all transactions. Another aspect, which is very important with regard to the PMI manager, is that, he/she needs to be involved right from the very beginning of the whole acquisition. "Nearly every second respondent in the Roland Berger study comes to the same conclusion: In the case of

successful takeovers, the PMI manager was nominated before negotiations even commenced" [60].

Aliena from Azmi and associates sees as the most important aspect for creation of successful integration team an authority - the members of the team need to be given a sufficient authority in order to be able to quickly address and subsequently eliminate any possible problems that may arise during the integration process [15].

Analytics from Bain & Company emphasize the importance of speed of action - since this is the time when competitors will seek to contact and lure the company´s best customers and employees to their side. According to them the new entity should by build base on the new vision and the strategic logic that led to the merger. Ideally the integration team should consist of employees of both organisations - from people who are enthusiastic about the vision and thus can promote it and contribute to it the most. The sooner new leaders will be selected the sooner can company encounter and fight against a potential threat in the form of losing key employees and customers. Consultants from Bain & Company use an acquisition of Heller Financial by GE Capital in 2001 as an example of how can delays in crucial personnel decisions decide about the success of the deal. GE Capital bought Heller Financial for about 50percent premium price over the 2001 Heller´s share price. GE identified that in order to make the acquisition viable it will need to reduce Heller´s workforce by approximately 35percent. But they did not move quick enough to announce who would stay and whom would they need to let go. As a result key employees left before waiting to hear a decision and several of them helped Merril Lynch to create rival middle-market unit the following year [17].

Managers, as Rankine explains, should most importantly never lose touch with their core business and let the events of M&A draw their attention too much away and thus leaving their existing market exposed for eager competitors, as it happened to Airfix, the UK plastic kit maker, who concentrated entirely on its acquisition and let the competitors to steal its customers [55]. To prevent that, companies need to put in place mechanisms which will alert them well in advance should there be any emerging threat to the existing business. Consultants from BCG recommend following mechanisms: early-warning tracking systems to monitor emerging revenue trends, special temporary incentives to

ensure continuity of performance on the part of salespeople and other key staff, and strategies to make sure that soon-to-expire contracts aren´t poached by competitors [5].

Proactively Manage the Soft Issues

Bohlin and others mention in their work a study conducted by Forbes 500 in which they asked CEOs what according to them are the main reasons that so many M&A fail: "First on their list of failure factors was "incompatible cultures," and three of the top six factors were culture-related" [18].

Similar results were reached by consultants from Roland Berger company: "In interviews conducted as part of Roland Berger Strategy Consultants´ study "Synergy management in Post Merger Integrations", 84% of respondents regard corporate culture as an "important" or "very important" tool with to realize synergies"[60]. But what is even more interesting: "Tellingly, however, only half of them believe that sufficient attention is genuinely paid to this criterion in the M&A process" [60].

Researchers from BGC in the same spirit emphasize the fact that the integration process is not just about numbers but it needs to take into account cultures of both organisations that in many cases may, and often they do, significantly differ from each other, and therefore mechanisms that would enable an easy merge of these two cultures need to be put in place and most importantly this must be done in time.

According to consultants from McKinsey Company taking a merger-of-equals posture in integration of two cultures leads typically to confusion and reduces accountability, hinders integration and lengthens the time needed to get past integration and on with running the business. Instead, according to them, best performing companies take more proactive approach and start with identifying cultural differences and particularly focusing on extremely targeted improvements to the acquiring company’s culture, if needed. Afterwards company’s integration teams spend majority of the time making the acquired company’s employees to understand why such changes are needed and what is expected from them and how it will contribute to the overall success. And finally when employees fully understand what is expected from them integration teams needs to aggressively manage the integration process [19].

In some cases the true value of the firms lies within a distinctiveness of their cultures, if this is true, acquirer needs to do whatever it takes to preserve such cultures and not destroy them by imposing of some hothead rules and trying to incorporate them into their own [11]. In this regard Bohlin and others warn out before a common wrong assumption of many acquirers that if financial priorities are thoroughly addressed the human capital will take care of itself [18]. Kaufman advises to acquiring companies to beware of arrogance that too often accompanies the position of "buyers" and rather to carry themselves with four H´s: honesty, humanity, humility and humour [60].

Consultants from Accenture noticed, that savvy acquirers even create a blue prints of their and targeted companies in order to create a realistic model from which they can learn about potential risks and pitfalls that they may encounter during the real integration process. This enables them to tailor the integration and communication program according to the unique specifics of each merger [6].

Bain & Company came up to the similar conclusion as others in their survey of executives whose companies have undergone the M&A process - "culture clash" was identified as no. 1 reason why most companies failed to achieve desired synergies. Bain & Company´s consultant explain how nowadays many acquires managed to improve their acquisition skills - they do great job with closely tracking results and holding executives accountable for hitting their targets but when it comes to the "soft" part of the integration, this stops being true. "No one is on point; no one is accountable" [1].

Based on collaboration with their clients they constructed a set of tools to enable companies accomplish successful culture integration:

The first demand is to set a cultural integration agenda - What are the behaviour norms within a company? What are the critical capabilities - how does the company compete within its given territory? And what is the operating structure - governance mechanism of the company? Firstly the chief executive needs to define the cultural objective in broad terms than they need to make decisions on how the new emerging culture will look like. The integration team most importantly needs to identify where the greatest value lies and then concentrated their attention to it.

The second demand on integration team is to diagnose the differences that really matter - these diagnostics should be used to identify and quantify differences

among people, units geographical regions and functions to determine which gaps need to be closed. Bain & Company suggests that it can take a form of management and customer interviews, employees' surveys and so on.

The third demand is to clearly define the desired culture, the culture that acquiring company is trying to build - In this part the integration management actually needs to decide (based on the data that has managed to collect so far) what are the critical gaps that need to be closed and what does the "new" desired culture look like - the description needs to be specific enough so it can be well understood. Consequently managers need make clear what kind of behaviour they want to see among the employees and promote it through implemented systems and incentives.

The forth and last demand is to develop a culture-change plan and then sustain and measure progress - When the company has the "list" of desired behaviour they want to see among the employees, the behaviour that promotes and reflects newly defined culture, it needs to "implement" it among the employees, so they can start to behave in the "pictured" desired way. Bain & Company argues that companies can accomplish it by robust training programs, zero tolerance policy for unwanted behaviour and by rewarding the newly defined paragon behaviour [1].

3.2.8 Practice Makes Perfect

According to Volpi, one of the most important principles for successful acquisitions is to see them rather as process not just a one-time occasion. For better understanding of the meaning of his words he uses an analogy in which he compares companies to human beings that also need to be trained in a given discipline in order to perform incredibly well. "If you ask them to do tasks they have never done before, the probability of a successful outcome is fleetingly small" [3]. He is of the opinion that organisations need to make a long-term commitment to pursue multiple series of acquisitions that will in return provide them with necessary capabilities learned from experience that will eventually turn into one of the company´s competitive advantages. To question why to bother and not just hire experienced M&A professionals from outside of the company, Volpi acknowledges, that without any doubt prior experience always helps but that every company is so unique thanks to its organic components and therefore it is at least very difficult for an outsider to

fully understand all the various parts and process that form the company. As such, companies should always, according to him, concentrate on developing these capabilities internally rather than to rely on outside help [3].

In one of the studies conducted by BCG, researchers analysed performance of more than 700 companies - these companies were measured by total shareholder returns (TSR) during the ten year period from 1993 through 2002. They were also divided into three groups based on the type of growth strategy they were pursuing: business that relied only on organic growth or a combination of organic and acquisitive growth and lastly, the third group was formed from highly acquisitive companies (business that carried out at least one acquisition a year in at least five of the ten years studied and the total value of their deals had exceeded 70percent of their companies market´s 2002 value). These are the main results of the study: “Highly acquisitive companies generated higher ten-year median TSR (10.8percent) than either the mixed-strategy or organic-growth business (9.9 and 9.6percent, respectively) [11]. But what is even more interesting: "The most experienced M&A players-companies that had deals in each of the ten years studied-produced the highest returns (12.4percent), suggesting that practice makes perfect" [11]. Consultants from McKinsey Company report same findings, they talk about a “volume effect” – the more deals in which company engages the higher the probability it would earn excess returns [26].

Consultants from Roland Berger Company are of the opinion that one of the key success factors that drive prosperous M&A is to develop necessary M&A capacity and professionalize companies´ approach to their deals. According to Roland Berger´s analysis the most successful acquirers develop even their own team of experts whose sole job is to manage the whole M&A process - from identifying a potential target up to post-merger integration. They suggest that by starting with the smaller deals in the form of M&A or other collaborative ventures these teams can develop acquiring skills and gain necessary experience and confidence to explore M&A strategy in larger more complex deals and turn it into one of their competitive advantages. According to Roland Berger´s consultants companies with such systematic approach of pursuing serial acquisitions will be rewarded with higher stock price as investor will discern and positively embrace such approach [7].

4 Analytical Part

4.1 Disney Buys Pixar

4.1.1 The History of Pixar

Pixar was founded 1979 as the Graphics Group, part of the Computer Division of Lucasfilm. In 1985 George Lucas, the founder and current CEO, was going through a divorce and decided to sell the studio [47].

In 1985 Steve Jobs, the co-founder of Apple, after he has lost his position in Apple started negotiating a buyout of Pixar. Eventually the contract was signed in January 1986. Steve Jobs for his $10million investment gained 70% of the company and became CEO of Pixar. The rest of the shares (30%) was divided among all employees [47].

The first intention was to make from Pixar a computer hardware company which core product was the Pixar Image Computer with its specific software. One of the buyers of Pixar Image Computers was Disney Studios [53].

Due to poor sales of computers Pixar began producing digital animated commercials and short movies for outside companies. When new CEO of Disney, Michal Eisner, asked Roy Disney what should be his primary focus, Disney answered, that he would like to re-elevate declining division of animated movies [51].

In 1988 Pixar was going through hard times, Steve Jobs had to put more and more of his own money into the company and all hopes where directed to the short animated movie Tin Toy. The main person who stood behind a production of the movie and the previous animated pictures was Lasseter. After the huge success of Tin Toy, Michel Eisner tried to offer a job to Lasseter in Disney but Lasseter who was loyal to Pixar turned the offer down, giving Disney no other option than to start negotiating with Pixar about their common collaboration on a production of a new movie [49].

4.1.2 The Strategic Alliance Between Pixar and Disney

Since Pixar was close to collapse and needed to make the contract much more than Disney did, it was no surprise that agreement between both sides was much more convenient for Disney than it was for Pixar. In May 1991 Pixar and Disney formed a strategic alliance[4], according to the contract Disney became owner of the movie and its characters and was obliged to pay Pixar 12,5% of profits coming from the tickets sale, also had the power to supervise the production with an option to stop it whenever wants - with only small penalty. Farther, according to signed contract, Disney had an option (not obligation) to extend the collaboration for another two movies and had the privilege to make another episode (with Pixar or not) of Toy Story movie (the first movie that was about to come out of their new partnership) [47].

The Premier of the movie was in November 1995. The Toy Story became such a hit that during the first week it earned 30 million dollars and became blockbuster of the year - earning 192 millions in US and $362millions worldwide [18].

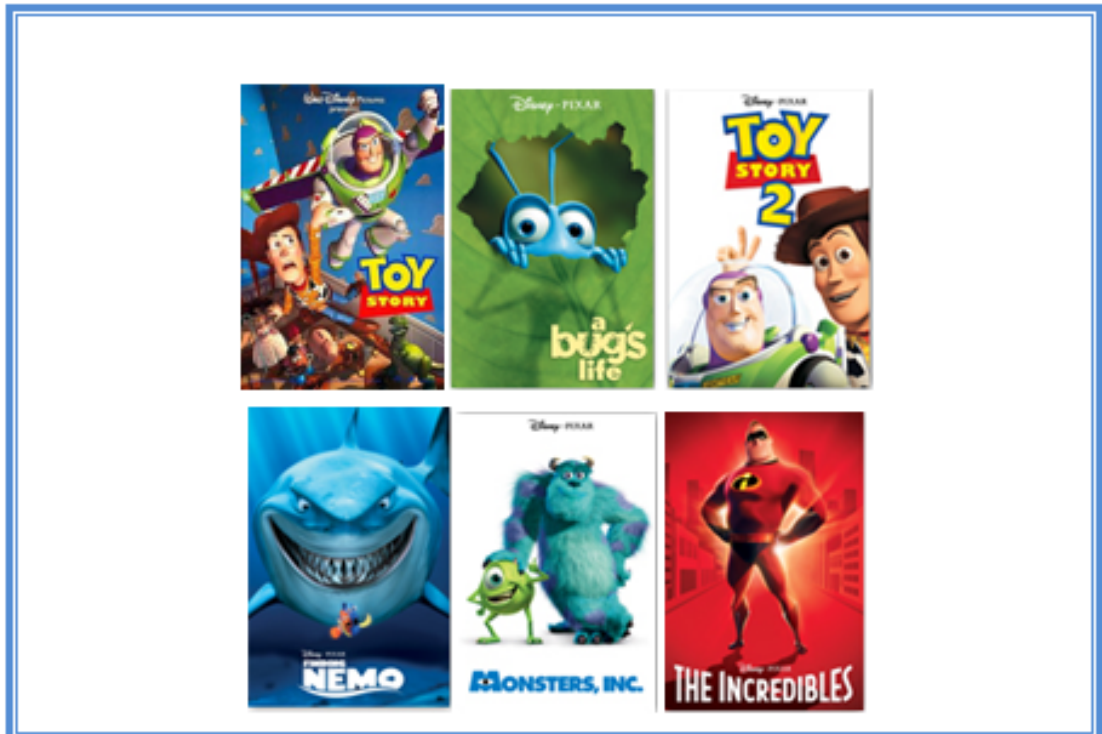
Shares of the Pixar that went public a week after the premier of Toy Story at the price of 20$ went almost immediately up to even 45$, but at the end of the day the share price settled down at the value of 39$ per share. It was sold 80% of the firm, bringing amazing 1,2billion dollars to the company. Pixar was no longer a company fighting on the edge of survival and finally has got the leverage to negotiate for it-self better conditions in its collaboration with Disney. So in 1997 a new deal was created [47].

Pixar-Disney collaboration was extended up to five pictures that would be created within next ten years with both companies as equal partners sharing profits and costs 50:50. Pixar would also become owner of the rights for toys and commercials, again in the proportion 50:50. The new deal was eclipsing the previous one, meaning that the first

[4] Strategic Alliances are agreements between two or more parties in which each commits resources to achieve a common set of objectives while remaining independent organisations. The involved parties can take form of: customers, suppliers, competitors, universities or divisions of government. Through Strategic Alliances, companies can improve competitive positioning, gain access to new markets, supplement critical skills and share the risk or cost of major development projects but also the profits [67].

movie (Toy Story) became part of the new five-picture agreement. Pixar also had to sell up to 5% of its common stock to Disney at the price of $15 [48].

FIGURE 2: LIST OF PIXAR MOVIES CREATED DURING THE STRATEGIC ALLIANCE WITH DISNEY [53]



Name of the movie	Year of release	Costs ($)	Profits USA ($)	Profits worldwide ($)
Toy Story	1995	30,000,000	191,796,233	361,958,736
A Bug´s Life	1997	120,000,000	162,798,565	363,398,565
Toy Story 2	1999	90,000,000	245,852,179	485,015,179
Monsters, Inc.	2001	115,000,000	255,873,250	525,366,597
Finding Nemo	2003	94,000,000	339,714,798	864,625,978
The Incredibles	2004	92,000,000	261,441,092	631,442,092

4.2 Analysis of Acquisition

4.2.1 Strategic Logic

Walt Disney, one of the largest media conglomerates in the world, was going through hard times, its share price was stagnating, its division of animated movies has been unprofitable during last year and its own last successful pictures – The Lion King, Beauty and the Beast and Aladdin were already in the past. Disney seemed to be unable to put together the right mixture of talent and creativity with the newest digital technology to create an animation movie blockbuster that would become a new life-blood for Disney's wide range of ancillary businesses. Iger, the current CEO of Disney, explains: "A successful animation movie is like a big wave that washes all of our business sectors, from the characters in processions to music, theme parks, video games, television, internet and toys for kids. If we stop making these waves the company won´t thrive" [47]. During an opening ceremonial of a new theme park in Hong Kong, Iger remembers, that he suddenly realised that all of the characters in the processions that were created during last ten years, were only those, that came out of the strategic alliance with Pixar [47].

An alternative to acquisition would be to extend the current agreement but due to the huge disagreements between both CEOs this plan failed when Jobs in January 2004 publicly announced that negotiations to prolong their alliance with Disney were ended [47].

Another logical alternative to acquisition would be an internal development but as Iger admitted the current management of animated division was not good and he did not know about any other that could exchange the current one. Also this seemed as a long costly way and Disney needed to act swiftly as the expiration date of their alliance with Pixar was approaching quickly[47].

Although Disney was an owner of the rights to create other episodes of all movies that came out of the Disney-Pixar alliance so as was the owner of the characters but with Pixar leaving their partnership there would be no-one to pull this off since Disney just simply did not have the resources and capabilities to create animation movie blockbuster, not mentioning the fact that if Pixar would seek a partnership with some other animated

movie studio it would create a huge competitor that Disney would not be able to compete with [48].

When Iger succeeded Eisner, as a CEO of Walt Disney Company, he came to the board of directors and presented them the option of acquisition. The board of directors gave him a permission to start negotiating the deal with Pixar. So in January 25, 2006, the unthinkable became real and Disney announced the acquisition of Pixar, one of the most successful digital moviemaker in Hollywood history [49].

4.2.2 Perfect Match

The Walt Disney Company - leading media entertainment conglomerate with long history of success that has started in 1923, the Owner of the rights to world famous cartoon characters - Mickey Mouse, Donald Duck and many others. The Owner of popular theme parks, TV channels, shops, franchisees and knowledge of how to distribute and market its products to broad consumer base. Yet in recent years inability to create animated movie blockbuster, that would breath in a new life to its all business sectors, has been threatening to the prosperity and even long-term survival of the company [48].

Pixar – a proven moviemaker studio, with the most modern technological resources, amazing creative culture and the ever-increasing popularity among fans of cartoon films. But at the same time with no resources and capabilities how to market and distribute their products [47].

Considering core competencies of both companies it seems like that together they represent a perfect match – each of the company strong in the area where the other stumbles. Each company has skills and assets that make the other company more valuable, by merging together a huge potential synergy (whose existence has already been proven during the years of their successful partnership) could be exploited and much stronger and durable company created.

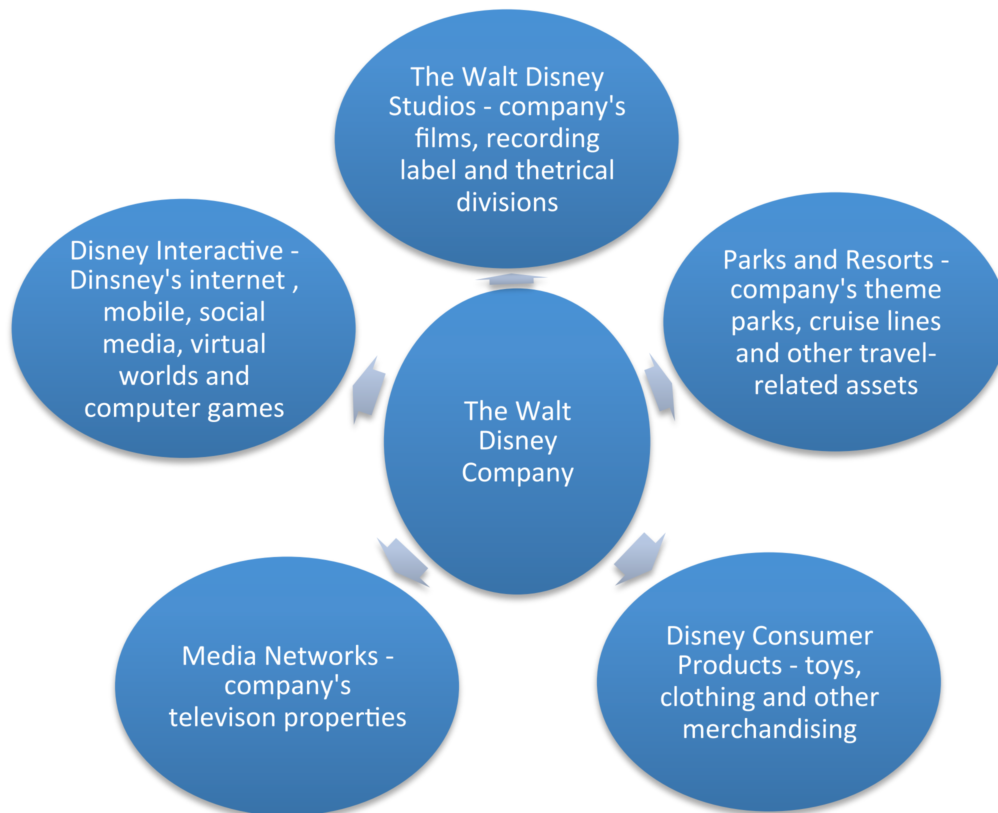
4.2.3 Proven Value Creating Strategies

The strategic rationale for this acquisition is supported by two main proven value-creating strategies from the list above - which right from the beginning put this deal into strong position. The strategies were:

Accelerate Market Access for Targets Company´s Products

As explained by Iger, a successful animation movie is like a life-blood for Disney´s business sectors - from the characters in processions to music, theme parks, video games, television, Internet and toys for kids. Pixar, who has great products, but no distribution channels, would never be able to reap all the potential that could be made on their movies. Pixar did not have the distribution channels as Disney did but it did have the best product. So once Pixar´s movie entered Disney´s distribution channels in all its business sectors, the revenue was quickly accelerated [47].

FIGURE 3: DISNEY'S DIVISIONS AND SUBSIDIARIES [42].

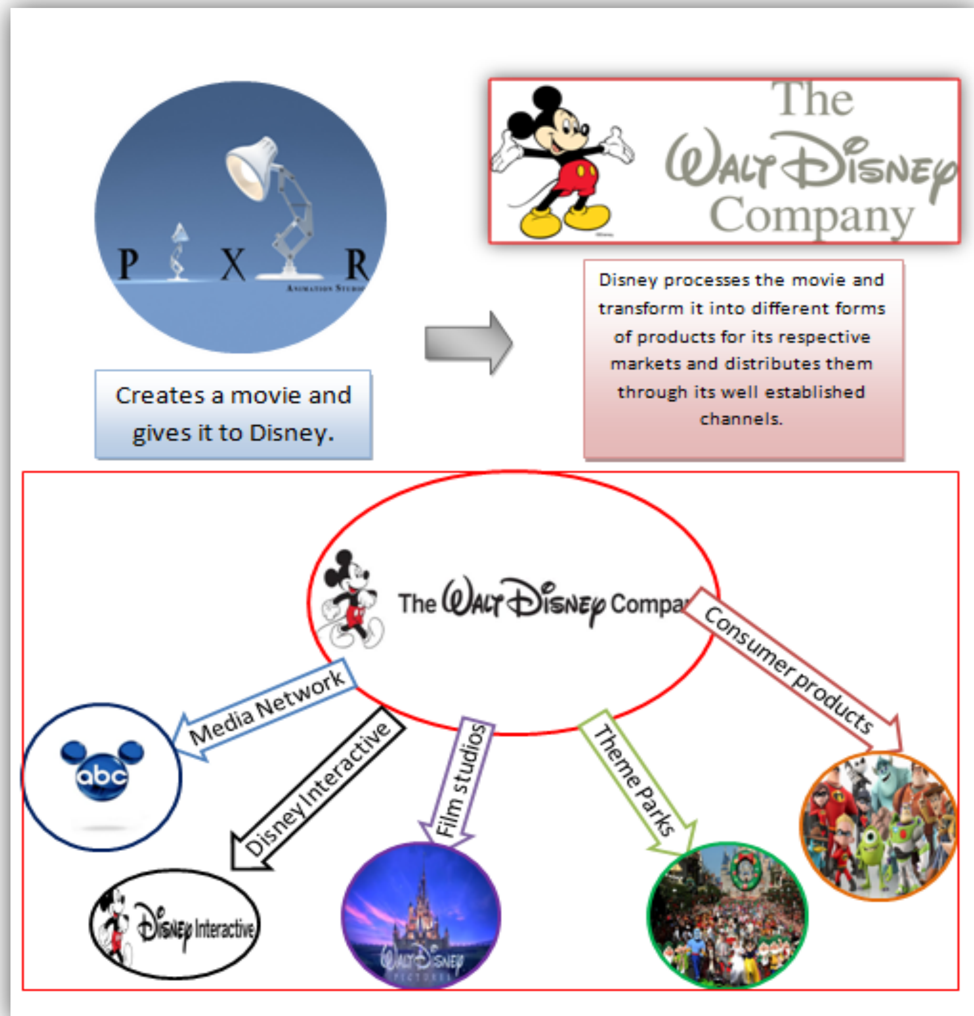


Get Skills or Technologies Faster or at Lower Cost than They Can Be Built in-house

The whole partnership started because of Disney´s inability to create an animated movie blockbuster. This means that Disney had been encountering this situation for a while - but its own animated division was not good and therefore Disney at that point knew that there was only a mere chance of getting out of this situation by relying on internal development, but most importantly - Disney was running out of time as the deal between Disney and Pixar was about to expire - leaving Disney's business out of income of material in the form of movies that can process and run it through its distribution channels at its respective markets. After all, even Iger admitted that during one of the openings of a new theme park, he realised, that the only new characters (recent 10 years) presented in the ceremonial were those that came out of their alliance with Pixar. By acquiring Pixar, Disney would get a proven leading animated movie studio which would in return supply Disney´s business sectors with constant flow of new movies that represent a so called "material" that is consequently being processed and afterwards modified into Disney's "products" in the form of toys, clothes, video games etc. which are being distributed to customers all over Disney´s respective business activities [47].

The movie cars (released 6/9/2006 as the first movie that came from Pixar as a new subsidiary of Disney conglomerate) tells the story – until 2011 for which the data are available, it earned through global retail sales of more than $8 billion. Iger in one of his interviews for New York Times commented how he justified the deal to Disney's shareholders: "You can accomplish a lot more as one company than you can as part of a joint venture, it makes a big difference when everyone is working for the same set of shareholders" [30]. This means that as one company it would be Pixar's (Disney's) shareholders best interest for Pixar to start making movies that would make sense from Disney's other businesses perspective – for example the move cars – it can easily be transformed into plenty of consumer products and consequently sold in Disney's Consumer Products division. Lasseter said in one interview: "We talk with Bob Iger about which ones make sense to do from a business perspective" [30].

FIGURE 4: HOW DISNEY PROCESS A NEW ANIMATED MOVIE [42].



Improve a Target Company´s Performance x Improve Disney's Perfomance

In a twisted way there was also a third of proven value-creating strategy encompassed in this deal – improve target company's performance.

Instead of Disney allocating its own managers in newly acquired Pixar, it was a vice versa - as part of the deal Catmull, the Pixar president, would become a **president in Disney´s animation division** and Lasseter, Pixar´s creative director would assume the role of **chief creative officer of the combined firms**. The primary hope here was, that Lasseter would leverage Disney's fading creativity and by helping to redesign attractions for the

theme parks and advising Disney´s Imagineering division he would hopefully bring a new spark of animated life into Walt Disney Company [47].

An example how the rebuilding efforts were going is the movie Bolt. At Disney's lowest point in 2002 it created an animated movie Treasure Planet – it went so badly that Disney was forced to take a USD 98 million write-down. After the acquisition when Lasseter with his team got on the board, they entered the unfinished work on movie Bolt. When they finished the movie was heavily reworked, both, in the technological meaning (Pixar's computer digital technology vs. Disney's hand-drawn animation) as in terms of content (Lasseter's team even added a wickedly funny side character, a hamster) and turned it into moneymaking movie [30].

4.2.4 Cash x Equity, Aligning Incentives, Earn-outs - Steve Jobs - CEO of Apple Computers the Largest Disney´s Shareholder

According to the contract, Disney would buy Pixar for 7,4billions ($6.4 billion, net of Pixar's cash and investments of approximately $1 billion) dollars in share-only deal. This means that Pixar´s shareholders would receive 2.3 of Disney´s shares for every Pixar´s share they own. Steve Jobs, as Pixar´s major shareholder would become Disney´s largest individual shareholder owning something around 7%, which would put him on the board of directors [48].

It was a smart move - by paying for the transaction in equity Steve jobs would become the largest Disney´s shareholder and which would bind his interests with interests of Disney corporation and as a CEO of Apple Computers he would be in position in which he could apply know how and state of the art technology in favour of Disney activities. As for example after deal was closed the video offerings on iTunes were mostly from ABC (Disney owns ABC) also Disney´s short movies were added. At the ceremonial launch of new iPod that was able apart from music to also play a video, Jobs announced that iPod will be selling TV shows and the including the two most popular TV shows - Housewives and Lost, owned by ABC that is part of Disney's corporation [47]. Had not been for his early pass away who knows where could this collaboration lead.

By paying for the transaction in equity, Disney successfully managed (with the help of long-term settlement agreement) to retain all key employees and also right from the

beginning Disney aligned incentives of all involved and made everybody to pull for the same rope [49].

4.2.5 Understanding of Regional Differences - Acquisition within the USA

Pixar was located in Emeryville, California. The Walt Disney Company was headquartered in Walt Disney Studios, Burbank, also in California. This means that the acquisition took place not only within the territory of the United States which it-self would be enough, but also within the same state. Therefore the risk of encountering any different regional culture differences or legal provisions was practically eliminated [53].

4.2.6 Communication, no Empty Promises

Acquiring companies should never make empty promises that they fail to comply with. In order to preserve Pixar's culture Iger agreed to list of conditions from Pixar's side –this is what Catmul said eight years later after the acquisition took place in his interview when asked on list of conditions they claimed prior to acquisition: "We've never had to go back and look at it. Everything they've said they would do they have lived up to" [30].

The acquisition got even blessing from Roy E. Disney, nephew of company founder Walt Disney who at that time still owned 1percent shareholding of the corporation. "Animation has always been the heart and soul of the Walt Disney Company and it is wonderful to see Iger and the company embrace that heritage by bringing the outstanding animation talent of the Pixar team back into the fold" [21]. Announced Roy Disney in his statement to shareholders [21].

After Jobs and Iger had for the first time considered the possibility of acquisition Jobs decided that first he needs blessing from Lasseter and Catmull. At a meeting he convinced them to also meet with Iger and discuss with him the acquisition in detail - all their expectations and doubts. Iger without any delay visited Pixar´s studio and in person talked to not only Catmull and Lasseter but to all film producers and let them tell him their story about Pixar's films. Lasseter later on in the interview with Walter Isaacson remembers how Iger's visit and his personal interest left deep impressions in Pixar's employees [47].

As a gesture to show that he has only best interest with the company and to confirm that his key partners stay behind him in this decision - Jobs told to Catmull and Lasseter, before announcing the details of the deal to all Pixar´s employees, that if they have any doubts about the deal, he would call it off. They both accepted this gesture and confirmed that they have no problem with the deal and then all three together went to announce the details to all Pixar´s employees who gathered in Pixar´s main building [47].

Both CEO's personal participation helped to digest the deal's announcement - when Iger went among Pixar's employees and showed honest interest in their work or when Jobs was interested in personal opinion of key employees and afterwards presented the key aspects of the acquisition in person to all Pixar employees - this is the type of behaviour that promotes deal's understanding and thus also promotes deal's acceptance from employees and shareholder's side and therefore it significantly contributed to overall smooth integration.

4.2.7 Premium Price and the Timing of the Acquisition - Overpaing x Buying Market Leader

As mentioned before, Disney would buy Pixar for 7,4billions ($6.4 billion, net of Pixar's cash and investments of approximately $1 billion) dollars in shares. As part of the deal Disney will issue 2,3 shares for every Pixar´s share, since the closing value of Pixar´s stock on Tuesday 24th January 2006 was $57.57 and the closing price of Disney´s stock was $25.99 this would mean that Disney would buy Pixar for 3,8percent premium over its market valuation [42], [53].

2.3 x 25.99 = $59.78 59.78 / 57.57 = 1.038 (1.038 - 1) x 100 = **3.8%**

For the evaluation of market value was used of the Dow Jones Industrial Average (DJIA) index [5]whose data where inflation-adjusted using the CPI. The value of DJIA in

[5] The Dow Jones Industrial Average (Dow or DJIA) is one of the most closely followed stock market indexes in the world. The DJIA was created in 1896, and consists of 30 large-cap blue chip companies and it is the most cited and most widely recognized of the stock market indices [36].

January 2006, the month when the acquisition took place, was compared to the average value of DJI within the time range of 10 years prior to the acquisition. Based on this evaluation the acquisition of Pixar took place when the DJI was above its 10-year average [63].

According to Milano there is a correlation between the stock market value and premium prices that boards of the selling companies require for ceding control over their firms. When the stock market is down the premium prices tend to be higher and vice versa. The acquisition of Pixar mirrors this correlation [9]. The 3.8percent premium price seems as a relatively low premium, however the deal took place when the stock market was above its average - in 2006, a year that is characteristic by inflated demand and abnormally cheap credits which is a combination that pushes share prices high and as such many argues that buyout price for Pixar embodied very high expectations [63].

Many could argue with regard to timing of acquisition, that if Disney had waited for a little longer it would have bought Pixar for much cheaper price after the year 2008 when the crises broke up which pushed the overvalued companies´ share prices down. But this encompasses two main issues. First, Disney was running out of time and had to move quickly as its contract with Pixar was about to expire and therefore could not temporize for recession (even though it was behind the door which Disney could not know anyway) that would put stock value at its real prices. Second, Disney was going to use its own stock to acquire Pixar. If Disney had waited after the crises took place, and the stock market got low it would had to use its now also less valued stock for the purchase of Pixar. Then on the other hand, if the general market valuation was flawed before the crises broke up, it would mean that Disney would be using its also overvalued stock to purchase Pixar´s overvalued stock. In which case would be Disney better off would depend on whose stock was more overvalued, but be that as it may, Disney would be for sure better off than if he had paid for the transaction in cash in the year 2006 before the crisis took place [24].

FIGURE 5:THE DOW JONES INDUSTRIAL AVERAGE FOR THE LAST 100 YEARS. HISTORICAL DATA IS INFLATION-ADJUSTED USING CPI [63].

4.2.8 The Size Matters - Access to Disney´s Resources

In the first quarter of the year 2006, the year when the acquisition took place, was an approximate market capitalisation of Disney Company $51.9 billion. Market capitalisation of Pixar before acquired by Disney was $6.7 billion [24]. With such market capitalisations Pixar would represent approximately 13% of its acquirer value. With 13% acquisition of Pixar slightly exceeds the optimal size for companies takeover which was identified between 5 and 10%, however this only small overlap and as such does not represent any threat for the acquisition and it can be expected that acquirer possess enough resources for smooth target´s integration.

6.7 / 51.9 = 0.129   0.129 x 100 = **12.9 %**

4.2.9 Practice makes perfect - the list of Disney´s acquisitions

FIGURE 6: LIST OF DISNEY'S ACQUISITION [53]

No.	Year	Acquired company, comment
1.	1995	Miramax Films – USD 80 million in cash-only deal
2.	1996	Capital Cities/ABC (including ESPN) – USD 19 billion in cash-equity deal.
3.	1996	Baseball´s Anaheim Angels (renamed the LA Angels of Anaheim in 2005) – USD 180 million
4.	1998	The Infoseek Corporation – approximately USD 559 million
5.	2000	The Baby Einstein Company – USD 25 million – in cash-only deal
6.	2001	Fox Family Worldwide - USD 5.3 billion (including Saban Entertainment, founded as International Family Entertainment Inc. , after the acquisition took place the company was renamed on ABC Family Worldwide Inc.)
7.	2004	The Muppets Studio, LLC (but not Sesame Street) - USD 75 million
8.	2004	Cross Generation Entertainment (or CrossGen) - USD 1 million
9.	2005	Avalanche Software
10.	2006	Pixar - USD 7.4 billion
11.	2007	Junction Point Studios
12.	2007	New Horizon Interactive (creators of Club Penguin, now called Disney Online Studios Canada) - USD 700 million (in 2007 Disney paid USD 350 million with an earn-out set for another USD 350 million after hitting the growth target in 2009 the total amount paid for the company summed up to USD 700 million)
13.	2009	Marvel Entertainment (as well as Marvel comics and Marvel Studios) - USD 4 billion
14.	2009	Wideload Games
15.	2010	Playdom - USD 763 million
16.	2010	Tapalous, Inc.
17.	2012	UTV Software Communications
18.	2012	Lucasfilm - USD 4.06 billion
19.	2012	Das Vierte

Looking at the past records of Disney's acquisition activity – it gives a notion that Disney have not started with small steps – referring to its second in history acquisition of Capital Cities/ABC worth of USD 19billions. In 2006 - the year when Disney decided to acquire Pixar amounted the total number of executed acquisitions to nine. Which is not that many but it should be still enough to provide Disney´s Corporation with sufficient experience for successful execution. Another important fact is that this acquisitions lived up to its existence mainly because of one man – Disney's CEO Bob Iger, whose former

employer, the ABC television network, endured two takeovers, which is still not that many, but as he himself admits, these two acquisitions were very formative for him [30].

From available information it is hard to assess how much has Disney learned from its acquisitions but that is not a purpose of this part - what is important is that Disney did not turned away from this strategy but it has accepted and embodied into its growth strategy and in the following six year, after acquisition of Pixar, Disney has acquired nine more companies and made it part of its competitive strategy [53].

4.2.10 Proactively Manage the Soft Issues - Long-term Settlement

Culture is usually defined as "The way how things are done around here". A creative culture is something for what many companies aspire but only few actually achieve it. Ed Catmul comments on creativity in Pixar: "We're in a business whose customers want to see something new every time they go to the theatre" [22]. According to Capodagli and Jackson, collective creativity in organisations never happens by accident, it is a result of creative leadership who nurtures trusting environment in which everybody can contribute to overall success with their own ideas without a fear of mockery from their colleagues [23]. Pixar´s culture is formed by many things even the workplace is not as in other companies - far from cubicles so typical for many corporate organisations, at Pixar employees have their offices filled with characters from their favourite movies, employees also have their own game room, their work-time is flexible and they can even bring their own pets into work. During the design of plans for new business premises Steve Jobs even went so far that he required that the building will have only one huge bathroom – he argued that best ideas come from random encounters with people we meet during the day. Therefore he wanted all Pixar's employees to visit only one toilet. Eventually after few protests from employees there were built four bathrooms but this should give a notion how far was Pixar's CEO willing to go in order to sustain and support Pixar's creative culture [53].

Without any doubt Disney-Pixar acquisition belongs among those where the true value of the firms lies in distinctiveness of their culture and acquirer needs to do whatever it takes in order to preserve it. Both CEOs were aware of the importance to preserve

Pixar´s creative culture and not to let it be distorted by some unwise enforcing of hothead rules. In one of the interviews Steve Jobs commented on the long-term settlement: “Most of the time that Bob and I have spent talking about this hasn´t been about economics. It has been about preserving the Pixar culture, because we all know that´s the thing that´s going to determine the success here in the long run” [47]. Bob Iger also commented to this long-term settlement: “We spent a lot of time talking about that when we negotiated the deal. I am really deeply committed to seeing that Pixar is allowed to exist in the form it has existed” [47]. The long-term settlement agreement between Disney and Pixar had one primary objective and that was to preserve Pixar´s creative culture, these were the following key points:

- Ed Catmull, the Pixar president, would become also a **president of Disney´s animation division** and John Lasseter, Pixar´s creative director would assume the role of **chief creative officer of the combined firms**, helping to design attractions for the theme parks and advising Disney´s Imagineering division and reporting directly to Iger. The idea behind this was that it would hopefully bring a new spark of life into Disney´s own fading animated movie division.
- The two companies will **remain separate** with Pixar keeping its brand name.
- Pixar would **remain based in Emeryville**, California as an effort to sustain Pixar´s culture.
- At last, **all key Pixar´s employees** would have to sign a **long-term employment contracts** [47].

Retaining talent and key capabilities was evaluated as one the most important success factors that will decide about future growth and overall success of this acquisition and therefore it was made one of the top priorities. According to Weber post-deal leaving of key managers is particularly exacerbated among hi-tech companies. In these firms the true value lies in the professional knowledge held by the people and the ability to develop and innovate. And since innovativeness and professional knowledge are the primary objective behind the acquisitions in this industry, it is no surprise that if the key personnel leaves, the acquisition is most likely doomed to fail [35].

In figure 2. there were presented all animated movies that came out of Disney-Pixar strategic alliance with the amount of profits they earned both – in the united states and in the word, all successful animated movie blockbusters earning enormous profits [53].

Now, after eight years since the acquisition took place we are in the position to evaluate profitability of Pixar's movies as a part of Disney's corporation. The profits that were earn from both USA and world audience are presented in the figure 6. – from the first glance it is evident that Pixar's movies are still enormously successful and still earn huge profits home and even worldwide. The conclusion is that Disney succeed in preserving Pixar's creative culture and since it was identified as number one objective that will decide about acquisition's success in a long-term, now after eight years it is safe to say, that Disney and Pixar had found a way to make it work and this acquisition became successful [53].

FIGURE 7: LIST OF PIXAR'S ANIMATED MOVIES AFTER ACQUIRED BY DISNEY [53]

Name of the movie	Year of release	Costs ($)	Profits USA ($)	Profits worldwide ($)
Cars	2006	120,000,000	244,082,982	461,983,149
Ratatouille	2007	150,000,000	206,445,654	623,707,397
Wall E	2008	180,000,000	223,808,164	532,937,930
Up	2009	175,000,000	293,004,164	731,338,164
Toy Story 3	2010	200,000,000	415,004,880	1,063,161,943
Cars 2	2011	200,000,000	191,452,396	560,155,383
Brave	2012	185,000,000	237,282,182	554,606,532
Monsters University	2013	200,000,000	259,090,000	613,990,000

FIGURE 8: THE FINAL ASSESSMENT OF RELEVANT SUCCESS FACTORS

Relevant success factor	**Comment – key reasons**	**Rate (from 1 to 10 with one the being the better score)**
Strategic logic	Three proven value-creating strategies.	1
Timing of the acquisition	3.8% premium, average of the market value.	4
Size	12.9% of Disney's capitalisation.	2
Regional differences	Within the same state of USA.	1
Cash x Equity	Equity-only deal.	1
Integration	Creative culture and key employees retained.	1
Experience	Ninth acquisition in Disney's history.	3

4.2.11 Risk assessmant

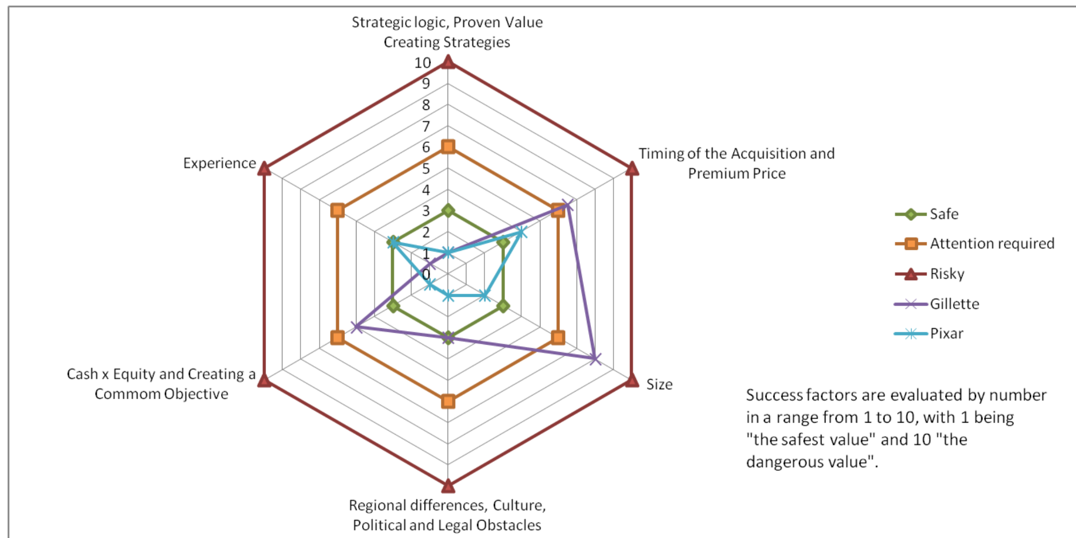
Companies could also leverage critical success factors for their evaluation of potential riskiness/attractiveness of intended deal prior to any commitment.

The same thing practice insurance companies when they decide whether to insure or not new potential clients. They ask them several questions to learn more about their history. The questions are directed at key areas which help them to assess the most objectively riskiness of their insuring.

The very idea behind this process is that it would give within moments an insight into deal where do the greatest threats lie, so the acquisition teams would know right from the beginning where to direct their attention. For this purpose acquisitions of Pixar and Gillette[6] were assessed based on selected success factors, figure 7 displays the results.

[6] The analysis of Gillette's acquisition is described in detail in Appendix 1.

FIGURE 9: EVALUATION OF PIXAR'S AND GILLETTE'S ACQUISITION, USING SELECTED SUCCESS FACTORS



The figure clearly shows that acquisition of Pixar was right from the beginning relatively safe acquisition, at least in terms of "selected success factors" from figure 7. The true is, that preserving Pixar´s creative culture was made top priority in this deal, which belongs rather to "soft" part of the deal, that part which can be hardly assessed prior to any deal. However Disney managed to find a way how to test whether the two companies can actually co-exist together and whether any extra value could be gained out of this partnership.

Through Strategic Alliance with Pixar Disney learned that its company can co-exist with Pixar, that there is a significant value to be made through leveraging Pixar´s movies in other Disney´s business sectors. And thus when Disney decided to buy Pixar it knew exactly what to expect and minimised the risk of failed integration or overrated synergies to a minimum. When deal´s viability heavily depends on the ability of collaboration of two separate cultures then strategic alliance seems as a cheaper test of acquisition´s viability.

5 Conclusion

Many studies on M&A conducted during 1990s and before have estimated the merger failure rate at 70percent, in some cases, even 90percent [35]. All these valuations operate on a basic premise that acquirer's business would not perform radically bad but would remain to perform in its average former performance or in the performance that goes in hand with the industry's average. But the world does not remain constant, it changes constantly. What is the measure when somebody claims that a given acquisition failed just because the value of its share decreased by 1%? How do we know that if the acquisition would not be carried out at all, the share price would not drop for example by 10% lower? And if it would drop, it would mean that the acquisition´s gains were actually 10% and not the claimed 1% decrease. Company´s performance can be compared against its peers within a given industry but each company is unique and to base on it an evaluation whether a given acquisition was or was not successful seems at least very harsh and unreliable.

There are still many critics who argue that acquisition of Pixar was a value destroying, overpaid adventure of Disney's management. But from all we know, by now Disney could have also been out of the business had not been for the acquisition of Pixar. Firstly if Pixar joined with another movie-studio, it would create for Disney Corporation an extremely powerful competitor, who would Disney find in its former condition very hard to compete with. Secondly, if Disney had not acquired Pixar it would have dried out in its other business sectors whose viability heavily depends on an income of new movie-characters from Disney's core movie-division. And as was presented, Disney was unable for more than a decade to come up with a successful animated movie that would bring a new spark of life into Disney's animation – which is a soul of all Walt Disney Company.

The success factors presented in the figure no. 6 represent only the "hard part" of the deal. There is an advantage embodied in these factors - they can be relatively easily identified, measured and evaluated prior to any deal. However the "soft part" of deal, the integration process – particularly culture integration, is the part that seems to be responsible for the most M&A fails.

The important thing to learn from Disney-Pixar acquisition is that Disney and Pixar have been working together for many years and more importantly this relationship

occurred to be productive for both companies. Therefore when Disney decided to acquire Pixar, it knew from previous experience what it was buying and thus minimised the risk of not achieving synergy to a very minimum. Disney also prior to the deal actually knew how much value can this deal bring to its business, and thus also minimised the risk of overrated synergies to a very minimum. In one of interviews Steve Jobs commented on Pixar's strategic alliance: "We've had a great run together, one of the most successful in Hollywood history" [47].

And as such to minimise general risks embodied at all acquisition associated with buying "unknown", "untested" and to ensure that maximum opportunities for synergy are realised, a strategic alliance seems as the optimum route for deciding whether the acquisition is a true match and not merely an infatuation. A strategic alliance is less costly, involves shared risks and is easier to terminate. This approach proved to be successful in allowing Disney to assess the viability of Pixar's acquisition.

It is in human nature to test, to examine the things that embody a certain level of risk before we completely commit ourselves to them. It happens all around us – young couple in love also tries at first to live together in a rented apartment to see if they can co-exist together before they bind them-self for 30 years mortgage instalments. It is a rational behaviour, then why should companies act differently and expose them-self to an enormous risk that comes with buying a pig in a poke?

There are many ways how acquirers can create value via mergers and acquisitions but based on the analysis of up-to-date findings, not all of them stand equal and some are more value promising than others. Generally speaking mergers and acquisitions have proven that they can be an enormously powerful strategy for companies how to achieve their goals, but apart from the primary process there are many nuances that need to be understood and pitfalls of which acquirers need to be aware, pursuing merger and acquisition strategy places great demands on acquirer's understanding of the process and also on its proper execution. Among the main factors that decide about overall success of the deal belong: value creating strategic logic, timing of the acquisition and adequate premium price, understanding or regional differences, the means of payment for the deal - cash or equity, integration approach, size of the targeted company relative to the size of the acquirer, overall acquisition experience, synergy estimates and sufficient due diligence.

Many publications bear a headline such as the one published by Sirower, that 60 to 70% of acquisitions fail to return invested value [29]. Therefore it is not surprising that many companies shy away from acquisitions because of their fear of failure. But considering current economic conditions, the increase of international activities and the process of globalisation, companies should reconsider twice whether it is a really right decision to turn their backs against this strategy. And for those who dare – they might find helpful principles that have been outlined in this work.

6 Resources

1. STAFFORD, Dale a Laura MILES. BAIN & COMPANY. *Integrating cultures after a merger*. December 11, 2013. Available from: http://www.bain.com/Images/BAIN_BRIEF_Integrating_cultures_after_a_merger.pdf.

2. COOLS, Kees, Jeff GELL, Jens KENGELBACH a Alexander ROOS. THE BOSTON CONSULTING GROUP. *The Brave New World of M&A: How to Create Value from Mergers and Acquisitions*. July 2007, 35 s. Available from: http://www.bcg.com/expertise_impact/Capabilities/Corporate_Development/Divestitures/PublicationDetails.aspx?id=tcm:12-15071

3. VOLPI, Mike. *Six Key Principles of a Successful Acquisition Strategy*. May 21, 2011. Available from: http://gigaom.com/2011/05/21/six-key-principles-of-a-successful-acquisition-strategy-part-1/

4. HERD, Thomas a Ryan McManus MCMANUS. ACCENTURE. *Who says M&A doesn´t create value?*. 2012. Available from: http://www.accenture.com/us-en/outlook/Pages/outlook-journal-2012-mergers-acquisitions-create-value.aspx

5. COOLS, Kees, Kermit KING, Chris NEENAN a Miki TSUSAKA. THE BOSTON CONSULTING GROUP. *Growing Through Acquisitions*. May 2004, 24 s. Available from: http://thelapisgroup.com/attachments/Growing_Through_Acquisitions_rpt.pdf

6. ACCENTURE. *Accenture Aerger, Acquisition, Divestiture and Alliance Services*. 2013. Available from: http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Merger-Acquisition-Divestiture-Alliance-Services.pdf

7. SCHWENKER, Burkhard and António BERNARDO. ROLAND BERGER. *New opportunities for strategic acquisitions: European companies have developed an excellent feel for how to select, acquire and integrate other firms but what are the factors that drive successful M&As?*. 2013. Available from: https://www.rolandberger.com/media/pdf/rb_press/Roland_Berger_thinkact_content_PMI_20060601.pdf

8. ALBU, Dick. ALBU CONSULTING LLC. *Is Your Strategy at Risk? Guiding Principles to Successful Strategic Planning*. 2010. Available from: http://lyonssolutions.com/article-business-strategic-planning-is-your-strategy-at-risk.html

9. MILANO, Gregory. *Do acquisition premiums matter?: A herdlike mentality leads many companies to acquire more at the top of the stock market cycle than at the bottom.* July 29, 2011. Available from: http://ww2.cfo.com/article.cfm/14592935

10. KENDLER, Peggy a Albert ENG. WIPRO. *Critical Success Factors of Mergers & Acquisitions*. 2011. Available from: http://www.wipro.com/documents/insights/whitepaper/MSEXEC_FINAL2_WIPRO_topublish.pdf

11. COOLS, Kees, Jeff GELL and Alexander ROOS. THE BOSTON CONSULTING GROUP. *Successful M&A: The Method in the Madness*. 2005. Available from: http://www.bcg.com.cn/export/sites/default/en/files/publications/articles_pdf/Successful_MA_The_Method_in_the_Madness_Dec05.pdf

12. GOEDHART, Marc, Tim KOLLER and David WESSELS. MCKINSEY&COMPANY. *The five types of successful acquisitions: Companies advance myriad strategies for creating value with acquisitions—but only a handful are likely to do so.* July 2010. Available from: http://www.mckinsey.com/insights/corporate_finance/the_five_types_of_successful_acquisitions

13. BROWN, Carolyn. *The five types of successful acquisitions*. December 22, 2010. Available from: http://www.inc.com/guides/2010/12/how-to-execute-a-successful-acquisition.html/1

14. KNIGHT, Charles and Ryan BRAIN. DELOITTE. *Best practices in post-merger integration: Proper integration planning can help a transaction deliver full value*. 2013. Available from: https://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/ZA_MABrochure_Chapter4_300508.pdf

15. MOHAMED, Nik. AZMI AND ASSOCIATES. *Best practices in post-merger integration: Proper integration planning can help a transaction deliver full value*. 2008. Available from:

http://www.azmilaw.com/archives/Article_7_Key_Success_Factors_in_MA_00078783_.pdf

16. BECKER, Bob. MANAGEMENT ROUNDTABLE. *THE SYNERGY CHALLENGE: TEN KEY ACQUISITION LESSONS LEARNED: THE CASE OF MERCURY COMPUTER SYSTEMS AND MYRIAD LOGIC*. 2007. Available from: http://pd-advantage.com/images/TheSynergyChallenge_TenKeyAcquisitionLessonsLearned.pdf

17. ROUSE, Ted a Tory FRAME. BAIN & COMPANY. *Tailor integration to identify value, keep the right people and focus on critical decisions: TEN KEY ACQUISITION LESSONS LEARNED: THE CASE OF MERCURY COMPUTER SYSTEMS AND MYRIAD LOGIC*. November 04, 2009. Available from: http://www.bain.com/Images/BB_The_10_steps_to_successful_M_and_A_integration.pdf

18. BOHLIN, Nils Bohlin, Eliot DALEY a Sue THOMSON. *Successful Post-Merger Integration: Realizing the Synergies*. 2009. Available from: http://www.imaa-institute.org/docs/m&a/adlittle_02_Successful%20Post-Merger%20Integration%20-%20Realising%20the%20Synergies.pdf

19. AGRAW, Ankur, Cristina FERRER a Andy WEST. MCKINSEY & COMPANY. *When big acquisitions pay off: Some are quietly creating value that doesn't make the headlines. Here's how.* May 2011. Available from: http://www.mckinsey.com/insights/corporate_finance/when_big_acquisitions_pay_off

20. ROTHENBÜCHER, Jürgen, Joerg SCHROTTKE a Sandra NIEWIEM. ATKEARNEY. *The Merger Endgame Revisited: Ambitious companies drive consolidation in their industries—but how? Our Merger Endgame tool sheds light on the best ways to gain long-term growth and reveals strategies for winning the race. - See more at: http://www.atkearney.com/cs/paper/-/asset_publisher/dVxv4Hz2h8bS/content/the-merger-endgame-revisited/10192#sthash.CoxvF21R.dpuf*. 2013. Available from: http://www.atkearney.com/cs/paper/-/asset_publisher/dVxv4Hz2h8bS/content/the-merger-endgame-revisited/10192

21. Disney buying Pixar for USD 7.4 billion: Deal puts Steve Jobs in powerful role as entertainment goes digital. © 2012 THE ASSOCIATED PRESS. NBC NEWS.com [online]. 1/25/2006 [Accessed 2014-03-23]. Available from:

http://www.nbcnews.com/id/11003466/ns/business-us_business/t/disney-buying-pixar-billion/#.Uy6vn_l5M4B

22. CATMUL, Ed. How Pixar Fosters Collective Creativity. Harward Business Review [online]. 2008 [Accessed 2014-03-23]. Available from: http://hbr.org/2008/09/how-pixar-fosters-collective-creativity/ar/1

23. CAPODAGLI, Bill and Lynn JACKSON. Innovate the Pixar Way: Business Lessons from the World's Most Creative Corporate Playground. United States of America: McGraw-Hill Companies, 2009. ISBN 978-0-07-163893-7.

24. *YAHOO: FINANCE* [online]. © 2014 [Accessed 2014-03-23]. Available from: http://finance.yahoo.com/

25. Cisco Systems Finalizes Agreement to Acquire Crescendo Communications. *The network: Cisco´s Technology News Site* [online]. 1993 [Accessed 2014-03-23]. Available from: http://newsroom.cisco.com/dlls/1993/corp_092493.html

26. REHM, Werner, Robert UHLANER and Andy WEST. Taking a longer-term look at M&A value creation: Companies that do many small deals can outperform their peers—if they have the right skills. But they need more than skill to succeed in large deals. MCKINSEY & COMPANY. *Insights & Publications* [online]. 2012 [Accessed 2014-03-23]. Available from: http://www.mckinsey.com/insights/corporate_finance/taking_a_longer-term_look_at_m_and_38a_value_creation

27. GOOLD, Michael and Andrew CAMPBELL. *Desperately Seeking Synergy* [online]. Boston, MA 02163, 1998 [Accessed 2012-08-06]. Reprint 98504. Available from: <http://www.ebscohost.com/>. Harward Business

28. PRICEWATERHOUSECOOPERS. *How Synergies Drive Successful Acquisitions*: *Identifying, realizing and tracking synergies in the M&A process*. PricewaterhouseCoopers, 2010. Available from: http://www.pwc.com/us/en/transaction-services/assets/how-synergies-drive-successful-acquisitions.pdf

29. SIROWER, Mark. *The Synergy Trap*. United States of America: The Free Press, 1997. ISBN 0-684-83255-0.

30. BARNES, Brooks. Disney and Pixar: The Power of the Prenup. *The New York Times: Media and Advertising* [online]. 2008 [Accessed 2014-03-23]. Available from: http://www.nytimes.com/2008/06/01/business/media/01pixar.html?pagewanted=all&_r=1&

31. The ISC/Ferranti Scandal. *Jacobsmeyer.com* [online]. © 2014 [Accessed 2014-03-23]. Available from: http://www.jacobsmeyer.com/Marquardt/Appendix%20A.htm

32. Gunn´s retort. *The Telegraph* [online]. 2004 [Accessed 2014-03-23]. Available from: http://www.telegraph.co.uk/finance/2901115/Gunns-retort.html

33. BERWICK, Lloyd. Judgments - Soden and Another v. British & Commonwealth Holdings Plc. and Others. *UK Parliament Website* [online]. 1997 [Accessed 2014-03-23]. Available from: http://www.publications.parliament.uk/pa/ld199798/ldjudgmt/jd971016/soden.htm

34. UNITED STATES OF AMERICA, Before the SECURITIES AND EXCHANGE COMMISSION: In the Matter of CENDANT CORPORATION, Respondent. *U.S. Securities and ExchangeCommission* [online]. 2000 [Accessed 2014-03-23]. Available from: https://www.sec.gov/litigation/admin/34-42933.htm#P45_1747

35. WEBER, Yaakov, Shlomo TARBA and Christina OBERG. *A Comprehensive Guide to Mergers & Acquisitions: Managing the Critical Success Factors Across Every Stage of the M&A Process*. United States of America: FT Press, 2013. ISBN 13-978-0-13-301415-0.

36. *Investopedia* [online]. © 2014 [Accessed 2014-03-23]. Available from: http://www.investopedia.com/

37. PROCTER & GAMBLE. *A Company History: 1837 - Today* [online]. 2006 [Accessed 23.3.2014]. Available from: http://www.pg.com/translations/history_pdf/english_history.pdf

38. PROCTER & GAMBLE. *2000 Sustainability Report* [online]. 2000 [Accessed 23.3.2014]. Available from: http://www.pg.com/en_US/downloads/sustainability/reports/sustainability_summary_2000.pdf

39. PROCTER & GAMBLE. *Linking Opportunity with Responsibility: Sustainability Report - Executive Summary 2004* [online]. 2004 [Accessed 23.3.2014]. Available from: http://www.pg.chttp://www.pg.com/en_US/downloads/sustainability/reports/sustainability_summary_2004.pdfom/en_US/downloads/sustainability/reports/sustainability_summary_2000.pdf

40. *Procter & Gamble* [online]. © 2014 [Accessed 2014-03-23]. Available from: http://www.pg.com/en_US/index.shtml

41. 2013 M&A Report. *WilmerHale* [online]. 2013 [Accessed 2014-03-23]. Available from: http://www.wilmerhale.com/uploadedFiles/WilmerHale_Shared_Content/Files/Editorial/Publication/2013-wilmerhale-ma-report.pdf

42. *The Walt Disney Company* [online]. © 2014 [Accessed 2014-03-23]. Available from: http://thewaltdisneycompany.com

43. ANSOFF, Igor. *Corporate Strategy*. Revised Editation. England: Penguin Books, 1988. ISBN 0-14-009112-2.

44. PORTER, Michal E. *Competitive Strategy*: *Techniques for Analyzing Industries and Competitors*. New York, NY 10020: The Free Press, 1998. with a new introduction. ISBN 0-684-84148-7.

45. JOHNSON, Gerry, Kevan SCHOLES a Richard WHITTINGTON. *Exploring Corporate Strategy*: *Text and Cases*. Harlow: Pearson Education Limited, 2005. Seventh ed. ISBN 0-273-68734-4.

46. HENRY, Anthony. *Understanding Strategic Management*. New York: Oxford University Press, 2008. First ed. ISBN 978-0-19-928830-4.

47. ISAACSON, Walter. Steve Jobs. Český Těšín: Finidr s.r.o., 2011. ISBN 978-80-7252-352-8.

48. FRIED, Ina a John BORLAND. Disney buys Pixar. CNET [online]. 2006 [accessed 2012-09-09]. Available from: http://news.cnet.com/disney-buys-pixar/2100-1026_3-6030607.html

49. Disney buying Pixar for $7.4 billion: Deal puts Steve Jobs in powerful role as entertainment goes digita. NBC News.com [online]. 2006 [accessed 2012-09-09]. Available from: http://www.msnbc.msn.com/id/11003466/ns/business-us_business/t/disney-buying-pixar-billion/# .

50. DAMODARAN, Aswath. *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*. Third Editation. Canada: John Wiley and Sons, Inc., 2012. ISBN 978-1-118-01152-2.

51. Pixar Animation Studios History. FundingUniverse [online]. ¨2012 [accessed 2012-09-09]. Available from: http://www.fundinguniverse.com/company-histories/pixar-animation-studios-history/ .

52. HOLSON, Laura. Disney Agrees to Acquire Pixar in a $7.4 Billion Deal. The New York Times [online]. 2006 [accessed 2012-09-09]. Available from: http://www.nytimes.com/2006/01/25/business/25disney.html .

53. Pixar [online]. 1986, 2012 [accessed 2012-09-09]. Available from: http://www.pixar.com/ .

54. JustDisney.com [online]. 2002, 2012 [accessed 2012-09-09]. Available from: http://www.justdisney.com/.

55. RANKINE, Denzil. Why Acquisitions Fail - the five main factors. PEARSON EDUCATION. *PEARSON*[online]. © 2014. [Accessed 2014-03-24]. Available from: http://www.pearsoned.co.uk/bookshop/article.asp?item=440.

56. MERGERS & ACQUISITIONS QUICK REFERENCE GUIDE. *McKenna Long &Aldridge LLP*[online]. 2013 [Accessed 2014-03-24]. Available from: http://www.mckennalong.com/media/site_files/1634_M_A%20Quick%20Reference%20Guide.pdf.

57. ISIDORE, Chris. P&G to buy Gillette for $57B: Stock merger would link some of the world's best-known household brands, could spur more deals. CNN MONEY. *CNN Money* [online]. 2005 [Accessed 2014-03-25]. Available from: http://money.cnn.com/2005/01/28/news/fortune500/pg_gillette/.

58. KAUFMAN, Josh. *The personal MBA: Master the art of business*. United States of America: Penguin Group, 2012. ISBN 978-1-59184-352-8.

59. LEE, Kenneth, Daniel MAHLER a Joy PETERS. JumpStart Your Merger. *ATKearney* [online]. 2009 [Accessed 2014-03-25]. Available from: http://www.atkearney.com/cs/paper/-/asset_publisher/dVxv4Hz2h8bS/content/jumpstart-your-merger/10192

60. RINN, Thomas, Oliver KNAPP a Christian BOHLER. Post Merger Integration (PMI) underscores the success of mergers: Post Merger Integration (PMI) underscores the success of mergers. *Roland Berger Strategy Consultants* [online]. 2011 [Accessed 2014-03-25]. Available from: http://www.rolandberger.com/media/pdf/Roland_Berger_tac_Post_Merger_Integration_E_20111122.pdf

61. SHERMAN, Andrew. *Mergers and Acquisitions from A to Z*. United States of America: AMACOM, 2011. Third Editation. ISBN 0-8144-0376-X.

62. SEGAL-HORN, Susan a David FAULKNER. *Understanding Global Strategy*. Croation: Zrinski, 2010. ISBN 978-1-84480-149-7.

63. Dow Jones 100 Year Historical Chart. MACROTRENDS. *MacroTrends* [online]. © 2014 [Accessed 2014-03-26]. Available from: http://www.macrotrends.net/1319/dow-jones-100-year-historical-chart

64. BLOOMBERG. *Bloomberg* [online]. © 2014 [Accessed 2014-03-26]. Available from: http://www.bloomberg.com/

65. P&G Agrees to Buy Gillette In a $54 Billion Stock Deal: International Reach Prompts P&G To Boost Sales-Growth Outlook. THE WALL STREET JOURNAL. *The Wall Street Journal*[online]. 2005 [Accessed 2014-03-26]. Available from: http://online.wsj.com/news/articles/SB110693197048439468

66. NEFF, Jack. Why P&G's $57 Billion Bet on Gillette Hasn't Paid off Big -- Yet: Five Years and One Recession Later, Company Says Value Is There but Hidden. ADVERTISING AGE. *Advertising Age*[online]. 2010 [Accessed 2014-03-26].

67. Strategic Alliances. BAIN & COMPANY. *Insights Management Tools* [online]. 2013 [Accessed 2014-03-26]. Available from: http://www.bain.com/publications/articles/management-tools-strategic-alliances.aspx

List of Figures

Figure 1: Comparison of Venture capital business to acquisition strategy 20

Figure 2: list of pixar movies created during the strategic alliance with disney 43

Figure 3: Disney's divisions and subsidiaries 46

Figure 4: How disney process a new animated movie 48

Figure 5:The Dow Jones industrial average for the last 100 years. Historical data is inflation-adjusted using CPI 53

Figure 6: List of Disney's acquisition 54

Figure 7: List of Pixar's animated movies after acquired by Disney 58

Figure 8: the final assessment of relevant success factors.. 59

Figure 9: Evaluation of Pixar's and Gillette's acquisition, using selected success factors .. 60

7 Appendix

Apendix 1. Analyses of acquisition of Gillette by Procter and Gamble company

Strategic logic

The strategic logic behind the Gillette's acquisition was containing two proven value creating strategies from our list.

Accelerate Market Access for the Target´s (or Buyer´s) Products or Services

Gillette, the US consumer company mainly known for its high quality man's razors with its enormous global distribution network was on October 1, 2005, acquired by Procter & Gamble (P&G) Company for $53.4 billion [64].

Gillette that was at that time well established in some markets where P&G was lacking behind its competitors or was not present at all and P&G opening the door for Gillette particularly in markets such as China and Japan. By working together they were able to access these markets much more faster than they would if they remained working as two separate business [37].

Consolidation Strategy

Procter & Gamble Co., the leading U.S. maker of household products by buying the razor and battery maker Gillette Co. for $57 billion would create the world's biggest consumer-products enterprise. As a result of this consolidation strategy significant synergies coming from economies of scale and scope would emerge [66].

The total value of cost savings was valued at approximately $14 billion to $16 billion. Significant savings should come from jobs cuts and consolidation of business support functions, such as savings from broadcaster and other media companies on advertising purchases, savings from manufacturing and also a basic administrative savings [65].

According Procter & Gamble's directors savings from increased scale should allow the company to invest more into research and development, which would boost company's innovativeness and generally support its leading position [65].

Also the consolidation strategy gives the company greater market power in negotiation with retailors about their product's display space. Retail analyst Kurt Barnard commented on the deal: "They each had a lot of economic power before, but with the marriage they'll have a lot more power, power to get shelf space, preferred positions, all of that" [57]. He also explains that in consumer goods business every company desires for exposure to the consumer [57].

Premium Price and the Timing of the Acquisition

As part of the deal Procter & Gamble will pay 0.975 share of its common stock for each share of Gillette common stock. This would represent a 17.64% premium for Gillette shareholders, based on Thursday's closing prices – Gillette closed at $45.85 per share and Procter and Gamble at $55.32 per share [65].

55.32 x 0.975 = 53.937 (53.937 / 45.85 – 1) x 100 = **17.64%**

For the evaluation of market value was used of the Dow Jones Industrial Average (DJIA) index whose data where inflation-adjusted using the CPI. The value of DJIA in October 2005, the month when the acquisition took place, was compared to the average value of DJI within the time range of 10 years prior to the acquisition. Based on this evaluation the acquisition of Gillette took place when the DJI was above its 10-year average [63].

As mentioned before according to Milano there is a correlation between the stock market value and premium prices that boards of the selling companies require for ceding control over their firms. When the stock market is down the premium prices tend to be higher and vice versa [9]. However the 17.64percent premium price seems as a high premium, considering that the deal took place when the stock market was above its average - in 2005, a year that is characteristic by inflated demand and abnormally cheap credits which is a combination that pushes share prices high and as such many critics argue that buyout price for Gillette was overrated. The market immediate reaction after the deal's announcement was a 2percent drop in P&G's share price and 12percent raise in Gillette's share price [64].

Cash x Equity

Under the deal Gillette's shareholder will receive 0.975 of P&G's share for each Gillette's share they own. It was equity-only deal. Which should align everyone involved objectives right from the beginning. However P&G's directors announced that within 12 to 18 months the company will spend $18 billion to $22 billion on repurchase program, which should eventually structure the deal as it was 60percent stock and 40percent cash. This would represent and easy opportunity for Gillette's management to get rid of the newly gained stock and move on. In articles and reports related to Gillette's acquisition there was no mention of Gillette's managers signing a long-term employment contract and five years after the acquisition most of the Gillette's senior managers left [65].

The Size Matters

At yesterday's close, P&G' market value was $140 billion, while Gillette had a market capitalization of $45.5 billion [64].

45.5 / 140 x 100 = **32.5%**

32.5% of acquirer's size is a size that embodies a high level of risk and as such should not be generally recommended for company to execute. The only strategy that allows undertaking a risk of big acquisitions is the consolidation strategy, which is exactly the strategy for which P&G aimed with this deal and as such even the 32.5% are still acceptable in this deal.

Understanding of Regional Differences - Acquisition within the USA

Procter and Gamble, the American internationally operating consumer goods company, is headquartered in downtown Cincinnati, Ohio, United States. Gillette's headquarters prior to acquisition were located in Mississauga, a Toronto suburb, Canada. In 2005-06, after Procter & Gamble acquired Gillette, the Mississauga offices were closed [40].

Although their headquarters were located in different countries, the USA and Canada have common borders and the culture is not significantly different in these countries. The Language is the same and legal standards and provision also do not significantly differ [40].

Most importantly both companies were operating internationally and therefore they had well-developed awareness of diversity of cultures and of different political situations in other countries or variability in legal and financial standards and provisions etc.

Practice Makes Perfect – Paving the Way to Success trough Acquisitions

List of Procter and Gamble Company's Acquisitions:

- 1935 The Company seeks to expand its international presence by acquisition of the Philippine Manufacturing Company – the Company's first operations in the Far East.
- 1957 P&G acquires Charmin Paper Mills a regional manufacturer of toilet tissue, towels and napkins.
- 1963 By acquisition of Folger's coffee P&G strengthens its position in food and beverage business.
- 1973 Through the acquisition of The Nippon Sunhome Company P&G begins manufacturing and selling products in Japan. The new company is named Procter & Gamble Sunhome Co. Ltd.
- and in cosmetics and fragrances (with the acquisitions of Noxell and Giorgio of Beverly Hills).
- 1982 P&G increases its prescription and over-the-counter health care business with the acquisition of Norwich Eaton Pharmaceuticals.
- 1985 Company emerged as an important new player in health care among others through the acquisitions of Norwich Eaton Pharma-ceuticals.
- 1985 P&G further significantly expands its over-the-counter and personal health care business worldwide with the acquisition of Richardson- Vicks, owners of Vicks respiratory care and Oil of Olay product lines. Part of the Richardson-Vicks business is also Pantene, which in early nineties becomes the fastest growing shampoo in the world.
- 1987 The Company increases its presence in the European personal care category, with the acquisition of the Blendax , a German toothpaste company with a line of products, including Blend-a-med and Blendax toothpastes.

- 1989 The Company enters the cosmetics and fragrances category with the acquisitions of Noxell and Giorgio of Beverly Hills.
- 1990 P&G successfully expands its presence in the male personal care market through its acquisition of Shulton's Old Spice product line.
- 1991 The Company opens its first operation in Middle Europe with the acquisition of Rakona in Czechoslovakia.
- 1991 The Company keeps strengthening its worldwide presence in the cosmetics and fragrances category with its acquisitions of Max Factor and Betrix.
- 1994 P&G enters the European tissue and towel market and acquires the German-based company, VP Schickedanz.
- 1996 The Company continued to expand its reach to strengthen its position at global market with acquisition of the U.S. baby wipes brand **Baby Fresh**. With this acquisition P&G seeked to complement its global diaper business and its strong European Pampers Baby Wipes business.
- 1997 The Company expands its feminine protection expertise with the acquisition of Tambrands Company; the product Tampax Tampon was the market leader worldwide.
- 1999 The Company for the first time enters the global pet health and nutrition business with its acquisition of the Iams Company, a leader in premium pet foods.
- 1999 P&G pursued an acquisition of Recovery Engineering, Inc., which allowed it to utilize its understanding of water treatment by developing home water filtration systems under the PUR brand name.
- 2001 P&G acquired Clairol - with Herbal Essences, a mass-market hair-care brand for women, being part of the Clairol's business.
- 2004 P&G acquires a controlling interest in German cosmetic company Wella and further strengthens its European position.
- 2005 Acquisition of Gillete takes place.
- 2008 the acquisition of salon hair care company Frederik Fekkai further boosts P&G's position in this category.

- 2010 P&G acquires Natura Pet Products, Inc., a privately-held pet food business based in Davis, California and increases its holding in pet nutrition business [37], [38], [40].

From the summary of PG acquisitions it is clear that PG is an experienced acquirer with regard to the number, size and geographical content of executed acquisitions. Despite P&G's unquestionable experience in mergers and acquisitions, the Company did not hesitate to higher an external help – The McKinsey management consulting company was involved in the deal.