Unit 1
Alliances

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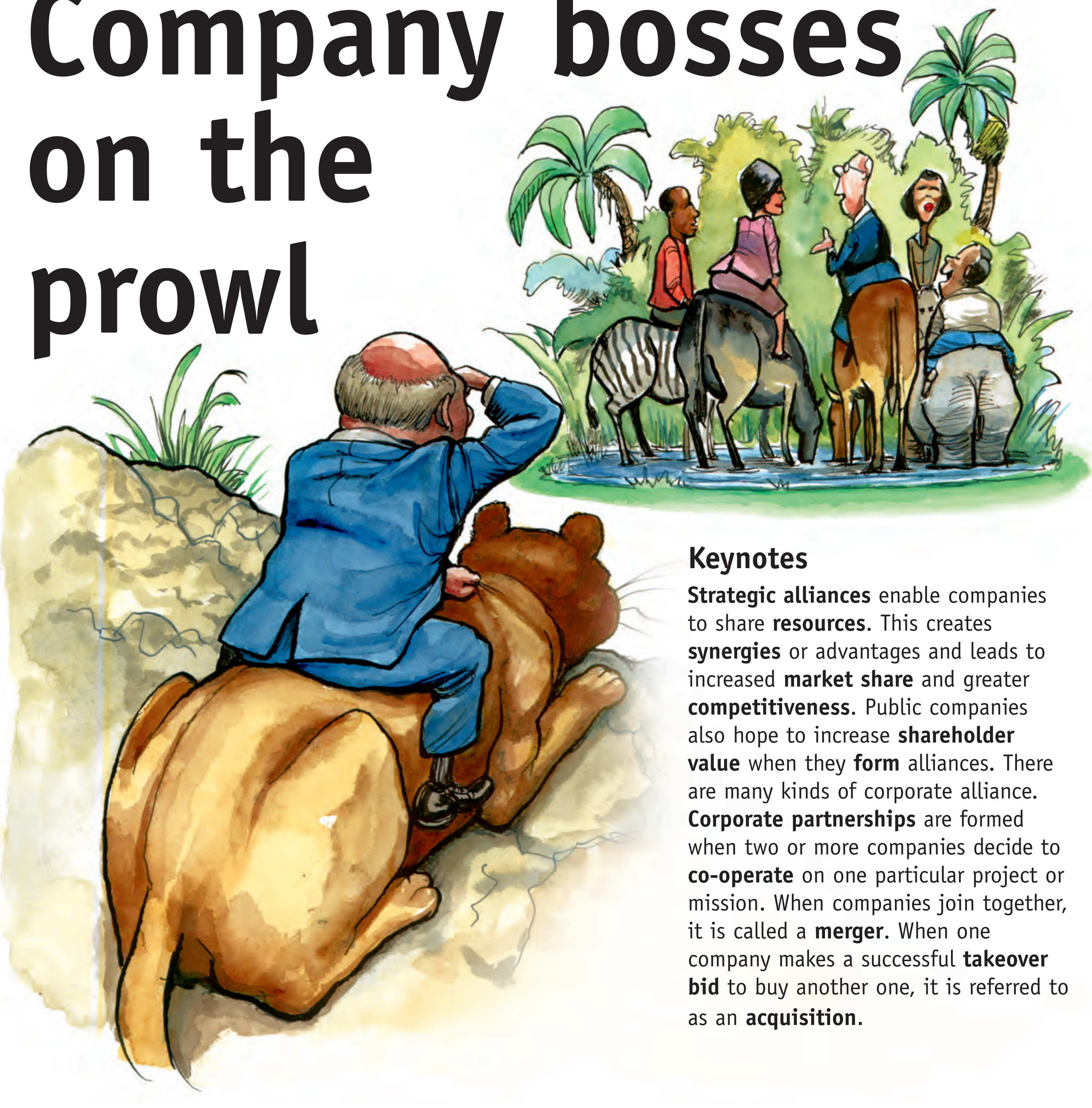
Company bosses on the prowl



Keynotes

Strategic alliances enable companies to share **resources**. This creates **synergies** or advantages and leads to increased **market share** and greater **competitiveness**. Public companies also hope to increase **shareholder value** when they **form** alliances. There are many kinds of corporate alliance. **Corporate partnerships** are formed when two or more companies decide to **co-operate** on one particular project or mission. When companies join together, it is called a **merger**. When one company makes a successful **takeover bid** to buy another one, it is referred to as an **acquisition**.

Preview

Mega mergers

Which of the following companies do you think have formed strategic alliances? Match the ones on the left with the ones on the right.

Disney	Daimler Benz
Starbucks	Miramax
Chrysler	Pepsico

Listening 1

1 Listen to a consultant talking about the alliances and check your answer to the above question.

2 Listen again and answer the questions.

1 Why did each of the pairs of companies want to form an alliance?
2 Which alliances succeeded, and why?
3 Which alliance failed, and why?

Reading

Mergers and acquisitions

1 Read the text on the opposite page and decide if the author is generally optimistic or pessimistic about future strategic alliances.

2 Read the text again. Are the following statements *true* or *false*?

1 In the first paragraph, the author says that CEOs can no longer find targets for mergers and acquisitions.
2 Studying facts and figures from the recent past won't necessarily help CEOs to form a successful alliance.
3 The trend in the 1990s was for companies to build portfolios with diverse investments.
4 The author suggests that media mergers are always likely to improve share value.
5 CEOs need above all to find the right company to acquire.
6 If business planners wish to avoid some of the errors of the 1990s, they should be prudent when taking risks.

3 Read the text again and answer the questions.

1 Why did CEOs reduce their involvement in mergers and acquisitions for a time?
2 Why should CEOs ignore the statistics concerning the success rate of acquisitions?
3 What should CEOs be aware of when venturing into alliances?

Speaking

Do you agree with the author when he suggests that only one in four acquisitions actually creating shareholder value is a good success ratio?

Why do companies find it difficult to make mergers work?

Glossary

dot-com boom rapid growth of internet-based business

protagonists most important people involved in a particular situation

falter weaken

spot identify

herd instinct natural inclination to follow others rather than act alone

Mergers and acquisitions

Spring in their steps

Some notes for company bosses out on the prowl

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

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

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

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

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

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

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

Vocabulary 1 **Match the words (1–6) from the text with their meanings (a–f).**

1 shareholder value (para 2)
2 conglomerate (para 3)
3 portfolio (para 3)
4 core competence (para 3)
5 bid (para 4)
6 vertical integration (para 5)

a a collection of companies
b an offer to buy
c most important activity
d controlling all stages of one particular type of business
e organisation comprising several companies
f what stocks in a public company are worth

Vocabulary 2

Metaphors

The text contains several hunting and animal metaphors, e.g. *on the prowl* (looking for victims). Why do you think the author uses this kind of metaphor?

Find the metaphors in the text which mean:

1 period of sleeping through the winter (para 1)
2 instincts (para 1)
3 something to aim at (para 1)
4 one who hunts another (para 7)

Practice **Complete the article about mergers with the following words from the text on page 9.**

fortunes chances growth targets failure portfolios
shareholder value acquire

To merge or not to merge ...

Companies engage in acquisitions and mergers because that is one of the easiest ways to secure fast [1] *growth* and diversify their investment [2] ________ . As Europe expands and investors increase, the idea of merging appeals to more and more companies. Moreover, the sale of government-owned businesses has meant that large companies are entering the market, aiming to [3] ________ potential rivals but often at the same time becoming possible [4] ________ for other companies on the prowl. However, with all this merger activity the [5] ________ of success are still not good, and statistics show that many fail.

Yet every time two major companies announce a merger, euphoria sweeps the stock markets as dealers and shareholders look forward to making huge [6] ________ . Many alliances are not financially successful, however, and don't succeed in increasing [7] ________ or creating wealth for all involved. Too often, culture conflicts and personality clashes are part of the reason why alliances end in [8] ________ . As Steven Barrett, head of Mergers and Acquisitions at accountants KPMG said, 'When they don't work, the two key management groups do not blend well together.'

Language check

Review of tenses

Study the examples taken from the text on page 9 and answer the questions about tenses below.

a ... *company bosses* ***are beginning*** *to rediscover their animal spirits.* (para 1)
b ... *as many as three out of every four deals* ***have failed*** *to create* ... (para 2)
c *Companies* ***had found*** *by then that they could add* ... (para 3)
d ... *a strategy which ... regularly* ***proves*** *the ruin of many* ... (para 4)
e ... *CEOs* ***will be judged*** *less for spotting a good target than for* ... (para 5)

1 Which example:

1 refers to unspecified time or a period of time up to the present
2 is making a prediction
3 refers to a situation changing in the present
4 refers to a repeated action in the present
5 gives the background information or an explanation for a past event

2 Which tense is used in each example?

3 Which of the following pairs of time markers are most commonly used with each of the tenses above?

1 by that time, by 2001
2 before long, in the coming weeks
3 recently, since the 1990s
4 generally, these days
5 at the moment, right now

For more information, see page 157.

Practice

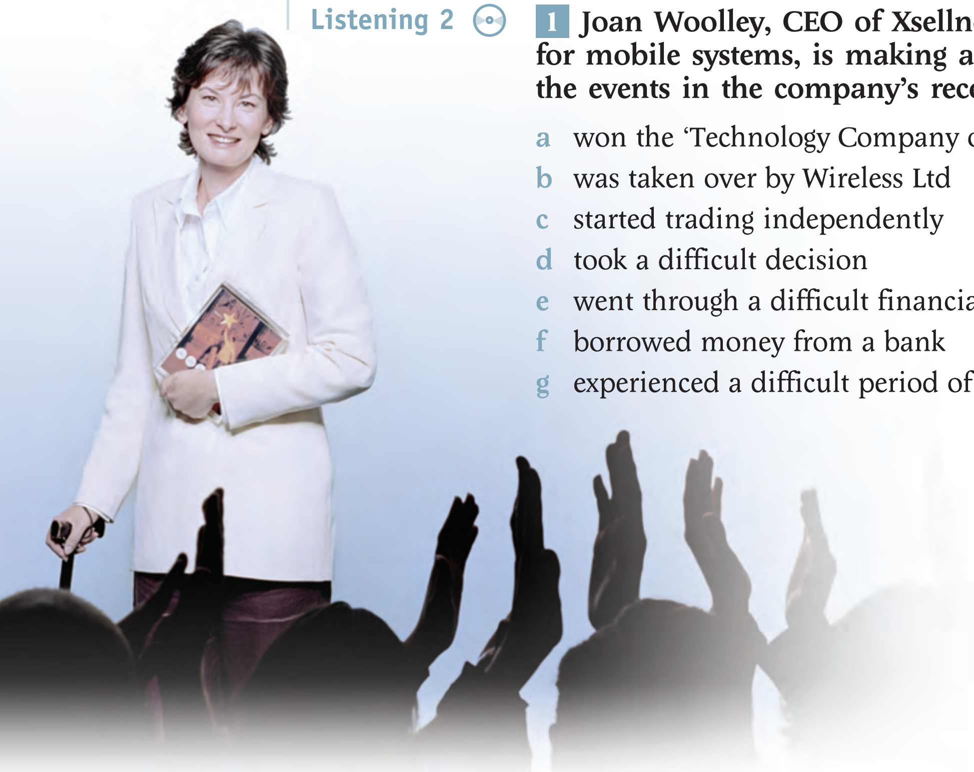
Complete the article with the appropriate tense of the verbs in brackets.

After many weeks of negotiation, William B Harrison, CEO of JP Morgan Chase, and Jamie Dimon, of Bank One, ([1]sign) *have signed* a deal. As part of the deal, Jamie Dimon, who ([2]be) __________ the CEO at Bank One since he left Citigroup, ([3]accept) __________ the position of Chief Operating Officer for the next two years after which he ([4]become) __________ the CEO. Mr Harrison has also agreed, on behalf of his shareholders, to pay $7 billion to Dimon for the privilege of keeping the post of CEO for two years.

The situation only became clear after the deal was made and signed: up until then, Dimon, the top man at Citigroup before joining Bank One, ([5]not want) __________ to take a back seat under the new deal and only agreed to a simple merger of equals on the condition that he became CEO. Harrison, who ([6]make) __________ some disastrous acquisitions over the years, wasn't happy because he wanted to finish his career on a high.

Shareholders generally ([7]not get) __________ the chance to negotiate in these situations and now they ([8] become) __________ increasingly unhappy as a result. Although this particular clash of egos ([9]cost) __________ them $7 billion, at least they know that they ([10]see) __________ a significant increase in the share price as a result of the merger.

Listening 2



1 **Joan Woolley, CEO of Xsellnet, a management solutions provider for mobile systems, is making a speech. Listen to part one and order the events in the company's recent history.**

a won the 'Technology Company of the Year' award
b was taken over by Wireless Ltd
c started trading independently
d took a difficult decision
e went through a difficult financial period
f borrowed money from a bank
g experienced a difficult period of integration

2 **Listen again and answer the questions.**

1 Which tense does she use when talking about 'the last few years'?
2 Which tense does she use when talking about 2002?
3 Which tense does she use when talking about the alliance?

3 **Listen to part two, where Ms Woolley is answering a journalist's question about why the merger failed, and list the four reasons she gives.**

1 ______________________
2 ______________________
3 ______________________
4 ______________________

Which reason does she say contributed most to the failure of the alliance?

Speaking

Work in pairs. Imagine that you work for a small family-run business which has just been bought by a big multinational. Discuss:

– where the various potential corporate culture clashes might occur
– how you think you personally would adapt to the new culture, and why
– what could be done by both companies to ensure a smooth transition from one corporate culture to another

Writing

Write a short press release to announce that your company, Xsellnet, has won the 'Technology Company of the Year' award. Use the answers from Listening 2 above to give a short history of the company. (See *Style guide*, page 30.)

Career skills

Building relationships

Building good relationships leads to successful business opportunities. Whether networking with people outside the company or striking up a positive working relationship with new colleagues, you will find the following phrases useful.

a *How can I help you? / Is there anything I can do?*
b *How interesting. / I'd love to hear more.*
c *I don't think we've met. I'm …*
d *I'm … I work for Digital France. We offer products and services in …*
e *When can we set up a meeting? Here's my card.*
f *Do you like/enjoy … ? / What do you think of … ?*

1 Look at the tips for building relationships successfully. Can you think of any more tips?

1 Be articulate and positive about who you are and what you do.
2 Ask the right questions to find out what you have in common with others.
3 Be willing to share information and help others.
4 Show an interest in what others are saying.
5 Follow up interesting new contacts.

2 Which of phrases a–f above would you use for the tips (1–5)?

Speaking

Work with a partner you don't know (well). Introduce yourself and ask questions to find three points you have in common.

Listening 3

Listen to two people networking and answer the questions.

1 What lines of business are the speakers in?
2 What do the companies have in common?
3 How will they both benefit from the possible new business relationship?

Speaking

Work in pairs. Read the extracts of dialogues below and say why the people didn't manage to build a relationship. Change what speaker B said in each case and continue the dialogue.

1 A Hi, I'm Sandra Hogan. I work for *Marketing Now* magazine. We are looking for successful companies to feature in our May issue.
B Unfortunately, we've been having a few financial problems recently, but here's my card.

2 A I'm sorry to ask, but as you've finished, could you help me?
B No, I want to go home early.

3 A Hello, I'm Kevin Hart from Digital Solutions. I see from your badge that we are in the same line of business. Are you enjoying the conference?
B Not really. I haven't made any useful contacts so far.

Culture at work

Working relationships

In many cultures, business people will do business only with people they trust and have had time to get to know personally. In other cultures, while it is important to have a good working relationship, it is not essential to know people on a personal level. What is common in your culture? How might this difference cause misunderstanding in multicultural teams?

Dilemma & Decision

Dilemma: Breaking the ice

Brief

When Unilever, one of the world's largest consumer products companies, made a bid to buy Ben & Jerry's, the trendy ice cream maker, Ben and Jerry turned down the offer. The companies were too different, they said. Social responsibility and creative management were the hallmarks of their business philosophy. Unilever was a major multinational with a traditional corporate culture, whose main goal was to make a profit. This, they felt, could never mix with their concept of 'linked prosperity', where the community also profits from business success. The then CEO of Unilever, Niall FitzGerald, felt that if they could get together and talk, they would find common ground. They could then build on that personal relationship and finally make a corporate alliance, which would benefit everyone in spite of what appeared to be corporate culture differences.

Task 1

Work in groups. Read the profiles and make a list of the similarities between the people involved and their companies.

Task 2

Using your list, think of five things Niall FitzGerald could say to Ben and Jerry in order to break the ice. How do you think Ben and Jerry would respond in each case?

Task 3

What concessions or compromises do you think Ben and Jerry would ask for? How do you think Niall FitzGerald would respond? Is it possible for two companies with seemingly different cultures to merge and work together, if the CEOs have a lot in common?

Write it up

Write a memo from Niall FitzGerald to the staff of Unilever informing them of the decision, and why it was taken. (See *Style guide*, page 24.)

CEO profile

Jerry Greenfield and Ben Cohen were born in Brooklyn, New York, in 1951. They met in junior high school and Jerry remembers that he and Ben were two of the wildest students in their school.

They founded their ice cream company in 1978 in a renovated gas station in Burlington, Vermont, with a $12,000 investment ($4,000 of which was borrowed).

Ben and Jerry have been recognised for fostering their company's commitment to social responsibility by the Council on Economic Priorities, as they donate 7.5 per cent of their pre-tax profits to non-profit organisations through the Ben & Jerry's Foundation.

Ben and Jerry are active members of the Social Venture Network and Businesses for Social Responsibility. They also serve on the board of Oxfam America.

Decision:

Turn to page 145 to find out what Ben and Jerry, and Niall FitzGerald said about the proposed merger.

CEO profile

Unilever was created in 1930. It is now one of the world's largest consumer products companies with sales in excess of $50 billion, and operates in 88 countries around the globe.

Niall FitzGerald, the CEO until 2004, was born in 1945 in Ireland. He was a child of the '60s, 'with hair down my back, drawn to the hippy culture of make love not war,' he remembers. At University College Dublin, he joined the Communist Party. 'I'm a practical left-winger,' he says. 'I was taught that to change the world, you must get to the top and do it from within.'

As head of Unilever South Africa, he insisted, against opposition, on unsegregated facilities. Not only aware of the debate on corporate social responsibility but sincerely engaged in it as well, he was behind Unilever's funding of hospitals in Vietnam and schools in Ghana and many other parts of the developing world.