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On the Fast Track With M&A

Stock markets respond to mergers and acquisitions (M&A) by automotive suppliers much more positively than to the mergers of companies in other industries. The Oliver Wyman study "Mergers and Acquisitions in the Automotive Supplier Industry" shows that stock prices of companies in that industry generally begin to rise immediately after a strategic transaction is announced. This is why tier 1 suppliers in particular should pick up the pace in terms of M&A. They are the suppliers that must react quickly and globally to manufacturers' rising demands.

Markus Mentz,
Thomas Kautzsch

Done right, mergers allow companies to generate growth, increase their profitability and competitiveness, and increase shareholder value – and the automotive supplier industry succeeds in doing this. Oliver Wyman analyzed the direct (transaction-related) results of 192 mergers and acquisitions announced and implemented between 1981 and 2004. For the transactions analyzed, the share prices of the companies intending to make an acquisition, each adjusted for market effects, improved on average by a statistically significant 1.6 percent within the time span of five days before and after announcement of the proposed deal. In light of the generally more negative valuations of M&A activities for companies making acquisitions, this is an unexpected finding. It shows the potential of mergers to increase shareholder value.

Despite the cultural risks of international deals, stock markets respond positively to these deals as well. With share prices gaining an average of 1.8 percent for national transactions, the price increase for international and transcontinental M&A totals 1.5 percent and 1.6 percent, respectively. As a result, the global automotive supplier industry also performed well in cross-border transactions.

Five recommended actions
for successful M&A management

1. Include integration measures early in the process.
2. Create a comprehensive integration architecture.
3. Communicate the integration strategy quickly.
4. Leverage enthusiasm and the willingness to change shortly after the transaction.
5. Consider differing corporate cultures during integration efforts.

Take early action

Despite the positive outlook our study suggests, mergers pose significant challenges. In roughly 40 percent of the transactions examined, the acquiring company achieved, at most, no return. For the integration to unfold successfully, M&A management must be addressed long before the transaction. Including integration issues into strategic considerations before the actual transaction decision is crucial for success. In addition to strategically selected acquisition candidates and a clear game plan, effective management of post-merger integration is essential. This begins at early on and extends from the initial communication of the targeted goals to the realization of concrete synergy measures in the newly created direct and indirect company divisions.