

Bachelor Thesis

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**“Analysis of Success Factors of Mergers and
Acquisitions in the Automotive Industry”**

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List of Abbreviations

CARG	Compound annual growth rate
M&A	Mergers and acquisitions
MPV	Multi-purpose vehicle
NAFTA	North American Free Trade Agreement
SUV	Sport utility vehicle

Thesis Abstract

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The bachelor thesis deals with success factors of M&A in the automotive industry. The purpose of study is to identify the critical determinants for each step of the transactional process that decide whether a deal will succeed or fail. The reason for this work is the high number of failed M&A in this industry segment. The goal of the thesis is to summarize the results in a checklist that can be used for the planning of actual transactions in the automotive industry. The research question is investigated on the basis of current literature, specific online content, relevant studies as well as practical examples.

The analysis showed that there are specific success factors for each stage of the transaction. With regards to the pre-merger stage, these are in particular an extensive planning and preparation as well as the underlying strategy. During the execution of the transaction, the success is dependent on the selection of target and an extensive due diligence. The most important and most extensive success factors are located in the integration phase. In the context of the automotive industry these are the communication, the realization of synergy effects as well as the successful cultural integration.

Keywords: M&A, Mergers, Acquisitions, Success Factors, Automotive, Transaction

1 Introduction

This first chapter of the thesis illustrates the relevance of this study by presenting the motives and intentions of this work. Besides, the structure as well as important limitations for the understanding of the study are pointed out.

1.1 Background and Purpose of Study

The history of M&A approximately reaches back until the beginning of the 20th century. While it was just a small and rare phenomenon in the beginning that concentrated almost only on the United States, M&A were becoming over time more and more important for all kind of businesses around the globe. Nowadays, the market for M&A is a complex and global multibillion dollar market that is fast changing and extremely vivid. During the development for roughly the past one hundred years, the economic environment and conditions changed drastically more than once and so the motives and drivers for M&A also adjusted accordingly to the new circumstances. Consequently, it received a lot of attention from science and economy that tried to explain the reasons and benefits of M&A.¹ But even though many research topics for M&A are already investigated, the failure rate for M&A still numbers around 60-70%.²

The high rate of failures seem to contradict the advanced level of research concerning M&A. One explanation could be that the success of M&A is very much related to the economic environment. Driven by the globalization and the advancing connection between global economies, the circumstances on single markets are not stable and only experience very short life cycles until the next significant change. Therefore, reliable forecasts for the future development are very difficult but still are essential for a long-term investment such as a merger or acquisition. Subsequently, it appears that there is still a gap in research concerning the success factors of M&A.

This overall development also can be applied for M&A in the automotive segment. Driven by the technological advance and the changes in consumer behaviour in various economies, the market environment becomes more complex and sophisticated. There were already a great number of consolidations on the market and the competition is still tightening. Hence, the importance of M&A as a strategic instrument is increasing accordingly. In this complicated market environment, M&A can offer a good instrument to react to new requirements and profit from them. However, each transaction also represents a significant risk that can have severe negative influences in case of failure.³ For that reason, the purpose of the study is to identify and categorize the most important success factors of M&A in the automotive industry. The results of the work shall represent a basic guideline for possible important success determinants concerning the planning, execution and post-merger phase of a transaction in this segment.

¹ Cf. William Blair 2014

² Cf. McKinsey&Company 2010

³ Cf. PwC 2014a

1.2 Thesis Organization and Limitations

The content of the thesis can be divided in four subsequent parts. Each chapter follows a specific purpose that shall lead to the answer of the research question, namely the summary of the success factors for M&A in the automotive industry. The necessary information of the research are derived from public available literature and online content, available studies as well as the analysis of actual cases. The major part of the research is to identify and select the relevant resources and logically combine the information in order to make a reasonable judgement concerning the research question.

The second chapter deals with the theoretical background of the overall topic M&A. Hence, the most important and relevant terms will be defined. The history of M&A will be presented and serves as a general introduction to the topic. Next, the theoretical basics that are necessary for the reader to understand the relevance and the background of the identified success factors are pointed out.

In the following part of this work, namely chapter three, the focus is set on the M&A market in the automotive industry. Firstly, the current situation on the market will be evaluated and presented. These information are crucial for the following assessment of the industry specific motives and current trends and issues that are shaping the industry.

The fourth chapter represents the main part of this thesis. The knowledge from the second and third chapter are combined in order to develop general and concrete success factors. The structure is oriented on the stages of the transaction process of chapter two. Afterwards, all results and insight will be summarized in a short checklist. The fifth and last chapter represents a general conclusion for the thesis that wraps up the most important findings and information.

Apart from the organization of the work, there are also some important limitations that apply for this thesis. Firstly, it is necessary to properly define the term automotive industry. This thesis will focus only on deals within the automotive industry (horizontal M&A). Furthermore, automotive industry is defined as vehicle manufacturers as well as component suppliers. Fleet and rental companies and retail and aftermarket companies will not be investigated. Moreover, transactions where only one participant is established in the automotive industry (e.g. transaction with participation of financial investors) will not be part of this work as well.

Moreover, the term M&A follows the narrow definition that is presented in chapter 2.1. Other forms of transaction will not be part of the research, too. In addition, the focus will be put on transaction where a whole company will be acquired instead of some single assets. The reason for those limitations is to achieve more reliable results that are applicable for real cases. Nevertheless, since transactions are a complex process and each case differs from another, the results may only be used as a guideline and are not generally applicable.

2 Theoretical Background to M&A

This chapter provides the basic background information around the topic M&A. This includes the definition of the terms, the historical development of the market and current trends as well as the general transaction process. Furthermore, an overview of motives for transaction decisions will be pointed out and the measurement of success in the context of this work will be presented.

2.1 Definition of M&A

The term M&A includes a variety of different processes and areas and there are many different definitions in nowadays research available. In fact, the differences result mostly from different definitions in various countries. Depending on the interpretation of the term it can basically either include all kind of transactions such as co-operations and joint ventures between businesses or it is limited by factors like type or purpose of the transaction.⁴ However, for this work a narrower and simplified approach will be used that concentrates exclusively on M&A and do not take the other varieties of transactions into account.

Mergers: “A merger is the combination of two or more companies to share resources in order to achieve common objectives.”⁵

Besides, a merger can generally be distinguished in several different types, depending on the legal status of the merging companies after the transaction. However, in all cases at least one company abandon its legal independency.⁶

- **Statutory merger:** Only one of the merging companies survives the merger. The merged company goes out of existence and is fully integrated into the other corporation. If the transactional direction is the other way round, it can be considered as a **reverse merger**.
- **Subsidiary merger:** In this kind of transaction the acquired company becomes a subsidiary of the buying company.
- **Consolidation:** All merging companies cease to exist for themselves. Instead, a complete new company is formed from all assets and liabilities of the merging companies.⁷

In contrast to mergers, the main characteristic of acquisition is that the participating companies both keep their legal independency (at least in the beginning) but in some cases give up on their economic autonomy.

Acquisitions: “An acquisition is a business transaction between unrelated parties on terms established by the market where each company acts in its own interest. The acquiring company purchases the assets and liabilities of the target company.”⁸

⁴ Cf. Meyer 2012, pp. 6–8

⁵ OECD 2009, p. 198

⁶ Cf. Schön 2013, p. 32

⁷ Cf. Gaughan 2002, p. 7

⁸ OECD 2009, p. 198

Furthermore, acquisitions can generally be divided in share deals and asset deals:

- **Share deal:** A share deal is the most common type of transaction. The realization is comparatively easy since the buying company acquires a certain amount of shares of another company. The acquired shares must not be separated to different positions in the balance sheet of the buyer but instead are illustrated in an extra section.⁹ If the buyer acquires enough shares to get the control over the target, the transaction can be classified as a takeover. Depending on the intentions of the buying company's management, the takeover can either be considered as friendly or hostile if the takeover is against the will of the other company's management.¹⁰
- **Asset deal:** In an asset deal the buyer picks out certain assets (can be tangible or intangible) or whole areas and departments from the selling company. In fact, every single item that is part of the transaction must be assessed individually and be listed in the agreement between buyer and seller.¹¹ The transferred assets must be illustrated in the responsible section of the balance sheet of the buyer and vice versa. The asset deal is generally beneficial for the buyer since the buying company can only select the parts it really needs.¹²

Moreover, one can classify three general types of M&A with regards to the industries of the companies that are part of the transaction.¹³ Following categories can be defined:

- **Horizontal M&A:** This term is used for transactions within the same industry. For example, one automobile manufacturer acquires another automobile manufacturer. Horizontal transactions are the most common form of transaction.
- **Vertical M&A:** This term describes transactions along the value chain of a company. For instance, a producer of goods acquires one of its suppliers.¹⁴
- **Conglomerate M&A:** This term is used for transactions with neither a competitive nor a buyer-seller relationship. The participating companies might operate in completely different industries. An example would be a vehicle manufacturer that acquires a bank.¹⁵

In *Figure 1 – Types of M&A* the different described types are summarized and illustrated:

⁹ Cf. Hinne 2008, p. 13

¹⁰ Cf. Guserl, Pernsteiner 2015, p. 569

¹¹ Cf. Horzella 2010, p. 28

¹² Cf. Guserl, Pernsteiner 2015, pp. 568–569

¹³ Cf. Gaughan 2002, pp. 7–8

¹⁴ Cf. Jansen 2008, pp. 19–20

¹⁵ Cf. Horzella 2010, p. 29

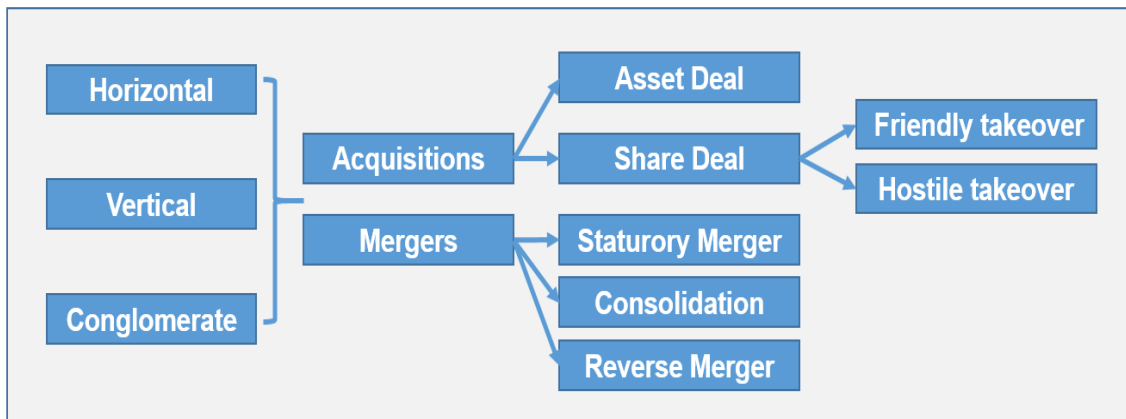


Figure 1 - Types of M&A¹⁶

2.2 Development of the M&A Market

The global market for M&A is very vivid and complex. During the past century, there were significant changes in the development that result from different micro- and macroeconomic factors or from changes in the legal environment. In fact, six periodical fluctuations can be identified until today (see Figure 2 – The six Merger Waves). The analysis of the market is based on US data since for other markets there are no sufficient data for a longer period of time available. Thereby, a reliable observation for the global market is not possible. However, the US market for M&A was and still is the largest in a global perspective and has a leading character. The developments there can be used as a good indicator for the global development.^{17 18}

2.2.1 Historic Development

The first wave started in 1897 after the global economic crisis and ended in 1904 due to the combination of the implications from the 'Northern Security Decision'¹⁹ as well as a general stock market crash.²⁰ The trigger for the strong rise in M&A during that period can be found in the industrial revolution that resulted in a boom of the American and global economy. New technologies and materials enabled mass production in many industries. In order to benefit from the economies of scales, mostly horizontal M&A took place to achieve the critical company size. In consequence, many industries were soon dominated by oligopolies and monopolies. Another factor that increased the M&A activity was that the demand rose significantly slower than the production. The resulting overcapacities lead to a strong competition and consolidations on the market.²¹

¹⁶ Adapted from: Schön 2013, p. 30

¹⁷ Cf. Meyer 2012, p. 10

¹⁸ Cf. Lucks 2013, pp. 13–14

¹⁹ The Northern Security Decision was a legal regulation that limited the possibilities of investments in other companies in the same industry to stop the creation of monopolies

²⁰ Cf.: Schön 2013, pp. 36–37

²¹ Cf. Bauer 2011, pp. 21–22

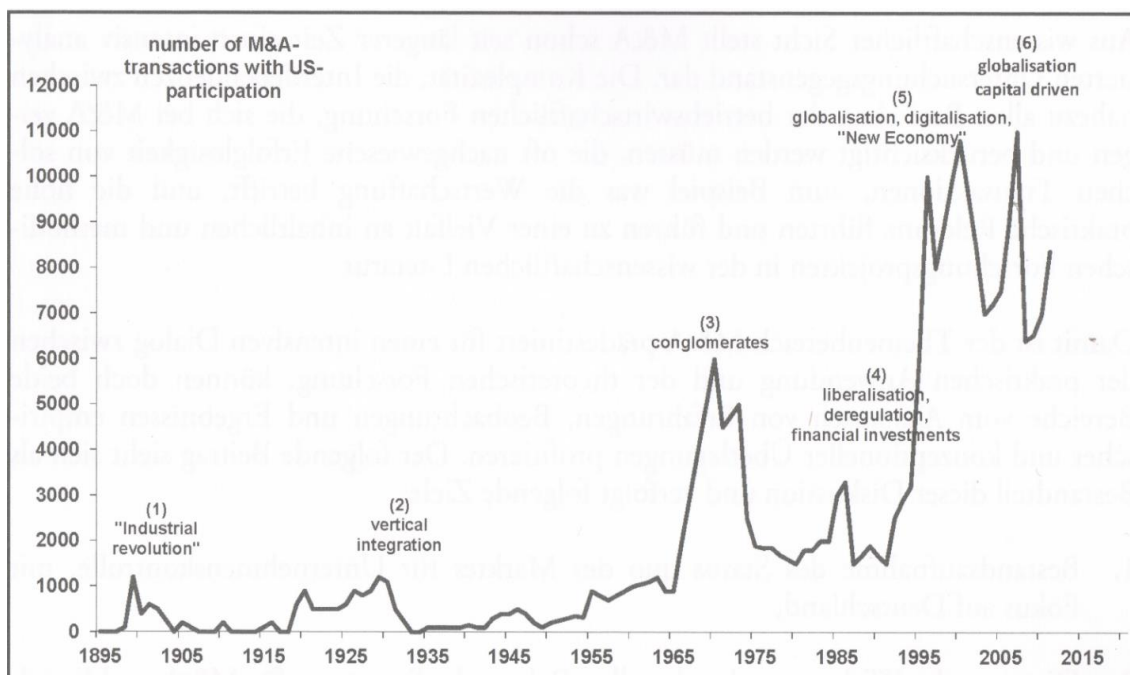


Figure 2 - The six merger waves²²

The second wave started in 1916 and lasted until 1929. It was initiated by the economic boom after the First World War. There was lots of capital in the American market as well as general beneficial economic circumstances. Though, the Clayton Act from 1915 prohibited the formation of monopolies in single industries. Hence, this time period was characterized by mostly vertical upstream and downstream integrations. The vertical mergers led to formation of big enterprises and oligopolies in certain industry sectors. The second wave ended abruptly with the historic stock market crash in 1929 which is nowadays known as the "Black Thursday".^{23 24}

The third wave began in 1965 and ended four years later in 1969. The growth rate and the absolute amount of M&A was higher than in any period before. This phenomenon can be explained with a fast rising amount of conglomerate mergers during that time. Since the Cellar-Kefauver Act from 1950 prohibited de facto all transactions within the same industry, companies had to expand into other industries than their own.²⁵ Besides, many managers in that time were an advocate of the modern portfolio theory. This means, that they tried to diversify risks with investments in not related industries. The goal was to achieve a steady cash flow through operations in industries with countercyclical dependencies. Combined with the boom on the stock markets and the possibility to comparatively easily finance the deals with the exchange of shares, the M&A activity on the US market reached an all-time high. The short boom ended in 1969 due to a combination of a tax reformation act, the global oil crisis and again the following crash on the

²² Ballwieser, Hippe 2013, p. 2

²³ Cf. Jansen 2008, p. 63

²⁴ Cf. Bauer 2011, p. 22

²⁵ *ibid.*

stock markets. Those factors had a negative impact on the financial situations of nearly all companies and the number of transactions dropped accordingly.²⁶

The fourth wave can be considered as the most diversified since there are various parameters that explain the development. Firstly, there were liberalisations of the monopoly regulations on the US market. In combination with a changing management approach that regarded the conglomerates that emerged during the third wave as inflexible and too complex. Most conglomerates wanted to disinvest and concentrate on their core operations again. Accordingly, the number of horizontal mergers began to rise sharply and most conglomerates were undervalued on the stock market and thereby easy for other companies to acquire.²⁷ Secondly, the global internationalization boosted cross-country M&A of American companies. The third and most significant determinant was the deregulations of the capital markets. Due to new legal structures, the financing with borrowed capital was more beneficial compared to financing with equity. Consequently, the easy access to debt capital boosted the so called 'leveraged buyouts'²⁸. The fourth wave ended with the beginning of the economic recession in 1989.²⁹

The fifth wave started a few years after the fourth wave has ended and had its starting point in 1993. The market for M&A in that time was characterized by international transactions and mega mergers with a deal volume that in some cases exceeded a three-figure billion dollar amount. Those mergers mostly took place in the new economies³⁰ as well as the pharma, oil and banking industry and resulted in a boom on the stock exchange market.³¹ Other essential drivers for the development were the ongoing globalization that was accompanied by the intensifying competition as well as the shareholder value³² development. With strategic M&A companies tried to increase their market share in a global perspective and benefit from economies of scale. The wave ended in 2000 with the collapse of the speculative bubble for new economy enterprises.³³

The sixth wave started in 2002 and lasted until 2009. The M&A market in this time period was mostly characterized and driven by financial investors. Private equity and hedge funds significantly increased the number of transactions. Besides, the low level of the stock markets during that time resulted in much lower purchase prices. Additionally, the interest level was comparatively low which facilitated the financing of transactions. The sixth wave ended with the global financial crisis in 2009.³⁴

²⁶ Cf. Glaum, Hutzschenreuter 2010, p. 45

²⁷ Cf. Schön 2013, p. 39

²⁸ Leveraged buyout (LBO) is a certain method to acquire a company. The main characteristic is that the transaction is mostly financed with borrowed capital. Leveraged buyouts follow the assumption that the cash flows of the acquired company can be used to finance redemption and interest of borrowed capital for the transaction. (Cf. Jansen 2008, pp. 110–111)

²⁹ Cf. Glaum, Hutzschenreuter 2010, p. 46

³⁰ New economies in the context of the subject is a buzz word for industries that are mostly based on internet services as well as information and communication technologies, which were hyped by investors during the 1990s. (Cf. Gordon 2000)

³¹ Cf. Glaum, Hutzschenreuter 2010, p. 46

³² The shareholder value model follows the assumption that the main purpose of businesses is to maximize the profit for its shareholders. (Cf. Rappaport 1998, pp. 1–2)

³³ Cf. Schön 2013, pp. 39–40

³⁴ Cf. Ecker 2008

In summary, one can observe that within time the number of transactions is steadily increasing. Besides, while the time gap between each wave is apparently reducing the fluctuations between the peak and the low point are increasing. Even though the exact reasons for those waves are not fully investigated, one can observe that the M&A activity in all six waves is dependent on the situation on the stock markets.³⁵

2.2.2 Current Development

After the financial crisis from 2008/2009 the global market for M&A dropped significantly compared to the peak in 2006/2007. The global crisis reduced the cash amount of companies available for investments and lots of businesses had to face financial issues and could only survive through the help of governmental action. In general, the mood of managers around the world was rather tensed and investments were held back or postponed into the future. Besides, the access to borrowed capital from banks was limited since many banks tried to reduce the risks in their balance sheets so they provided only capital for safe investments.³⁶ Subsequently, the unstable economic conditions were mostly triggered by the past debt crisis in Europe and had a negative impact on the overall M&A activity.³⁷

However, even though the macroeconomic conditions still are rather unfavourable up to date, a global recovery of the M&A market can be observed since 2010. On the one hand, the number of deals is recently stagnating again and yet is still a bit lower than prior to the crisis, on the other hand, the average deal size as well as the total volume of transactions is steadily increasing. In fact, there are less deals but with a significant higher volume.³⁸

The increase can be explained with different influential factors and trends in the M&A segment. Firstly, the situation in Europe and in the global economy is continuously improving. Future prospects are generally positive and the extreme low interest level makes borrowed capital cheap.^{39 40} Secondly, the fast growth of M&A across borders and especially in emerging markets are to mention as the crucial drivers and trend of the recent years. Companies from developed countries significantly increased their investments in those markets during the past years and vice versa. The double digit growth rates for the M&A in these markets could also compensate the less vivid development of the developed countries. The reasons for the increasing investments are that businesses from developed countries try to get fast access to those markets. Besides, the direct investments are a good option to enter the market with less risks concerning cultural differences.⁴¹ Moreover, by investing in emerging markets, many companies try to get access to the natural resources in these countries, e.g. for rare earth elements and benefit from the increase in demand that is forecasted to grow within the next years.⁴² In this context, also the next target theory is to mention, which implies

³⁵ Cf. Meyer 2012, pp. 16–17

³⁶ Cf. Ballwieser, Hippe 2013, pp. 2–5

³⁷ Cf. Picot, Bätzner 2012, p. 2

³⁸ Cf. EY 2015b

³⁹ Cf. Deloitte 2015

⁴⁰ Cf. Ballwieser, Hippe 2013, pp. 6–7

⁴¹ *ibid.*, p. 12

⁴² Cf. Lucks 2013, p. 13

that a left out and attractive takeover opportunities will be done by a competitor instead and might cause a competitive disadvantage.⁴³

Another factor that shapes the current market for M&A are consolidations especially in the technology and high-tech industry. Because of the globalization, the competition in these sectors is strongly increasing. Since the market is very dynamic and new revolutionary technologies are developed constantly, companies need to invest in other companies to get access to these latest technologies if they want to keep up with their global competitors. Since the own development of those new technologies might take too long, M&A are the only option to get fast access. The importance of those new technologies in this industry is displayed through the enormous purchase prices that are paid sometimes for start-ups or comparatively small companies.⁴⁴

Another current issue in the M&A segment is a general changing management perspective of leaders. A shift from the shareholder value management approach like during the fifth and sixth merger wave to a stakeholder management approach can be observed. The key difference is that the focus is now on the relationship of the business to its customers. The result is that the decision making process becomes more complex since there are more factors that need to be taken into consideration before making a purchase decision.⁴⁵

The next current driver for M&A are distressed M&A which have recently the highest growth rates in the market.⁴⁶ The reason for this is that still many companies have to struggle with the effects of the global crisis in the prior years or need to restructure their business according to the fast changing market environment. Therefore, distressed M&A can be a good instrument to improve the financial situation of the seller and to restructure the company.⁴⁷

In conclusion, it can be stated that the market for M&A still is behind the peak with regards to the number of transactions. Despite, there are various positive indicators that signal a positive future prospect. Accordingly, the biggest driver can once again be found in the globalization and thereby the increasing importance of emerging market. In the long run, the emerging markets probably will even takeover Europe and America in terms of number and value of transactions.⁴⁸

2.3 Motives for M&A

The reasons for M&A are very different and there are various available theories and hypothesis. In most cases, economic growth is the main driver for transactions. However, there are also many other possible motives and generally more than one motive can be applied for a transaction. The following table will present

⁴³ Cf. Picot, Bätzner 2012, p. 13

⁴⁴ *ibid.*, p. 2

⁴⁵ *ibid.*, pp. 2–3

⁴⁶ Distressed M&A are a method for companies in a distressed financial situation to gather new capital by selling parts of their business. Those transactions are often conducted in order to prevent insolvency. (Cf. Bauer, Düsterlho 2013, pp. 22–23)

⁴⁷ Cf. Picot, Bätzner 2012, p. 5

⁴⁸ Deloitte 2015, pp. Cf.

a short summary of the most common motives for the acquiring. The motives are divided in three major categories.

	Motives	Goals	Explanatory approaches
Strategic Motives	Synergies / Efficiency	Increase of profits, reduction of costs in financial, operational and managerial areas	<ul style="list-style-type: none"> • Synergies: the combination of two independent businesses is more profitable than the individual parts of the firm together • Economies of scale: cost reduction per produced unit triggered by a larger output • Economies of scope: "the ability of a firm to utilize one set of inputs to provide a broader range of products and services."⁴⁹
	Internationalization/ Growth / Market Power (horizontal / vertical M&A)	Reduction of competition, set up of market entry barriers, geographic expansions, market entries	<ul style="list-style-type: none"> • Monopoly hypothesis: on the one hand, the increase of market share comes along with a higher consumer surplus and thereby higher profits, on the other hand the increase in market share increases the barriers for market entries of competitors
	Improve inefficient management / Restructuring	Improve use of resources with better management in target company	<ul style="list-style-type: none"> • Corporate control hypothesis: the acquiring's management assumes that they can better manage the target's resources and thereby generate a higher enterprise value after the transaction
	diversification / risk reduction (conglomerate M&A)	Expansion in related or non-related markets and technologies in order to reduce entrepreneurial risk	<ul style="list-style-type: none"> • Portfolio theory: investments in other industries and markets reduces single-sided dependencies. Because the combined cash flows from different markets and industries are less volatile and more resistant to changes in the market environment
Financial Motives	Refinance- and tax benefits	Reduction of financing costs and tax burden	<ul style="list-style-type: none"> • Co-insurance effect: reduction of financial costs and risk of payment defaults through mutual hedging. Losses of one company can be compensated by the profits of the other one, resulting in cheaper refinancing possibilities. • Tax hypothesis: realization of tax benefits through depreciations on undiscovered reserves and loss carry forward of the acquired company
	Underpricing of target company	Realization of profits with the acquisition of underpriced companies	<ul style="list-style-type: none"> • Valuation hypothesis: Based on the imperfect market approach the value of a company may differ from various points of view. Underpriced companies often become targets for M&A since the profit is higher than the purchase price
Managerial Motives	Investment of uncommitted funds	Personal interests of management to increase power and prestige	<ul style="list-style-type: none"> • Free cash flow hypothesis: The management invests uncommitted funds in M&A instead of pay out dividends to shareholders
	Management hubris	Achieve benefits that are not known on the market (overestimation)	<ul style="list-style-type: none"> • Hubris hypothesis: transactions are based on insufficient information and the management overestimates their competencies. The result are unsuccessful M&A and overpriced transactions
	Empire building / Power / Pride	Increase of personal power and prestige, prevent potential layoff, reduction of risk of hostile takeovers	<ul style="list-style-type: none"> • Empire building hypothesis: greed for power of the management that can be achieved with M&A as the fastest option

Table 1 - Overview of motives for M&A⁵⁰

⁴⁹ Gaughan 2002, p. 118

⁵⁰ Adapted from: Schön 2013, p. 68

2.4 Success of M&A

The definition of success for M&A is very much dependent on the point of view and the motives that lead to the transaction. Generally speaking, M&A are successful when the objectives of the deal are fulfilled within a given timeframe. Besides, one needs to compare the results to a benchmark, e.g. an alternative investment. However, success is a very elastic term and there are different approaches to measure it. In most cases, either quantitative or qualitative and strategic factors are used for the determination. This chapter gives a short overview about common interpretations of the term.⁵¹

(1) Quantitative Review

A comparatively easy method to measure success is to use financial key performance indicators based on information from the financial statement. The information are usually public and comparable and since they are derived from formal accounting standards. Some examples are the development of the sales, return on investment or cash-flow. The data can be gathered in periodic intervals but at least yearly with the new financial statement. Next, one can track the development of the financial ratios and thereby a conclusion for the success of the transaction can be deducted. Critics for this measurement are that many essential factors such as intangible values (know-how, expertise etc.) are not recorded by accounting systems and thereby neglected.

(2) Manager Perspective

Another option to measure success is the interview of the management of the buying company about their valuation of the transaction. The purpose is to achieve a profound view if the strategic objectives of the company were fulfilled. The critics for this measurement method are that the results are very subjective and influenced by the managers point of view. Besides, the perspective of managers must not necessarily reflect the overall business situation.

(3) Capital Markets

The next method to determine the success of a transaction is to analyse the development of the market capitalization of the acquiring company for a defined time frame. The transaction determines the starting point of the observation. The actual development will be compared to a benchmark. The benchmark can be for instance the expected return without the transaction or the performance within an industry. The difference between actual and expected return is called *abnormal return*. Critics for the measurement are that the capital markets are not only influenced by economic but also psychological factors that can distort the results.⁵²

(4) Strategic Perspective

In this case success will be considered as part of achieving strategic advantages with the acquisition that are strongly connected with the motives and drivers for the deal. For instance, this might be an increase in market share, access to new technologies or markets, an increase in competitiveness or better management competencies. Usually, the strategic success factors can be also measured with

⁵¹ Cf. Meyer 2012, p. 41

⁵² Cf. Hinne 2008, pp. 86–87

a delay in the operational indicators (e.g. increase in market share leads to a growth of sales).⁵³

In conclusion, in order to measure the success of M&A more than one point of view should be used to make a final judgement. In science, most researches concentrate on the abnormal return for statistical reasons. Yet for this work, success will be defined as achieving the individual objectives of the transaction and the generation of additional value for the acquiring company.

2.5 Transaction Process of M&A

The transaction process for M&A is a complicated procedure with lots of interim stages and different aspects that need to be taken into perspective. For that reason, a well-structured project plan for every step of the transaction is obligatory for successful M&A. Even though there are different approaches and models available in nowadays research, the whole process of M&A can generally be summarized in a model with three major phases which is presented in this chapter. The model below (*Figure 3 – Transaction Process*) is illustrating an ideal-typical process which might differ from the actual implantation due to the individual circumstances of each transactional project. Since M&A are a collective term for many kinds of transactions, it will be assumed that the transaction affects the purchase of a whole company or at least a complete division. Additionally, the model is constructed under the assumption that the company is pursuing a merger or acquisitions as part of a growth strategy.⁵⁴

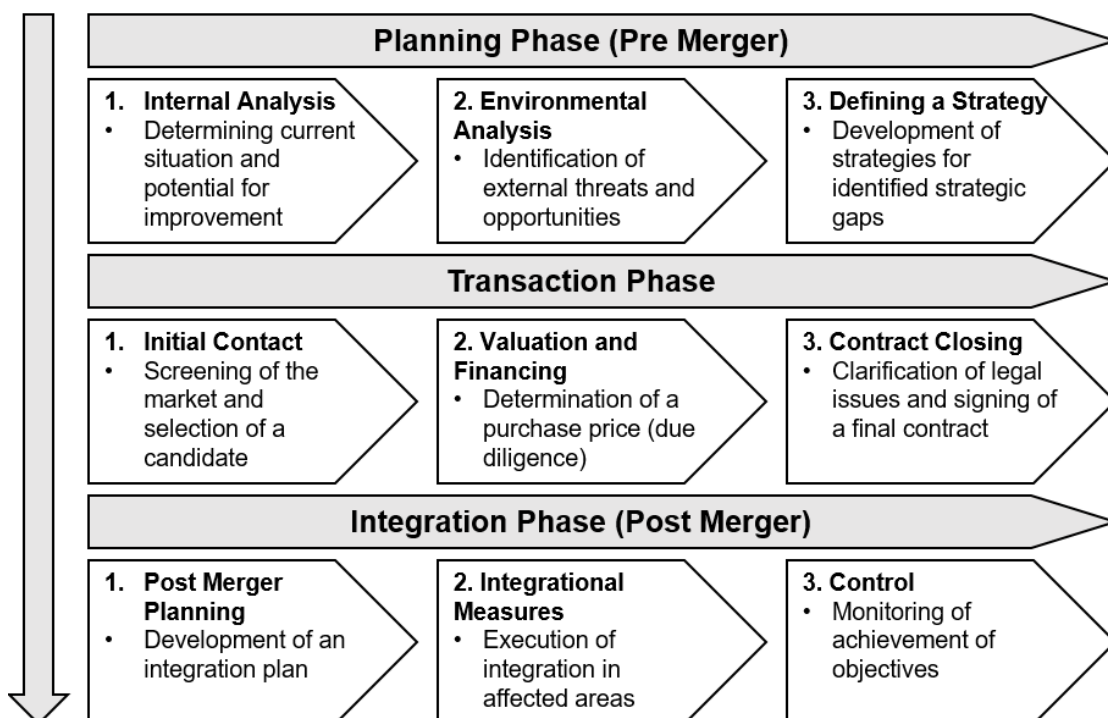


Figure 3 - Transaction process⁵⁵

⁵³ Cf. Stahlke 2007, p. 150

⁵⁴ Cf. Glaum, Hutzschenreuter 2010, p. 111

⁵⁵ Adapted from: Jansen 2008, p. 249

2.5.1 Planning Phase (Pre-Merger)

The main goal of the planning phase is to achieve a profound analysis of the own business operations and the general market environment. Following this, strategic gaps might be identified and a strategy closing them can be developed. This might be done for a single division or the whole company. The planning phase can be divided in three consecutive substeps:

(1) Internal analysis

The first step of the analysis is to identify the initial situation. In order to do so, the use of suitable analytical instruments is essential. One common option in this case is to perform an analysis of strengths of weaknesses for each step of the value chain. Each function is regarded individually and assessed on basis of a standardized scale. Thereby, the company's core competencies can be identified as well as the areas that have a need for improvement. Additionally, further analysis methods and tests might be conducted in order to confirm and extend the results.⁵⁶

(2) Environmental analysis

After the internal analysis is done, the second step of the planning phase has the purpose to get a closer look at the relation between the company and the external environment. Thus, resulting external threats and opportunities need to be analysed. Focus areas of the analysis are the company's stakeholder, economic and technological development, development of relevant industries, changes concerning consumers and the political framework.⁵⁷

(3) Defining a strategy

Based on the results of the analysis from the first two steps, the next stage is to conduct a gap analysis for identified operational and strategic weaknesses. Therefore, desired positions that can be considered as realistic with regards to the environmental analysis must be defined. Subsequently, if the analysis comes to the conclusion that a transaction is the best way to close strategic gaps, an acquisition strategy can be developed. The strategy should contain details about the motives, goals and the requirements for potential targets.⁵⁸

2.5.2 Transaction Phase

After a transaction strategy is set, the next step is to execute the actual transaction. The process starts with the search and selection of suitable targets on the market and ends with the closing of the deal. However, there are again many substeps which should be considered before making a final decision:

(1) Initial contact

Before each transaction suitable candidates must be identified. Since the market for M&A is very obscure and discrete, it is very difficult to get a sufficient market overview. Therefore, it is obligatory to conduct a *screening* in order to make a proper selection. In most cases, it is reasonable to get support from specialized

⁵⁶ Cf. Meyer 2012, pp. 22–24

⁵⁷ Cf. Jansen 2008, pp. 253–255; Cf. Guserl, Pernsteiner 2015, p. 574

⁵⁸ Cf. Jansen 2008, pp. 250–263

consulting companies or banks for this step since they possess a larger databases with potential targets. The existing previous analysis results from the planning phase as well as following aspects should be considered in the decision making process:⁵⁹

- **Strategic fit:** “[...] refers to the degree to which the acquired firm augments or complements the acquiring’s firm strategy and the degree to which additional value is created.”⁶⁰
- **Organizational and cultural fit:** “[...] focuses on the match between administrative routines and company-specific characteristics such as form and size.”⁶¹

Subsequently, the next step is to approach the desired target company. For most cases, the recipient are members of the management or in bigger companies also employees of controlling departments. If the other company is also interested in the transaction, first negotiations can start. Interim results are normally documented in letters of intent and a non-disclosure agreement between the parties is signed.⁶²

(2) Valuation and financing

Transactions of companies are usually involve the investment of a significant amount of resources and thereby risks. For that reason, the acquiring company needs to reduce the risks to a minimum level. Hence, an extensive examination of the target is necessary with the goal to verify financial statements and strategic opportunities and benefits resulting from the deal. This process is called due diligence and represents the most important and extensive substep in the transaction process. Since the buying company will get insight in confidential information, this step is usually not allowed by the target company when the takeover is hostile.⁶³ The execution of the due diligence is usually performed with the help of external consultants in order to achieve a comparatively objective result. The content and focus areas of the strategic due diligence is illustrated in *Figure 4 – Focus areas of the strategic due diligence*.

Strategic Due Diligence			
Financial Due Diligence	<ul style="list-style-type: none"> • Accounting system and organisation • Financial statements • Analysis of managerial accounting 	Legal & Tax Due Diligence	<ul style="list-style-type: none"> • Internal and external legal structures • Current lawsuits • Tax risks
Marketing Due Diligence	<ul style="list-style-type: none"> • Marketing machinery • Pricing strategy • Industry analysis including competitors 	Environmental Due Diligence	<ul style="list-style-type: none"> • Environmental regulations • Products and production
HR Due Diligence	<ul style="list-style-type: none"> • Management • Staff and possible implications • Evaluations 	Organizational & IT Due Diligence	<ul style="list-style-type: none"> • General organisation • IT systems

Figure 4 - Focus areas of the strategic due diligence⁶⁴

⁵⁹ Cf. Steinöcker 1998, p. 69

⁶⁰ Dietrich 2012, p. 396

⁶¹ ibid.

⁶² Cf. Jansen 2008, pp. 265–267

⁶³ Cf. Faulkner 2012, pp. 185–186

⁶⁴ Adapted from: Guserl, Pernsteiner 2015, p. 576

If the due diligence comes to a positive result, the next step is to agree on a purchase price and the details of the transaction. However, finding an agreement on a price that satisfies buyer and seller is a challenging task. Several evaluation methods such as discounted cash flow⁶⁵ or price-earnings ratio⁶⁶ can be used. The following figure presents a guideline in order to find an appropriate value for the transaction.

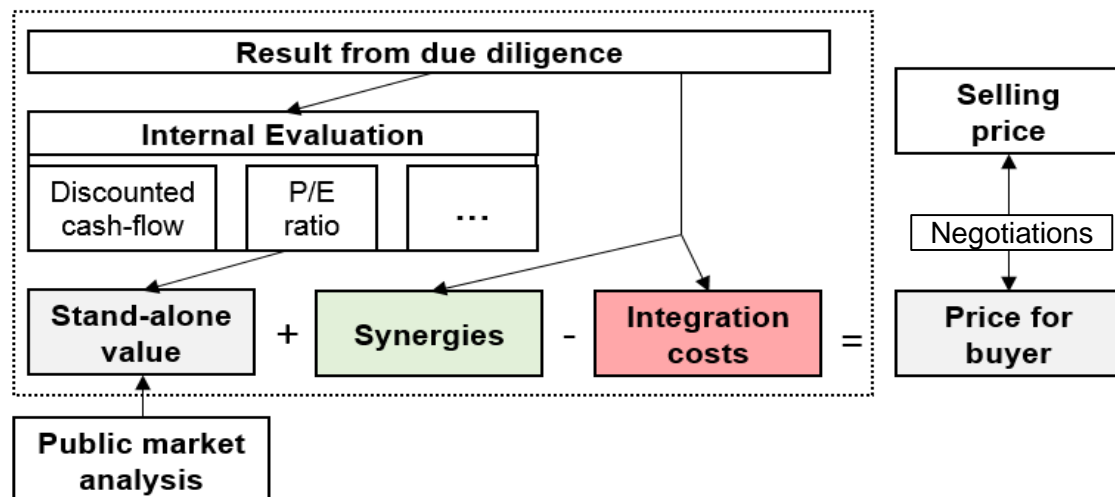


Figure 5 - Valuation process formula⁶⁷

In order to finance the deal, the buyer has usually three options. The costs can be covered with cash generated from the cash flows of the own operations, leveraged cash or a combination of both. In practice, especially larger transactions are usually financed with significant parts of debt capital. Moreover, if both companies are listed on stock exchanges there is a third options which is the exchange of shares.⁶⁸

(3) Contract closing:

When both parties have agreed on a price and the exact conditions of the deal, the next step is to prepare a final contract for the transactions. For this step, the expertise of lawyers is required since there are many regulatory and legal aspects that need to be taken in mind. The signing of the document is called *signing* and the final step that represents the end of the actual transaction is called *closing*. Meanwhile, last contractual issues as well as antitrust matters are usually addressed.⁶⁹

2.5.3 Integration Phase (Post-merger)

After the transaction is done the next step is to integrate the acquired company or assets into the existing structures of the acquiring company. The form of transaction determines the extent and complexity of this phase. However, in all cases

⁶⁵ "In discounted cash flows valuation, the value of an asset is the present value of the expected cash flows on the asset, discounted back at a rate that reflects the riskiness of these cash flows." (Damodaran 2002, p. 31)

⁶⁶ The P/E ratio is the ratio between the market price of the outstanding shares and the earning per share

⁶⁷ Adapted from: Stahlke 2007, p. 211

⁶⁸ Cf. Schön 2013, p. 34

⁶⁹ Cf. Faulkner 2012, p. 191

the integration plays a crucial part for the overall success of the transaction. Again, the substeps can be categorized in three consecutive categories:

(1) Post-merger planning

At the beginning, the development of an integration strategy should be focused. The best practice is to entrust the organisation of the integration to a team of specialists. Moreover, the results from the prior phases, especially all analysis and the due diligence can be used as a basis for the further steps. The goal is to make the best possible use of the transaction opportunities.⁷⁰

(2) Integrational measures:

In order to define measures for the integration it is necessary to determine the best type of integration in advance. Based on the strategic objectives for the transaction and the strategic interdependencies four following types can be identified:

- **Holding structure:** Should be used for acquisitions targets with low demand for organizational autonomy and low strategic economies. The focus is on the transfer of know-how.
- **Stand-alone position:** This form can be recommended if business objectives are different. The focus is on diversification instead of profiting from synergies. Benefits from this form of integration are that the realization is simple and the management structure remains stationary.
- **Partial integration:** The aim of this form is to integrate only divisions that already have a relevant relation to the acquiring company. Other areas that lack in compatibility or are already existing will be liquidated. This kind of transaction demands a high level of knowledge for integration processes.
- **Absorption:** In this type of integration all processes and divisions of both companies will be fully merged. The aim is to standardize processes and achieve the optimal benefit from the transaction. This type is the most complex and challenging form of integration.⁷¹

In the next step, the integration is conducted based on the type of integration. Generally, the following listed six focus areas are affected:⁷²

- **Strategic integration:** complementary of strategies, definition of new strategic direction, arrangements concerning customers, handling of innovations and competition.
- **Organizational integration:** identification of interfaces, standardization of processes, harmonization of accounting, financial integration, set up of common controlling, combination of IT systems, clarification of legal issues.
- **Personnel integration:** establishment of a common management style, harmonization of incentive measures and compensation systems, consistent human resource development and decision making structures, socialization of integrated staff.
- **Cultural integration:** respect of national and companywide cultures, definition of general guidelines, corporate identity and design.

⁷⁰ Cf. Guserl, Pernsteiner 2015, pp. 579–580

⁷¹ Cf. Jansen 2008, pp. 327–328

⁷² *ibid.*, p. 330

- **Operational integration:** consolidation of products and production technologies, exchange of know-how, identification and execution of synergies, harmonization of sales processes, marketing and logistics.
- **External integration:** coherent communication with relevant stakeholders.

(3) Control:

The last step in the transaction process is the continuous control in order to be able to measure the success of the operation and improve the integration process. Therefore it is useful to monitor the costs for the transaction and compare them to the additionally generated profits (achievement of financial objectives). Besides, the achievement of strategic objectives should be regarded. The analysis should be done at the latest a few years after the deal is closed and can be conducted with the help of known management instruments such as the balanced scorecard.^{73 74}

⁷³ “The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.” (Hiles 2011, p. 24)

⁷⁴ Cf. Jansen 2008, pp. 330–331

3 M&A in the Automotive Industry

M&A take place in nearly all industries and on all markets in the global economy. Nevertheless, the specific drivers and requirements in the individual industries differ from each other. Besides, even in a single industry there are differences for various markets and branches. In order to get a better understanding of the M&A market in the automotive industry, the first part of this chapter will provide a detailed analysis of the recent market developments within the last few years. Subsequently, based on the general motives presented in chapter 2.3 as well as the current trends, the individual motives for transaction in this industry will be derived and categorized.

3.1 Analysis of the M&A Market

Since many years M&A are an essential strategy for growth in the automotive industry. In accordance with the development of the global transaction activity, the automotive market is also strongly influenced by the economic environment. There are some industry specific aspects that also have an impact on automotive company's decisions to perform M&A (will be presented in greater detail in chapter 3.2)

The automotive industry is one of the biggest and most active markets for M&A in terms of volume and numbers of transactions. As in many other industries, the segment was characterized by a massive consolidation for suppliers and manufacturers during the last decades caused by the tightening competition from the globalization. For instance, while in 1990 approximately 30.000 suppliers operated in the automotive industry, the number decreased until 2000 to only 5.600. In 2015, consolidations in this segment further decreased the amount to roughly 2.800 operating independent suppliers. As displayed in *Figure 6 – Development of independent companies in the automotive industry* the vehicle manufacturers industry is nowadays dominated by only a few large international companies.⁷⁵

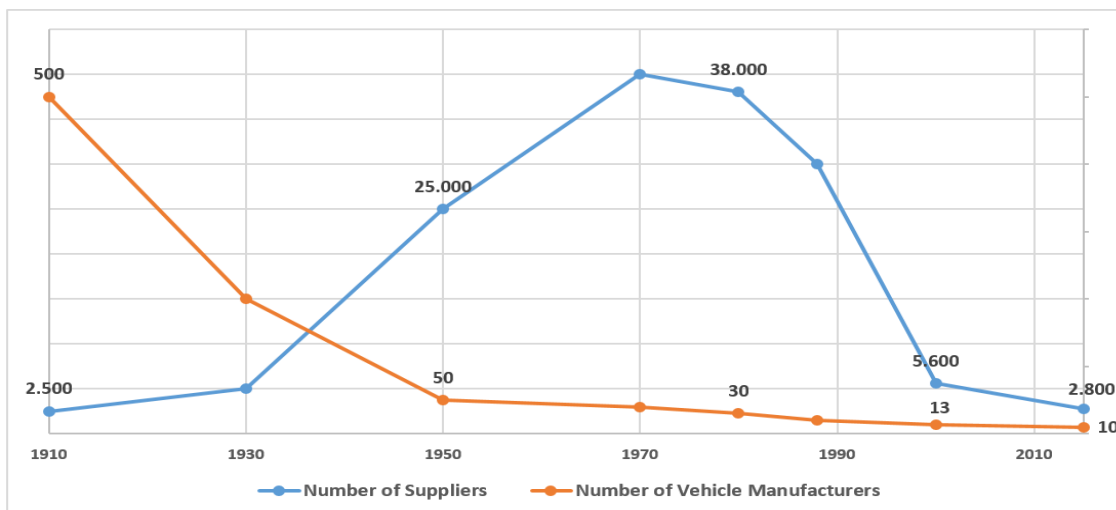


Figure 6 - Development of independent companies in the automotive industry⁷⁶

⁷⁵ Cf. Laabs 2009, pp. 6–7

⁷⁶ Adapted from Picot, Bätzner 2012, p. 121

Nevertheless, the consolidation still mostly happen on local and intra-regional levels. In 2014, almost 90% of the deal volume accounts for transactions within a geographic area. Cross-border transactions⁷⁷ therefore only represent a minor role of the total share.⁷⁸ This behaviour can be explained with the existence of free trade areas such as the NAFTA⁷⁹ or the European Union. Many businesses concentrated to expand within these areas and build up production and marketing networks since they cover the majority of global automotive trade and production of today.⁸⁰

The development of the market is illustrated in *Figure 7 – Development of M&A in the Automotive Industry*. The figure provides four different information for the year-to-year development. The bars show the development of the total value in billion dollars and the yellow part indicates the contribution of financial buyers.⁸¹ The orange line represents the number of transactions and the green rhombus illustrates the average value of the transaction. As a matter of fact, there are extreme fluctuations in a year to year perspective concerning the total volume in bn \$. Moreover, the number of deals is after a decline over the past years increasing again. Additionally, a steady growth in the average deal size can be observed.

One aspect that is responsible for the yearly fluctuations in the volume are M&A with an extreme high transaction volume of several billion dollars. The occurrence of several big deals in one year can shift the overall market upwards. In 2014 alone, there were 6 transactions with a deal size of more than \$1 billion which make an aggregated deal volume of \$25.1 billion. All participating companies from these deals were either located in Europe or North America. The biggest single transaction was the acquisition of Scania AB by the Volkswagen AG for approximately \$9 billion.⁸²

Generally, the market for M&A in the automotive industry could return to growth in 2014 after two consecutive weak years in 2012 and 2013. This can be explained with the overall positive development in terms of demand and production in the industry. For instance, the number of produced light weight vehicles increased from 58 million in 2009 to 86 million in 2014. This illustrates an increase of 48% in total or a CARG⁸³ of 6,8%.

⁷⁷ Cross-border in this context is defined as the investment across free trade areas (e.g. European Union) or economic clusters (e.g. Asia-Pacific) instead of country borders

⁷⁸ Cf. PwC 2014a, p. 9

⁷⁹ NAFTA = North Atlantic Free Trade Agreement

⁸⁰ Cf. Gomes et al. 2010, p. 8

⁸¹ Financial buyers are investors that invest their capital in different industries with the goal to achieve profits from that. The opposite of financial buyers are trade buyers that are operating in the same industry or branch and mostly follow strategic goals with the transaction.

⁸² Cf. Andreas Cremer 2014

⁸³ CARG = compound annual growth rate which measures the annual return of an investment over a certain period of time; Formula: $CARG = (Future\ Value / Present\ Value)^{(1/n)} - 1$

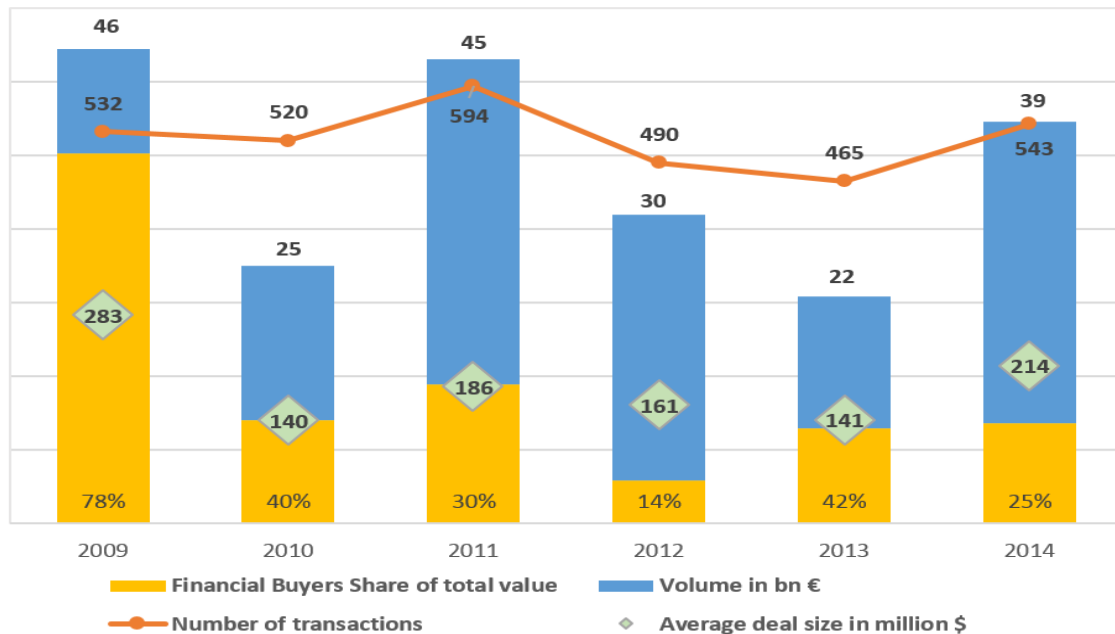


Figure 7 - Development of M&A in the automotive industry^{84 85}

Most companies were able to increase their sales and utilization due to the increase in demand for cars and commercial vehicles and thereby generate higher revenues and profits. The higher utilization of car manufacturers also boosts the performance the component suppliers. Thereby, many companies started to transfer monetary reserves into strategic investments and conduct investments they did hold back the two prior years.⁸⁶

The increase in activity in 2015 mostly is triggered by trade buyers, as the share of financial buyers declined to only 25%. The reason for this is that the valuations in this industry are increasing with higher activity and thereby offer smaller return rates for investors.⁸⁷

Despite the generally positive development in 2014, the situation on various markets differ from each other. The most important markets for M&A are nowadays still North America, Europe and Asia in terms of deal value and number of transactions while other areas only account for a small percentage of the global share. In 2014, the major drivers for the positive development in terms of deal value were Europe and North America. While North America stagnated on a very high level, Europe grew by 27%. At the same time, Asia declined by 25% compared to 2013. This can be explained with the lack of big deals in 2014 in Asia. The exact numbers are illustrated in *Table 2 – Share of Deal Volume and Value by Region* below.

However, in the next years the activity in the Asian region will probably increase due to increasing direct investments in this region but also rising investments by Asian firms in foreign markets. The Asian automotive industry and market are still

⁸⁴ Adapted from PwC 2014a, p. 6

⁸⁵ For 2009, there are some special effects that distort the values. In this year, the United States treasury facilitated investments in enormous amounts as part of an economic program as a reaction to the collapse of sales to help domestic companies. The stated volume is adjusted in order to achieve a better comparability to the other years.

⁸⁶ *ibid.*

⁸⁷ Cf. The Economist 2015

growing with a considerable higher pace and there is still much more room for further consolidations than on the European and North American markets, which already are dominated by a small number of companies. This applies to both car manufacturers and component suppliers.⁸⁸

Region	Deal Volume	Change in %	Deal Value	Change in %
North America	29 %	+ 4 %	39 %	+ 1 %
Europe	35 %	- 4%	39 %	+ 27 %
Asia	25 %	0 %	21 %	- 25 %
Other	10 %	0 %	1 %	-3 %

Table 2 - Share of deal volume and value by region 2014^{89 90}

All in all one can say that the market for M&A in the automotive industry stabilized in 2014. Following the overall positive development in the world economy, companies started to act more confidently and invest their increasing profits. After the two weak years, the future prospects for the industry are positive. In accordance with the growth of the overall industry (compare to *Figure 10 – Global Light Vehicle Sales* in chapter 3.3) an increase in transactional activity is expected. However, most companies still choose their targets very carefully so in the nearer future intraregional deals will still prevail over cross-border transactions.⁹¹

3.2 Motives for M&A in the Automotive Industry and Recent Developments

As in almost every other industry the main motive for M&A in the automotive sector is to achieve economic growth and an increase of market share. However, the various factors that can trigger such growth may differ in every industry. Generally, the automotive industry is very fast changing and characterized by tough competition. On the one hand, new technologies are introduced to the market regularly and on the other hand there are essential changes in the market environment concerning consumer behaviour or legal and environmental requirements. For that reason, this chapter presents an overview about the most important industry specific backgrounds and drivers of transactions with a linkage to the current developments and issues of the industry. However, in most cases the actual decision making process in businesses will rely on more than just one of the presented aspects and is probably triggered by a combination of many different motives. The decision of conducting a purchase or not is always a consideration of the anticipated advantages and disadvantages of the deal. Moreover, a clear distinction between the motives is also not possible and there are intersections between the presented categories. At last, at the end of the chapter the *Figure 11 – Motives for M&A* illustrates a short summary distinguished by suppliers and manufacturers presenting the results of the research at a glance.

⁸⁸ Cf. Gomes et al. 2010, pp. 5–7

⁸⁹ Adapted from PwC 2014a, p. 9

⁹⁰ Deal volume stands for the number of transactions and deal value for the overall monetary value

⁹¹ Cf. The Economist 2015

3.2.1 Access to Products

The most obvious reason for companies to invest in M&A is to acquire the access to certain products of the target company. This applies especially for car manufacturers that for example try to enter new market segments that might offer specific benefits or strategic advantages.

First of all, cars can be divided into several categories based on their target segment. As you can see in *Figure 8 – Overview of car segments* there are four different clusters. The categories range from cheap economy cars that are designed for large production volumes and the mass market up to super premium cars that are only produced in very small quantities for a niche market.

In most cases, a certain brand can be classified with one of the four categories. Generally, one can say that the higher the class of a car, the higher is also the profit margin. For instance, the average profit margin for the most economy car manufacturers is in between 2-9% percent while manufacturers of much more expensive premium and luxury cars can realize margins of up to 12-16% on the market.⁹² Of course there are many other factors that influence the margin like location of production, efficiency and exchange rates, but nevertheless a general correlation is observable.

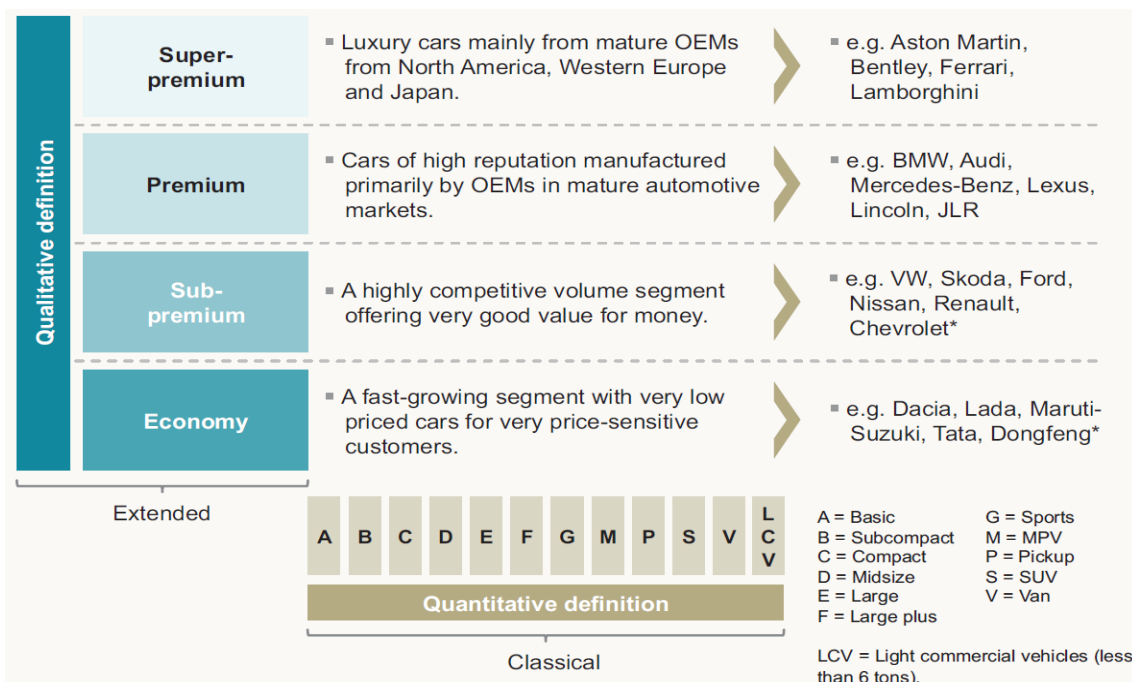


Figure 8 - Overview of car segments⁹³

For that reason it is also understandable why car manufacturers from the lower segment also want to profit from these higher margins. Therefore, there are two options available. Firstly, one can create a new brand that is developed in-house and introduce it to the desired markets or one can acquire another manufacturer that is operating in the desired segment. Two examples for different strategies are Volkswagen and Toyota/Nissan. On the one hand, there is Volkswagen that acquired Porsche in 2009 after Porsche failed to take over Volkswagen in the first

⁹² Cf. Doll 2013

⁹³ Meyer 2013, p. 12

place. Even though the takeover was more likely a defensive reaction, the merger can be described as a success since Porsche is nowadays one of the most profitable branches of the whole group and also fills a gap in the super premium segment that is also suitable for bigger markets.⁹⁴

On the other hand, one can mention Nissan or Toyota following the same goal with a different strategy. Instead of acquiring one of the manufacturers from that segment, they introduced their own luxury brands at first in the US American market Infiniti and Lexus, respectively. Both strategies have their advantages and disadvantages. While a takeover is conducted in a very short period of time, the internal development of a new luxury brand is very time consuming which means high opportunity costs from missed sales. Moreover, the managerial effort is even higher than for a transaction but therefore the overall spending is lower since one only pays for the “production costs” of the new brand without any premiums. Furthermore, the benefit of acquiring an existing brand is that it usually is already established in the markets as it was the case with Porsche. Entering a new market is difficult in all segments since there already exists competition. This means there is a high demand for marketing as well as one needs to have strategic advantages to competitors either in terms of quality or prices. With regards to Lexus and Infiniti both brands achieve good sales figures in American and Asian markets but have strong troubles to establish in Europe.⁹⁵

Another related reason for acquiring another car manufacturer because of its products is product differentiation. This strategy is similar to the given example before since the goal is to achieve higher sales by providing more different types of vehicles and thereby have a higher market coverage. Again, the decision is either the own development of new types or the takeover of a manufacturer that produces the desired type of cars. The main idea behind this motive is that different markets also have completely different characteristics concerning their consumer behaviour. While one product range might fit perfectly for one market it may be not suitable for another one. One example for this difference are for instance Europe and the United States. While Europeans prefer generally smaller and practical cars with efficient and economical engines e.g. diesel, the American market is dominated by big trucks and SUV's. The reason for the differences can be explained with cultural differences, varying market conditions (e.g. infrastructure, taxes and fuel prices) as well as the geographic conditions.⁹⁶ Besides, the more types of cars one can offer to a single market, the better are the chances to increase the market share.

Examples for such strategies are Volkswagen or Fiat-Chrysler that combine many different brands with various characteristics in order to cover most demand of the market with their products. For instance, after the merger between Fiat and Chrysler the products of both companies complemented each other very well in theory. Fiat's core brand products range mostly consisted of cheaper cars for the economy segment. Furthermore, they offered super premium luxury cars with their branches Ferrari and Maserati. With the merger, Fiat gain access to all vehicles from Chrysler and its branches like Jeep which generally follow a complete

⁹⁴ Cf. Bryant 2012

⁹⁵ Cf. Gomes et al. 2010, p. 2

⁹⁶ Cf. Clark, Fujimoto 2005, pp. 36–51

different concept. Subsequently, the whole Fiat Chrysler-Group covered all segments in the automobile market.

Another idea was also that after the merger Fiat is able to sell its cars on the very large US American market and furthermore can expand their European operations with new cars from the Chrysler Group. One example is the Chrysler 300C luxury sedan that failed to establish on the European Market under the Chrysler branding even though it is one of the best selling cars in the US in its segment. Fiat tried to sell the new model of this car with a Lancia⁹⁷ branding with the name “Lancia Thema” since it is more familiar to European consumers than Chrysler. The idea was that the European consumers are more likely to buy a European product than from an American brand they do not know.⁹⁸ However, even though the idea behind the concept was logical, the attempt failed already in 2014 and Fiat stopped the production and marketing of the “Lancia Thema” in Europe.

Another beneficial effect of the differentiation strategy is that the larger the product range of a manufacturer is the higher are the potentials for cost reduction due to the economies of scope effect (chapter 2.3). Applied to the automotive industry this means that many processes concerning the production of a car can be used for all kind of models. Therefore, e.g. through the transfer of production techniques, design concepts, marketing strategies etc. for a SUV from the acquired company, it will be easier to develop a new SUV on that basis for the acquiring company. The concepts also relies on the transfer of technology and expertise and will be discussed with greater detail in the following chapter.

3.2.2 Access to Technologies

The automotive industry is characterized by the introduction of new technologies and tough competition like almost no other industry. While in the past cheap prices through large production and economies of scales represented the most relevant drivers for M&A, nowadays the most important factors are new technologies and expertise that can be utilized in order to create strategic competitive advantages. Technology driven mergers account for around 40% of all mergers in this industry.⁹⁹ This affects not only the car manufacturers but especially the component suppliers since they need to fulfil the rising requirements from the market and the manufacturers. Furthermore, most of the new technologies are developed by the automotive supply industry and then sold to the car manufacturers.¹⁰⁰

The consumers of today become more and more demanding. Only a few decades ago the essential criteria's for buying a car were mostly the power of the engine, a solid quality and a reasonable design. In contrast to that, the majority of consumers is now keen on buying cars with latest technologies and fresh designs that they can customize and individualize according to their personal requirements. As one can see in *Figure 9 – Number of available car models in Germany* the car manufacturers try to follow that trend by constantly inventing new types of cars and enhancing the customer's product experience. Instead of providing just a single line of a car, the manufacturer extent the offer by convertibles, coupé

⁹⁷ Lancia is an Italian car manufacturer that belongs to the Fiat Group since 1969

⁹⁸ Cf. Caputo 2012, pp. 169–171

⁹⁹ Cf. M&A INTERNATIONAL INC. 2012, p. 7

¹⁰⁰ Cf. Gomes et al. 2010, pp. 22–23

or wagon versions. Additionally, the amount of available extras and different types of engines and powertrains is also increasing drastically in order to satisfy the consumers demand for individualization.¹⁰¹

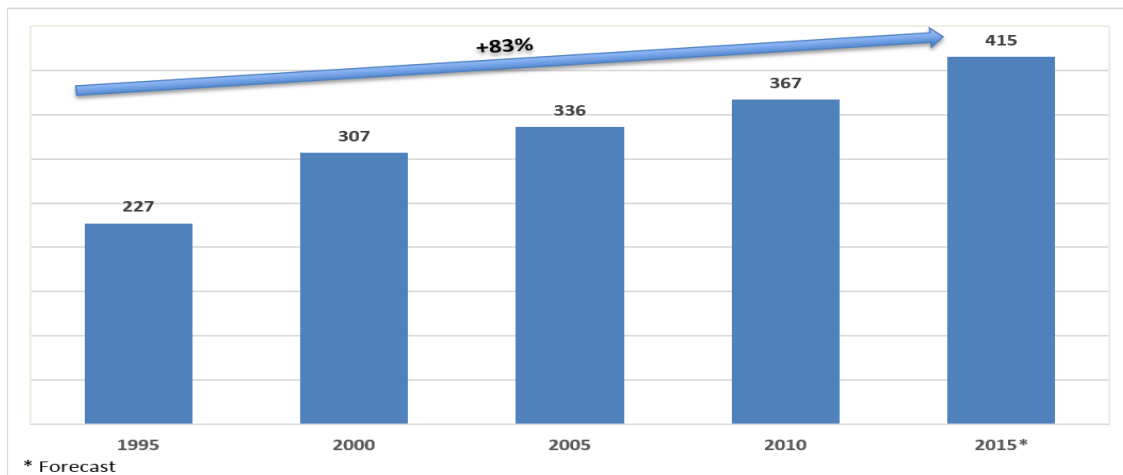


Figure 9 - Number of available car models in Germany¹⁰²

The change in the consumer's preferences of larger product variety automatically leads to shorter product lifecycles, a reduction of sales per model and the necessity of very flexible production lines. Subsequently, it was compulsory to develop a method that made it possible to still utilize the cost reducing effect of the economies of scale and at the same time satisfies the demand for product variations. The solution for this issue are platforms and modules that are suitable for the production of different types of vehicles. In fact, the number of choices for the customer could be increased and at the same time the number of necessary vehicle architectures reduced. An example for this can be found in the Volkswagen group, the three SUVs VW Touareg, Audi Q7 and Porsche Cayenne are sharing the same platform and many other parts to reduce costs for production and development.¹⁰³

Those multi vehicle platforms are mostly developed by the automotive supply industry and then used by the manufacturers. However, the development of those high tech platforms and new production methods is demanding a lot of resources. Therefore, consolidations on the market happened in order to split cost for research and development. Moreover, there is a trend in the supply industry for bigger global geographic footprints. That means, that the car manufacturers tend to make less contracts but with larger volumes since they increase the predictability. It is expected that the suppliers are able to deliver at any time and any place. Additionally, suppliers will in the future provide more value adding content per car and need to be prepared for the increase in global demands especially in the developing countries.¹⁰⁴ In order to meet those new requirements and to deliver bigger amounts just in time, the companies in the supply industry need to get bigger through M&A while regional suppliers will more and more be pushed out of the market.¹⁰⁵

¹⁰¹ Cf. The Economist 2015

¹⁰² Adapted from WAZ 2011

¹⁰³ Cf. Gomes et al. 2010, pp. 26–28

¹⁰⁴ Cf. McKinsey&Company 2013, p. 9

¹⁰⁵ Cf. The Economist 2015

Concerning the pursuit of other latest technologies, M&A are also a suitable strategic method to get access to the desired knowledge or spread the rising cost for research and development through consolidations and synergy effects. Besides expertise and know-how and cost reduction effects, the focus of acquiring companies is also on the access to intellectual property of the target business. Due to the fast changing market environment the in-house development of new technologies is in most cases too slow and protracted if the right point of time to start the research was already missed. This matter also represents a significant risk for nowadays companies in the automotive industry. For that reason, the importance of being up to date in terms of technology and innovations can be also seen in the constantly rising amount of capital that is invested in research and development. For example, the Volkswagen Group alone invested 2014 \$11.5 bn in the research of new technologies and thereby set a new benchmark for its competitors that are now forced to react. Therefore, it is also not surprising that most CEOs of automotive companies name the technological change as the most important issue that will influence their companies in the nearer future.¹⁰⁶

In order to get a better understanding what kind of technologies and trends are shaping the automotive industry, in the following the most recent and important industry trends are presented. However, there are much more technologies on the market that can be focus of a transaction. Especially for specialized suppliers that concentrate only on few parts of the production (e.g. seats, exterior, airbags etc.)

- **Connected Car:** “Today’s car has the computing power of 20 personal computers, features about 100 million lines of programming code, and processes up to 25 gigabytes of data an hour. Yet while automotive digital technology has traditionally focused on optimizing the vehicle’s internal functions, attention is now turning to developing the car’s ability to connect with the outside world and enhance the in-car experience. This is the connected car—a vehicle able to optimize its own operation and maintenance as well as the convenience and comfort of passengers using on-board sensors and Internet connectivity.”¹⁰⁷ Furthermore, connected cars become more important in terms of value, e.g. the amount of IT components of the total value of the car rose from 30% to 50% within the last few years.¹⁰⁸
- **Autonomous Driving:** Another major trend that is shaping the automotive industry and its M&A market is the development for self-driving cars and commercial vehicles. While most car manufacturers already developed prototypes, the first stock cars equipped with that technology are expected to be released around 2018 to the market. Furthermore, new competitors will enter the market from other industries like Apple and Google that also announced that they are working on autonomous driving cars. Due to the extent of this new technology it has the potential to completely revolutionize the whole industry.¹⁰⁹

¹⁰⁶ Cf. Sharman 2015

¹⁰⁷ McKinsey&Company 2014

¹⁰⁸ Cf. PwC 2014a, p. 5

¹⁰⁹ *ibid.*, pp. 4–5

- **Powertrains and Chassis:** In the past years the development of new powertrains and chassis technologies reached an all-time peak. The development of more efficient solutions, electric and hybrid powertrains as well as light weight constructions is one of the most important factors for the car production. The reason for this are especially stricter emission and fuel economy regulations. If the requirements cannot be met, this means massive additional costs and a competitive disadvantage.¹¹⁰

An example for a mostly technology driven acquisition was the acquisition of TRW by ZF in September 2014 for \$11.7 bn. Both companies are global automotive suppliers. The benefit for ZF was to gain access to technology and expertise in areas they had a weak position prior to the deal. Those were safety systems and driving support systems. Once again, the importance of technology in this industry is reflected by the extreme amount of capital that was used for this investment.¹¹¹

In summary, one can say that technology driven M&A have mostly two goals. Firstly, to acquire existing technologies and secondly the reduction of the increasing development and production costs. For the future, the technological change will be the crucial issue in the automotive industry and thereby also the main aspect of M&A. Most of the acquisition will focus on consolidations on the supplier side due to the increasing requirements and stronger involvement in the production processes by the car manufacturers.¹¹²

3.2.3 Market Environment Driven Motives

As a foreign company it can sometimes be hard to enter a new market. Many obstacles can impair the market entry and operations like cultural differences to the own (business) culture, a preference of domestic over foreign companies of the consumers in the target market or even legal and political requirements and limitations. An elaborate strategy and long term planning are therefore compulsory to prevent failure. In particular in the automotive industry these kind of issues are relevant since the market environment is changing very fast with strong sales fluctuations. While the sales in some areas are stagnating or even declining other markets are booming. In order to be successful in a long term perspective it is necessary to be able to adapt to those changes and make a profit out of it by positioning ahead of the competitors. In addition to that, it is also important to track general changes in the market environment concerning consumer behaviour or society because they also can have a big impact on companies in the automotive industry. As a matter of fact, once again M&A can be used as a strategic method to face these issues. The individual motives concerning market environment driven transactions are presented and discussed on the basis of some real examples in the following.

For car manufacturers the entrance of a new market is a challenging task. Most markets are already very mature and there is not much potential to gain market share with the own brand. Especially when the company comes from a develop-

¹¹⁰ Cf. PwC 2014b, p. 4

¹¹¹ Cf. Clothier 2014

¹¹² Cf. Gomes et al. 2010, pp. 27–28

ing country and tries to enter developed markets, the consumers might have concerns about the quality and safety of the brand. Even if the cars provide a solid quality and fulfil all safety requirements for a cheaper price than the established producers, the consumers still prefer the brands they are used to and which they trust. The key aspects in this matter is the brand image. Building up a brand image is a very long and complicated process and there is no guarantee that the efforts will pay off. Subsequently, the acquisition of an established brand appears to be the better and faster option to enter a new market.

An example for this kind of acquisition is the deal between the Indian car manufacturer Tata Motors and Jaguar and Rover. Tata motors acquired the two companies for around \$2.3 bn from Ford including all necessary intellectual property rights, manufacturing plants, advanced design centres and the worldwide network of the sales companies. Before the acquisition, Tata Motors only produced low budget vehicles that were not suitable for Europe or North America. With the transaction of Jaguar and Land Rover they were able to participate in those markets as well.¹¹³

Another good example for that kind of transactions is also the acquisition of Volvo Cars by the Chinese vehicle manufacturer Geely in 2010 for \$1.3 bn. In advance, Geely's operations concentrated only on the Asian market.¹¹⁴ Both transactions have in common that the acquiring companies try to maintain the appearance that the targets remain independent companies. The reason for that is that a linkage of the European tradition brands to their Indian and Chinese owners, respectively, might have a negative impact on the image and sales.

In contrast to the two given examples, one might expect that it is also a common practice for companies from developed countries to invest in emerging markets. Those markets will be the main driver for the increase in global demand in the automotive industry supported by the low prices for commodities and crude oil. For example, if one takes a look at the forecast for the light vehicle sales in *Figure 10 – Global light vehicle sales* one can see that the emerging Markets and in particular China (illustrates about 50% of overall sales in this region) will represent the biggest share of sales with approximately 30% in the future and at the same time still achieve higher growth rates.

¹¹³ Cf. Chandran 2008

¹¹⁴ Cf. Nicholson 2010

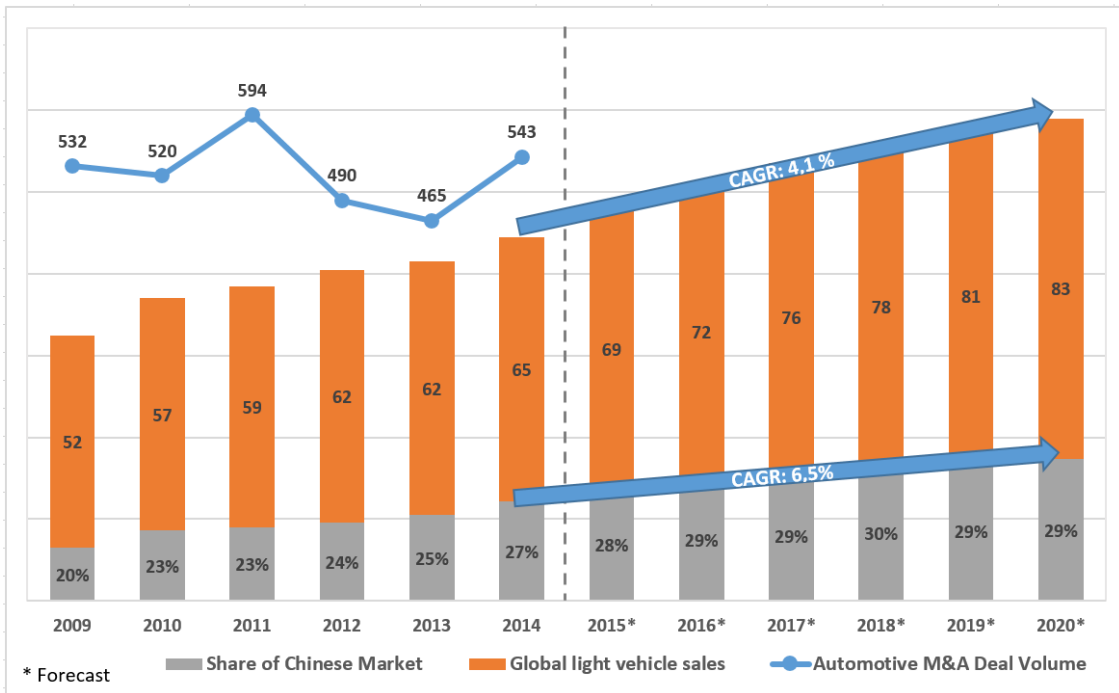


Figure 10 - Global light vehicle sales in million units¹¹⁵

However, there is a significant difference between car manufacturers and suppliers concerning M&A in emerging markets. While suppliers make lots of investments in this region, the activity of manufacturers from developed countries is close to zero. The reason for this is that many Asian and especially Chinese consumers are already preferring foreign brands over domestic ones. Cars like a Mercedes or Audi are seen as a status symbol that represents the wealth and success of the owner. With this positive brand image, western manufacturers were able to dominate at least the premium and luxury segment in this market. In contrast to that, for component suppliers the region is very attractive. Since the production in the emerging markets is strongly increasing in accordance with the shift in demand, there are very high growth potentials for the suppliers. By acquiring companies from this region they follow the objective to directly benefit from this growth even though a transaction in this region also is connected to high obscurities.¹¹⁶

On the one hand, there are also still lots of legal obstacles, unclear business structures, intellectual property issues, a high cultural conflict potential and difficulties for performing a meaningful due diligence and thereby appropriate valuation. And on the other hand, there are usually already many companies that are interested to invest and if one misses the opportunity the competitors will take advantage of it.¹¹⁷ An example for a transaction with the objective to enter the Asian market can be found in the recent acquisition of the German automotive

¹¹⁵ Adapted from: Meyer 2013, p. 7

¹¹⁶ Cf. EY 2015a, p. 8

¹¹⁷ Cf. Ballwieser, Hippe 2013, pp. 13–14

supplier Mahle of the US based supplier Delphi Thermal¹¹⁸ in 2015 for \$727 million. The deal also included the stake in a related joint-venture in China.¹¹⁹ Thereby, Mahle managed to extent their product portfolio and additionally, by gaining direct access to the Chinese automotive industry they have the opportunity to strengthen their position in this growing market.¹²⁰

Besides the motive of market entries, changes in the market environment also can be an indirect driver for M&A. Topics like demographic change and the resulting increase in average age of the population in most markets as well as the general urbanization require an adaptation of the whole industry. Lots of companies and start-ups dedicated to address this issues with new innovative technologies and solution. Some examples are companies that focus on car sharing in order to resolve the increasing population issue in cities, drive assistance systems that target the requirements of older consumers or sustainable production technologies in order to save resources.¹²¹ These companies are often a target of acquisitions of big multi-national corporations that intent to acquire the technologies and develop them further until they are marketable.

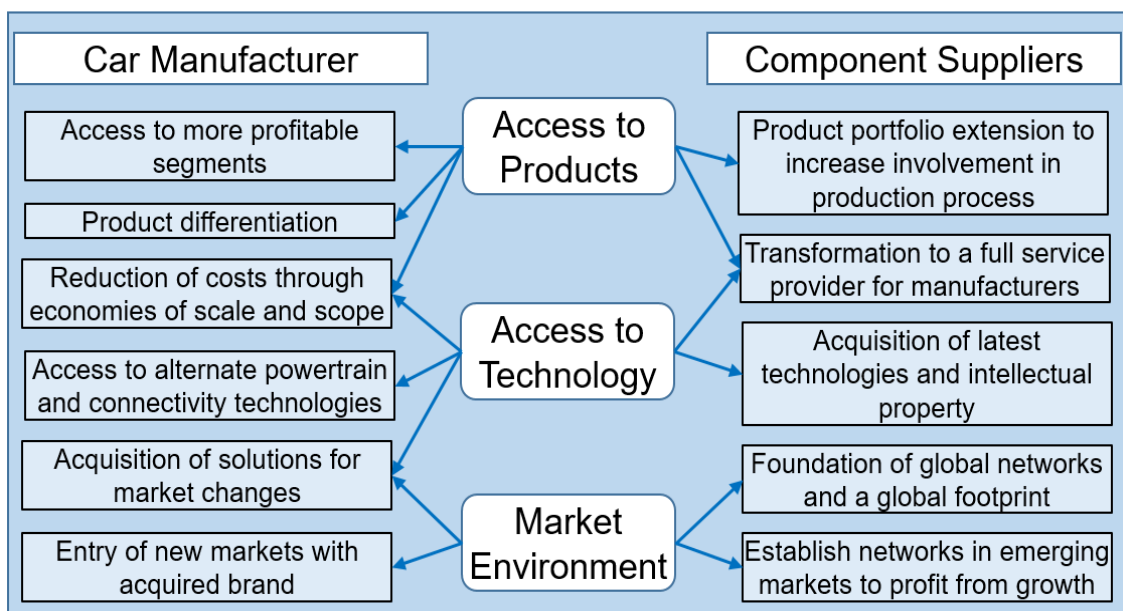


Figure 11 - Motives for M&A in the automotive industry¹²²

¹¹⁸ Delphi Thermal used to be a subsidiary of the global automotive supplier Delphi Automotive PLC that concentrates on cooling components and air conditioning compressors.

¹¹⁹ Joint ventures are the most common form to operate in China due to strict regulations of direct investments in most industries

¹²⁰ Cf. Rauwald 2015

¹²¹ Cf. PwC 2014b, p. 4

¹²² Adapted from: EY 2015a, p. 6

4 Success Factors of M&A in the Automotive Industry

This fourth chapter of the thesis deals with the answers to the key research question and thereby represents the main part of this work. Even though most transactions in the automotive industry must be regarded as individual cases where specific factors led to the success or failure of the deal, there are still some similarities that can be identified. Those similarities can be clustered in a checklist and may give a lead for general industry specific success factors for automotive M&A. Besides, many of the identified success factors are also relevant for other industries. For those parameters a specific linkage to the automotive industry is presented. In general, the outcome will be based on the information and findings from the previous chapters and explained with the aid of practical examples. The three phase model of chapter 2.5 serves as the basic framework for this elaboration. In addition, all limitations and definitions mentioned in the first part of this work still need to be considered.

Success factors are defined as those factors that can have a major contribution of the success of the transaction. However, success factors can be distinguished by several different criteria. Firstly, there are soft and hard factors. Hard factors are quantitative and measurable and soft factors are of qualitative and subjective nature. Secondly, one can distinguish between exogenous and endogenous factors. Endogenous factors are considered as internal and result from the businesses operations. In contrast to that, exogenous factors describe external parameters. Thirdly, one can separate the factors by allocating them *ex ante* or *ex post* a certain event, e.g. the contract closing.¹²³ For this work, all kinds of success factors will be part of the observation. In addition, some identified factors are falling in more than one of the three phases of the used framework. In those cases, a subjective allocation to the most relevant phase was made.

4.1 Planning Phase

The planning phase is often neglected and underestimated by many companies that are planning a merger or acquisition. There is frequently a lack of understanding of the responsible management why a great amount of resources and time should be spent for analysis work when they already assume to have enough market knowledge to make a sufficient evaluation and decision. Nevertheless, the detailed analysis is a very important precondition for the overall success of M&A since it represents the basis for all following activities. In the worst case, wrong decisions are made due to a lack of information or misjudgements. Therefore it is not advisable to try to save costs at this part of the process and instead focus on quality results. In fact, it is also one of the reasons why most M&A were regarded as a failure in hindsight.¹²⁴ Examples for success factors concerning the planning phase of deals in the automotive industry are presented below.

¹²³ Cf. Dreher, Ernst 2014, pp. 40–43

¹²⁴ Cf. Stahlke 2007, pp. 223–224

4.1.1 Internal and Environment Analysis

As already pointed out, the beginning and starting point of each transaction process should be a sufficient preparation and planning. This applies not only for a specific industry but rather for all transactions. Additionally, the success factors of the planning process are not limited to M&A but also valid for most strategic decisions in a business environment. However, with regards to the automotive industry there are some specialities and best practices within the internal and environmental analysis that can be considered as success factors if done properly. The identified success factors can be applied for all branches of the industry such as manufacturers or component suppliers.

The internal analysis of strengths and weaknesses to evaluate the own business should be conducted without any biases. Therefore, it should be done by a mixed staff team in order to get different points of view for the evaluation of each division or area. In particular, since the automotive industry is a very technical driven sector, it is also necessary to include personnel with a relevant educational background. During the whole analysis process it is important to always compare the assessments to the business objectives and the vision of the company. For instance, if one compares the vision statements of Volkswagen and Tesla which are “becoming the global automotive leader by 2018” and “be the company that achieves a transition to electric vehicles in the 21st century”, respectively, one can see that there is a major difference in the initial situation. While Volkswagen needs to compare their operations to the standard of being the biggest player in the industry, Tesla’s claim is to reinvent the branch. Also, the vision should always be the reference and limitation of such an analysis in order to focus on the core competencies. Overall, the whole process if done correctly with the required sophistication will normally consume a time period of several weeks.¹²⁵

In the previous chapters it was already stated that the automotive industry is characterized by tough competition and severe market environment changes through the introduction of new technologies that will reshape the industry as whole in the nearer future. In fact, the competition requires for more complex and innovative product that development takes less time while quality and costs stay on the same level. The determining success factor for this step of the process is to make objective and realistic predictions for future developments that also ensure a certain level of planning security. Otherwise the results of the analysis will be of no or only little use. With regards to the automotive industry, the importance of the environmental analysis can be illustrated by the Chinese market for car manufacturers. While several decades ago the market was still in its infancy of development, nowadays it become the largest single market in the world. Audi was the first premium manufacturer to enter the Chinese markets since they realized the opportunities and the potential. The market entry was conducted by forming a joint venture with the Chinese manufacturer FAW. While sales were on a small level in the beginning, Audi managed to profit the most of all manufacturers when the rapid growth started. Thereby, they were able to take a leading position in the

¹²⁵ Cf. Jansen 2008, p. 337

premium segment.¹²⁶ This reflects the importance of this step since the recognition of new trends or changes in the market environment is one of the key aspects of gaining competitive advantages on the market.

As mentioned above, conducting these kind of analysis requires a very high level of expertise and know how about the automotive industry and is not a task that should be done by untrained staff. Moreover, many investigations of success factors of M&A identified a correlation between the overall success and the expertise of the management. Companies that regularly use transactions as part of their strategy are already familiar with the key aspects they have to focus on. In contrast to that, if there is hardly any managerial expertise or industry concerning transactions it is advisable to include external advisors to support within the planning process. The same applies if the needed working capacity cannot be fulfilled.¹²⁷

4.1.2 Selection of a Strategy

After the internal and environmental analysis follows the development of strategies to overcome identified strategic weaknesses. At this point, the decision is made whether to perform a transaction or another method to close gaps. Therefore, any mistakes made at this point have a strong influence on the overall growth strategy of the company and its success. In fact, most researchers assume that an insufficient strategy dramatically increases the rate of failure for M&A.¹²⁸ Of course it is not possible to say which option generally is the best because there is no such thing as a universal strategy that applies for every company and case. Nevertheless, especially in the automotive industry one can identify several factors that may increase the possibility of making the best possible choices in this matter.

The first success factor for the automotive phase concerning the strategy is to make the right decision whether a merger or acquisition is the best way to achieve the targets or if other alternatives provide a better solution. Thus, one needs to reflect the company's vision and purpose once again. Some companies in the automotive sector focus on volume leadership while others are specialists or innovators. This should always be considered for the development of specific plans.¹²⁹

In order to evaluate the best options it is necessary to try to quantify the expected benefits for each different alternative. For instance, in the automotive industry joint-ventures and co-operations are often preferred over M&A due to smaller risks. However, making a precise prediction in this matter is a very complex task. One example of a failure is the acquisition of the British car manufacturer Rover through BMW in 1994. The expected sales and cost reduction synergies were not anywhere what was planned in advance so that BMW divested already in 2000 to prevent further losses.¹³⁰ In fact, many failed transactions in the automotive industry happened because the benefits were drastically overestimated in the

¹²⁶ Wines 2012, p. 9

¹²⁷ Cf. Faulkner 2012, p. 91

¹²⁸ Cf. Stahlke 2007, p. 225

¹²⁹ Cf. Picot, Bätzner 2012, p. 22

¹³⁰ Cf. Gerds, Schewe 2006, pp. 37–39

planning process.¹³¹ Accordingly, it is important for companies in the automotive industry to make realistic projections of the benefits of a transaction in order to ensure a reliable evaluation with the alternatives.

If one comes to the conclusion that a merger or acquisition is the best solution following best practices can be regarded as factors of success in the automotive industry. Firstly, one should set minimum requirements and standards the future deals needs to fulfil. For instance, if a Europe based component supplier is planning to expand in the Asian region the potential targets should be able to fulfil the growth plans in this region sufficiently by having a minimum amount of sales or market share. Secondly, the strategy should already include a precise concept of the potential collaboration with the acquired or merged company. The concept should focus on the realization of the specific motives of the transaction. For the automotive industry, these steps are particularly important due to the highly technological and thereby complex character of this sector. For instance, one should consider if the realization of synergy effects or integration of new technologies in the own research and development department are generally possible or limited by the own processes and company structures. At last, the strategy should not be focused on short term financial motives but rather on long term strategic motives as presented in chapter 3.2 of this work.¹³²

4.2 Transaction Phase

The transaction phase represents the core stage of each merger and acquisition as it includes the process of the actual transaction and transfer of property. As in the planning phase there are also some crucial parameters that decide whether the transaction will be successful or a failure. Most of the mistakes can be prevent with a decent planning and critical self-perception and reflection. However, the transaction phase includes a wide range of different steps and each has different focus areas and potential errors. For that reason, this chapter provides an overview about the most crucial success factors of this phase of M&A in the automotive industry.

4.2.1 Selection of Potential Targets

For the selection of a potential target the market is analysed for potential candidates. This process is called screening and is based on the results from the planning phase. Hence, it is advisable to set up certain minimum requirements for the screening in order to limit the entity of potential targets. Additionally, the more specific the requirements the more detailed is the selection process. One needs to keep in mind that a more extensive screening also increases the chances to find a perfect match. The outcome of the screening represents a list with all the results and a ranking of the identified objects. Even though in theory this process is rather simple, there are following implications and success factors concerning the realization in the automotive industry.¹³³

The first aspect that can be considered as a success factor is that screening is conducted with a focus to the identified core competencies and the motives that

¹³¹ Cf. Faulkner 2012, p. 71

¹³² Cf. Dreher, Ernst 2014, p. 41

¹³³ Cf. Faulkner 2012, p. 178

initiate the transaction. When selecting a target these should always be the decisive criteria. Thus, it is ensured that the main focus of the transaction will be realized. Furthermore, a maximum purchase price that orientates on the potential benefits should be set. Through this way one can preclude that the project stays within the limits. Moreover, especially in the automotive industry an extensive screening is hard to conduct since the market environment is very complex. One practical example that explains why the screening is a success factor can be found in the branch of the component suppliers. Most of the leading suppliers are planning to expand to the Asian region in the nearer future. However, there are hardly any public information concerning this market. And for the few that are already established there is a strong competition of the interested parties. For that reason, most of these targets are already overpriced. Nevertheless, there are probably plenty of alternatives that just need to be identified. Even though this is time and resource consuming, it most likely will pay off in the long run. In contrast to that, the market for car manufacturers is very transparent. Therefore the courses of action are very limited and other factors are more important for the overall success.¹³⁴

The next parameter that determines the success of M&A in the automotive industry is the geographic aspect of the transaction. This means whether the deal is cross-border or not. If one takes a look at the ten biggest transactions in the automotive industry in 2014 one can observe that eight of these transactions were at least within the same geographic area.¹³⁵ As already mentioned before, the main reason for this are the free trade areas as well as the cultural and legal compatibility.¹³⁶ This factor of course is not relevant when the motive of the transaction is the entrance of the target's market. For M&A across all industries there are contradictory results concerning the overall success. While some researches claim that the cross-border element is supporting the success, others assume negative implications of transnational deals.^{137 138}

Yet, with regards to the automotive industry cross-border deals have the potential to achieve additional benefits.¹³⁹ This is because of the cultural diversity that comes along with a transnational merger or acquisition. Diversity can mean new expertise, know-how as well as managerial competencies and methods that can be beneficial within many divisions. The key point is that one is familiar on how to make a profit from that. Otherwise, the opposite effect might happen and the cultural differences impair the transaction.¹⁴⁰ The biggest example for an unsuccessful merger in the automotive industry with regards to this matter is probably the merger between Daimler and Chrysler that failed spectacularly due to a mishandling of the cultural differences. The projection of the German practices and culture came upon rejection of the Chrysler staff. Even though there were lot of potentials in this fusion, in the end it just caused a lost for several billion Euros

¹³⁴ Cf. Laabs, Schiereck 2008, p. 86

¹³⁵ Geographic in this context areas are Asia, United States, Europe and other. The vast majority of transactions is covered by the first three mentioned regions.

¹³⁶ Cf. PwC 2014a, p. 7

¹³⁷ Cf. Meyer 2012, pp. 50–54

¹³⁸ Cf. Faulkner 2012, pp. 93–95

¹³⁹ Cf. Mentz, Schiereck 2008, p. 216

¹⁴⁰ Cf. *ibid.*, pp. 200–201

and a damage of Daimler's image.¹⁴¹ The better way would have been to implement tailored personnel and cultural integration measures as presented later in this work.

4.2.2 Closing of the Deal

After potential targets have been identified and the initial contact made the next step is already to close the deal. This step contains basically the due diligence and the negotiation for the purchase price where specific success factors for automotive M&A can be outlined. Besides, there are additional aspects that should be considered before the signing.

At first, the timing of the transaction is an important success factor. This applies for the closing of the deal as well as the time the public is informed about the transaction. The economic cycle and the market conditions are the determining factors in this case.¹⁴² With regards to the automotive industry generally it is easier to take over a target for a cheap price during a recession. Economic slow-downs have an over proportional strong impact on the automotive industry due to the reduction in purchase power of the consumers and the restraint of private investments. This expresses through a fast depreciation of the enterprise value and market capitalization. While most companies struggle with the situation other can take advantage of this. For instance, the M&A in the automotive industry that were conducted during or shortly after the recession in 2001-02 feature a higher success rate than usual for this kind of transactions. During that time, many Chinese component suppliers took this opportunity to acquire financially stricken western supplier. Since most of them only operated in the Asian region which was less affected by the crisis this was an opportunity to expand for a comparatively cheap investment.¹⁴³

Besides, as in all prior phases a systemic preparation of the future collaboration needs to be done. This not only includes the planning but also aspects like crisis management, project plans, action alternatives, vision of the future cooperation and so on. The prerequisite for this is the due diligence. In the following, the success factors of this important audit are presented.

4.2.2.1 Due Diligence

As presented in the prior part of this work, the main purpose of the due diligence is to achieve a true and fair view of the assets, liabilities, financial positions and profit and loss of the target. If this objective is not fulfilled this may lead to severe consequences. With regards to the automotive industry the due diligence is essential regarding the identification of synergy effects and economies of scale and scope. Hence, following aspects should be taken into account for the due diligence in the automotive industry.

The first success determinant is the quality of the gathered data. The collection of the necessary information can be impaired when the target company has concerns about the deal. If the transaction fails for some reason and does not take

¹⁴¹ Cf. The Economist 2000

¹⁴² Cf. Meyer 2012, pp. 48–49

¹⁴³ Cf. Tsang, Leung 2009

place at all, this means that the investigated company exposed very confidential information that may cause a competitive disadvantage. Moreover, if the takeover is hostile it is very unlikely that the management will allow any form of due diligence. Secondly, the acquiring company should deploy enough personal capacities for the due diligence in terms of number of persons as well as practical experience to ensure the quality.¹⁴⁴ A common mistake that is made in the due diligence in the automotive industry is the focus on technical aspects rather than on a company-wide analysis. In the end, the information should be summarized and processed that they can be used for the decision making process.

After the due diligence is finished, the assessment for the strategic, organizational and cultural fit can commence. In the automotive industry the strategic fit is probably one of the most essential criteria for the final decision and also a critical success factor. The strategic fit is based on the potential of fulfilling the acquisition objectives and creating additional value. Strategic fit in the automotive industry can be achieved among others with similar company visions, complementing products and operational markets as well as synergizing technologies. However, there are a few aspects that need special attention. Concerning the car manufacturers, the cannibalization between the products might be a problem. For example, after the integration of Porsche into the Volkswagen group Audi with its super car R8 and Lamborghini were afraid to lose market share to Porsche which was one of their strongest competitors in advance to the acquisition. To prevent overlaps in the product portfolio a marketing strategy to position each brand in its own segment is necessary.

Generally, one can conclude that the gains on the product or technology side always need to be compared to the challenges in marketing.¹⁴⁵ Moreover, car manufacturers always need to consider their fleet emissions since there are regulatory requirements from the European Union. Since premium vehicles tend to have much higher emissions due to their bigger engines the increase in the fleet emissions need to be compensated to prevent high penalties. Another examples of a strategic fit in the automotive industry is if the acquired target is a useful extension of your core business, e.g. Volkswagen that acquired the truck manufacturer Scania and the motorbike producer Ducati. In contrast to that, the size of the merging organizations does not affect the success in the automotive industry like it is the case in many other sectors.

Moreover, the organizational and cultural fit should not be neglected. Even though there is a strategic fit it might be very difficult to create value from that due to incompatible organizational or national cultures. This especially applies for M&A between Asian and Western firms. In those cases, the additional costs for the difficult integration need to be considered before closing the deal.

4.2.2.2 Negotiation and Purchase Price

The determination of a purchase price that fits all parties is mostly a long and stressful process. At the end, the price will be one of the benchmarks when evaluating the success of the transaction. Therefore, the goal of the buyer is to pay

¹⁴⁴ Cf. Stahlke 2007, pp. 233–236

¹⁴⁵ Cf. Böcker 2011, p. 100

as less as possible. Of course, this contradicts the intentions of the selling parties and represents a classical target conflict. In the best case, the purchase price is based on hard facts and findings from the due diligence. The more difficult part is to value the realizable synergy effects and the strategic fit. For that, extensive knowledge about the own operations and the market is necessary. A negative example from the automotive industry is the deal between the US automotive suppliers Cooper Automotive and Federal-Mogul. Federal-Mogul payed \$1.9 bn for the transaction which was a lot more than the previous market capitalization. They justified the price with the very good strategic fit but in the end it turned out that the expected benefits and sales targets could not be realized. "Cooper didn't entirely fit with Federal-Mogul. It had an aftermarket presence with non-core products such as wiper blades and lighting."¹⁴⁶

Yet, there are some other factors in the automotive industry that favour the position of the acquiring company. A success determinant concerning the pricing is the relation between the management of the companies. A good relation facilitates the negotiation process and normally leads to a favourable outcome. A good relationship in the automotive industry can be created by prior co-operations and common projects. Moreover, the experience and negotiation style of the management is also extremely important. The more experienced the negotiators the better will be the agreement in the perspective of the acquiring company.¹⁴⁷

The next determinant which has a major influence on the purchase price is the financial situation of the involved parties. In general, a high liquidity of the buying company is beneficial. In contrast to that, if the target has financial issues a lower purchase price can be achieved.¹⁴⁸ Nevertheless, the experience from many cases in the past where a strong buyer acquiring a weak target in the hope of turning them around have failed.¹⁴⁹ For instance, most of the transactions where Chinese automotive companies acquired struggling European or US firms could not meet the expectation. The reason is that the problems of these companies is not only resolvable with financial aid but rather needs extensive restructuring. Hence, managerial competencies for restructuring and knowledge of Western automotive markets are required which the Chinese acquirer cannot provide after all. This determinant of course not applies to the prior mentioned example of takeovers of western businesses through Chinese companies during a general economic recession.

Another parameter that is critical for the negotiation of the purchase price is the existence of competitors. Especially in the automotive industry there are some targets that are very popular on the market if they can provide a unique advantage. If more interested parties bid for the target they usually outbid themselves with their offers and thereby scale up the final price. The risk in this case is to lose track of the original intentions and that one conducts an overpriced transaction that is out of proportion to the profits. In the automotive industry this is often the case for targets with innovative products that one wants to acquire by all means. An example for this is the takeover of Jaguar and Land Rover through Tata. After several month of negotiations they won the bid against several other

¹⁴⁶ Murphy 1999

¹⁴⁷ Cf. Faulkner 2012, pp. 76–77

¹⁴⁸ Cf. Stahlke 2007, p. 232

¹⁴⁹ Cf. Tsang, Leung 2009

potential buyers but in return had to increase their offer and guarantee the retention of most of the jobs.¹⁵⁰

4.3 Integration Phase

The integration phase starts after the actual transaction. Though, it represents the most extensive and time consuming part that determines the long term success. The main purpose is to ensure a smooth transition. While in the prior phases most of the work was the creation of analysis and assumptions it is now time to transfer the theory into the actual business operations. Whether the integration measures are successful or not often decides directly in the first few months after the closing of the deal. In the following, the essential success factors for the automotive industry are allocated to three different categories.

4.3.1 Strategic Integration

After the merger or acquisition the new strategy for the company needs to be realized and implemented. In the best cases, the new strategy and vision already has been drafted during the prior phases and at this stage just needs to be completed and extended. For transactions within the automotive industry following aspects should be kept in mind for the strategic integration.

The first important determinant is the pace of the integration. The experience from the past shows that neither a very fast integration nor a hesitant strategy are expedient.¹⁵¹ Instead, the time plan should be dependent on the complexity. For big mergers between two multinational companies much more time should be calculated than for the acquisition of a small company by a global player. More important is to make continuous progress with the process. Therefore, it is advisable to create milestones in order to keep track of the overall target.

The next factor for the strategic integration is the new alignment of the company towards the market and its customers. This applies in particular for transaction where new technologies or products were acquired. For instance, a component supplier that specialized in just a few segments acquires another supplier with a complementing product portfolio. After the acquisition the company holds a major share of products and services around the whole production process of a vehicle. Hence, the company vision of being a specialized supplier changes to being a full component supplier.

However, just defining a new strategy is not enough. Rather the external and internal communication is essential. The new vision should be communicated to all important stakeholder and especially to the customers. Besides, the staff should be informed in detail about upcoming changes. Otherwise, negative mood and rejection against the transaction can be the consequence. A negative example of a communication strategy is the merger between Chrysler and Fiat where in the first four months almost no information were passed to the staff and the public. In consequence, the labour union protested against the communication plan of the management and most of the customers and partners were insecure because they expected severe negative changes. Ultimately this resulted in a

¹⁵⁰ Cf. Glaum, Hutzschenreuter 2010, pp. 131–132

¹⁵¹ Cf. Gerds, Schewe 2006, p. 185

decrease of sales and stock prices.¹⁵² Especially the automotive industry has in most countries a big national interest and thereby a great coverage in the media. Consequently, a consequent communication is advisable even though some of the information are negative.

The next success factor automotive companies should bear in mind concerning the strategic integration is the execution of the new strategy. From the experience in the past it showed that clearly defined hierarchies and a top down approach is advisable and expedient. Otherwise, it might come to ambiguity within the staff. Managers at all levels have the responsibility to take care of this matter by ensuring the realization within all departments and areas.¹⁵³

4.3.2 Organisational and Operational Integration

A good organizational integration is necessary to make one single company out of two individuals and to realize synergy effect. Since synergies are one of the biggest driver for M&A the actual realization of synergies is a major parameter for creating more value and the success of the transaction. Even though the integration represent an increased workload for many employees it is important to focus on the implementation of the measures and at the same time not to neglect the daily business.¹⁵⁴ The following best practices represent potential success factors for a good integration in the specific areas.

- **Sales and Marketing:** In order to increase efficiency it is advisable to consolidate sales and marketing of the company. For instance, the creation of a common sales organisation can operate more efficiently than single sales departments. In addition, the control and flexibility is increased through the centralization and fast adaptation to the market environment is possible.¹⁵⁵ One exception from this is if the acquired company should not be connected to the parent company. For instance, this is the case for Mercedes and Smart that both belong to the Daimler Group. Since Mercedes is much superior in terms of quality and technology they preferred to separate the companies to prevent an image loss. In those cases, it is advisable to maintain a holding structure for the acquired object instead of an absorption. Concerning component suppliers the consolidation may increase the negotiation power due to the increase in size. Moreover, the integration of existing service units and dealer networks can offer additional benefits for the customer. Concerning automotive manufacturer this provides more comfort for customers that can choose from a greater entity of potential service stations.
- **Production:** The greatest potential for synergy effects in the automotive industry is affecting the production. Hence, this goal need to be pursued with highest priority. In the first place, it needs to be identified which areas of the production can be synergized. For car manufacturers the sharing of production lines is very important. The more models can be produced in one line the greater are the savings. Furthermore, when several cars can be produced in

¹⁵² Cf. Böcker 2011, p. 99

¹⁵³ Cf. Roehl-Anderson 2013, p. 410

¹⁵⁴ Cf. Faulkner 2012, pp. 87–89

¹⁵⁵ Cf. Böcker 2011, pp. 99–100

one line the expenditure for logistics can also be minimized. In order to prepare the production to produce vehicles from the acquired target usually investments are necessary. Yet, in most cases the expected benefits exceed the costs. Concerning the supplier side, synergy effects can be realized especially when there are overlapping product offerings. In those cases, the trimming of the product portfolio can increase the efficiency. Further success factors are the reallocation of production capacities to cheaper production sites in order to achieve cost benefits. Moreover, when the acquired target possesses production facilities in important operating markets the shift of production decreases the risk of currency fluctuations and reduces the costs for shipping and tariffs.

- **Research and Development:** As stated in the previous chapter the automotive industry is characterized by innovations and new technologies and skyrocketing demand for research and development investments. In order to be able to meet the market requirements it is necessary to utilize all competencies of the integrated company. The consolidation of tangible knowledge such as documents, presentations, intellectual property is comparatively easy to conduct. However, most of the valuable knowledge is not tangible like the know-how and the experience of the staff. In order to make use of this it is advisable to create intersections between the departments with measures like staff exchange, workshops or trainings.
- **Processes:** For a successful and efficient collaboration the standardization of processes is obligatory. This affects all areas such as controlling, finance, accounting, procurement, tax and legal, risk management and so on. The integration should be conducted through specialized steering committees to assure a smooth transition of new processes into the everyday operations. In particular large automotive companies developed complex and inflexible structures over the time. The transaction is a good opportunity to reconsider old patterns and reveal inefficiencies. Additionally, the standardization of processes is necessary to ensure an effective governance of the top management.¹⁵⁶

4.3.3 Personnel and Cultural Integration

The cultural and personnel integration of two companies is dependent on many different variables that determine success or failure. Yet, the employees are the most valuable resource and the core of most companies. This also applies for the automotive industry. Which factors are beneficial for the integration and which are not is presented below.

The first important success factor is the attitude towards change of the involved companies. Depending on the willingness to integrate different measures can be realized. Concerning the automotive industry, especially the pride and image of a brand need to be considered for the integration. For example, when Volkswagen acquired Porsche there was a resentment to most of the other em-

¹⁵⁶ Cf. Gerds, Schewe 2006, p. 189

employees of the group since the Porsche employees regarded themselves as superior due to their excellent corporate image. In this case it is important to find a good compromise between individuality and integration to satisfy all involved parties. It is advisable to guarantee a stand-alone position instead of a full or part absorption. In the long run, the target is to establish a corporate identity for all group members. Therefore, it is favourable to conduct programs like secondments between the companies, common trainings and workshops or just regular events.

The next success determinant affects the correct handling of national or corporate cultural differences. The consequences of a negligence of this matter were already illustrated with the Daimler-Chrysler merger. A good preparation and the correct management and communication style that is adapted to the individual cultural requirements increases the chances for success significantly. The acquired company's staff should not get the feeling that they are second class employees but rather welcomed in the organization. In particular, the management of the acquired company should be integrated into the new leadership structures to symbolize equality between the workforces. Moreover, the different compensation and incentive regulations need to be adapted. Especially in the automotive industry there are often wage agreements that come into effect.¹⁵⁷

The last success factor is to balance the integration of employees. In many cases, the realization of synergy effects in the automotive industry is connected to the reduction of staff. In contrast to that, the stay of important employees and their expertise is also crucial for the creation of value. The acquiring company needs to find the equilibrium of these contradicting parameters. On the one hand, if too many people are laid off there is a risk that good employees leave the company to the competitors and that the labour union will call their members for strike. On the other hand, employing a too big workforce means significant additional costs over a long period of time. Good measures to handle this issue are the guarantee of the acquiring company to keep a certain amount of employees for at least several years or to quit termination of employment for operational reasons. Instead, the recruiting will be reduced or older people are send earlier in retirement.¹⁵⁸

4.4 Checklist for M&A in the Automotive Industry

The following table illustrates a general summary of all the mentioned success factors in the previous chapters. The purpose is to provide an overview of potential determinants for successful transactions within the automotive industry with regards to the three phase model. The success factors are in a chronological order so that users can compare their progress and plans with this guideline at any point of time. Additionally, the most important factors are highlighted with a bold font.

¹⁵⁷ Cf. Faulkner 2012, pp. 396–405

¹⁵⁸ Cf. Gerds, Schewe 2006, pp. 136–145

	Category	Success Factor
Planning Phase	Internal Planning	Use of mixed staff teams with technical background
	Strategy	The vision is the basis and limitation for all projects
		Elaborate strategy with reasonable objectives
	Resources	Provision of enough manpower and time for the planning
	Environmental Analysis	Realistic expectations and objectivity during the assessment; avoidance of overestimations
		Early recognition of trends and issues
	Managerial Experience	Management team is familiar with M&A
	Alternatives	Evaluation of alternatives to M&A
	Comparability	Quantification of potential benefits to make reliable assessments
	Requirements	Determination of indispensable minimum requirements for the deal
Future Collaboration	Predictive vision of the collaboration with a potential target	
Motives	Focus on a reasonable motives for the transaction	
Transaction Phase	Screening	Focus on requirements and targets within the price range
		Screening across regions (cross-border) increases the chances of finding a good match
	Cultural Diversity	Utilize cultural diversity to achieve new perspectives
	Timing	Utilization of economic cycles to profit from low prices
	Due Diligence	Conduct of a due diligence is crucial
		Execution through trained staff with necessary qualifications to ensure data quality
		Companywide analysis instead of focus on technical aspects
	Strategic fit	Avoidance of cannibalization of products and services
		Compatibility of objectives and targets
	Cultural and Organizational Fit	Consideration of integration strategy and additional costs
	Purchase Price	Determination based on hard facts from the due diligence
	Valuation of Synergy Effects	Extensive knowledge about own operations and processes
	Relationship of Management	Beneficial for negotiation process if prior contact existed
Financial Situation	High liquidity facilitates the achievement of a good purchase price	
Restructuring of weak Targets	Extensive managerial knowledge about restructuring and the industry necessary	
Competition	Even when there is high competition the original price limitations should not be breached	

Integration Phase	Pace of Integration	Integration with resolve based on the complexity of the integration, neither rush nor waste time
	Communication	Active approach of stakeholders and information about alterations
		Active approach towards employees and public to prevent negative public relations
	Execution of the new strategy	Formation of new management structures with resources from both companies
		Defined hierarchies and top down approach, that is realized by all management levels
	Sales and Marketing	Set up of common sales organisations to save resources for administration
		Utilization of increased negotiation power for the purchasing department
	Realization of synergy effects	Standardization of production processes
		Cost reduction through allocation to the cheapest production sites
		Adaptation of product offerings and termination of overlaps
	Research and Development	Cost reduction through spreading the development investments
		Utilization of intangible knowledge through workshops, trainings, staff exchange
	Standardization	Standardization of processes where reasonable (controlling, finance, accounting, procurement, IT) executed by steering committees
Integration should not impair everyday business		
Use the integration as opportunity to improve overall efficiency and question old structures		
Cultural Integration	Conduct measures with regards to different corporate identities and cultural backgrounds	
	Implementation of measures to prevent reluctance of integrated staff	
Personnel Integration	Harmonization of compensation structures	
Staff reduction	Equilibrium between downsizing and concessions to workforce to keep important employees within the company	

Table 3 - Checklist for M&A¹⁵⁹

¹⁵⁹ Source: own research

5 Final Review

The purpose of this study was to identify specific success factors for M&A for companies in the automotive industry. The results are based on actual cases and examples in order to ensure a high practical relevance. For that reason, a literature research about the relevant theoretical background as well as the automotive market was conducted and complemented via the analysis of M&A from the past. The analysis and derivation of results from all the available sources revealed that there are success determinants for every phase of the process of M&A that mostly apply for both manufacturers and component suppliers. The used model with the three major phases could be utilized very well for the analysis of success factors. Most general success factors or practical examples could be allocated to a specific stage and analysed from that stance in greater detail.

The analysis of the automotive market showed in a first step which major trends and drivers are shaping the industry and the transactions as well as what future developments are to be expected. Thereby, one could determine that the current changes in the market environment and the global shift in economic power as well as the technological change are the biggest industry issues. Generally, the drivers affect all sub branches of the overall industry due to the increase in involvement and collaboration. Thus, this allowed a sophisticated analysis of the industry as a whole. The elaborated results from this chapter were included for the consideration of potential success factors. The fulfilment of specific motives thereby represents a benchmark for determining success.

Concerning the planning stage, the study showed that the extent and quality of the preparation of a transaction is decisive for the overall success. Transactions that pursue one specific target that fits into the company's vision have a higher chance to succeed than those that are initiated for other reasons. Moreover, one can conclude that M&A are not always the best option due to the high complexity of the subject. Regarding the level of risks and generally high potential for failure that comes along with a transaction, the analysis of other alternatives for achieving business objectives should always be contemplated.

With regards to the transaction phase a complex structure of various success factors could be observed. The examples from the automotive industry showed that the selection process is in particular important for component suppliers where the market still has scope for future consolidations. Moreover, the results showed that the strategic fit in the automotive industry has major implications for the success. For that reason, the compatibility should be tested from different points of view.

Next, the research of literature and past cases showed that the integration phase is the most extensive step with the highest number of potential success factors. Deducted from the findings in the literature and the practical analysis the realization of synergy potentials can be mentioned as the major success factor. A big share of M&A in the automotive industry are conducted under the assumption of cost saving potentials through economies of scale and scope. The critical aspect to achieve this target and increase the outcome is the standardization of processes. Yet, the standardization must not be realized by any means, particularly

when they come along with the reduction of workforce. In general, one can summarize the findings for the integration stage as the consequent realization of the prior pursued strategy and planning.

Nevertheless the presented results in this thesis are specific it is necessary to approach the results with a critical attitude because no separate empirical study was conducted to testify the findings. Additionally, the analysis of general success factors of prior studies showed that some of the results are contradicting each other or come to completely different conclusions. This can be explained with the general complexity of M&A and the difficult evaluation of success or failure. For that reason, the presented success factors cannot be taken as generally applicable but rather as nonbinding indicators and best practices of top performers. However, those determinants must not be valid for all M&A in the automotive industry.

All in all, one can summarize that M&A are nowadays still a common and important strategic method to achieve economic growth for businesses in the automotive industry. On the one hand, transactions offer very good opportunities for the business development. But on the other hand, there are still many cases that cannot meet the high expectations in the long run. The expected outcomes of transaction regularly stay behind the initial anticipation. The analysis of this work showed that a majority of these failures might have been prevented with a more detailed examination of the subject and theory. Additionally, it is remarkable that the same mistakes were made over and over again probably due to hubris of the management. Concerning the future prospect one can still expect an increase in M&A activity, in particular on the many-faceted component suppliers side as well as in emerging markets.

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Statutory declaration

I declare that I have developed and written the enclosed thesis entitled

“Analysis of Success Factors of Mergers and Acquisitions in the Automotive Industry”

Entirely by myself and have not used sources or means without declaration in the text. Any thoughts or quotations which were inferred from these sources are clearly marked as such. This thesis was not submitted in the same or in a substantially similar version, not even partially, to any other authority to achieve an academic grading and was not published elsewhere.

Hanover, 04. September 2015

Maximilian Weber

