

Cross-Border Mergers and Acquisitions

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Since most data on cross-border merger and acquisition activity is anecdotal, FIPP asked AdMedia Partners to look into this increasingly important component of international publishing and prepare this report for the use of its members.

To accomplish the task, we decided to go to the source by conducting original research among publishing executives worldwide. More than 25 participated in a short survey to define the issues and then a smaller sample of the most experienced international publishing executives commented on the survey's results and added insights from their personal experience.

Overview

Conventional wisdom is that most mergers and acquisitions (M&A) never live up to pre-deal expectations, and some are outright failures. Add the complexities of a transaction across national borders, or halfway around the world, and one could conclude that trans-national deals are extremely risky and seldom rewarding.

In publishing, that does not seem to be the case.

Publishing is becoming a truly global business. More than half of the respondents to our survey have business operations in at least five countries, with a third publishing in more than twenty. Nearly all (73%) have personal or corporate experience with trans-national M&A. The ranks of these executives will continue to grow as the major international players are actively training new cadres of trans-national publishing managers.

Interestingly, even though cross-border M&A activity is taking place regularly, only a third of the survey respondents have a formal strategy of international growth through acquisition. This was confirmed in the personal interviews when all agreed that international growth tended to happen when the right opportunity presented itself and the right partner is available. "Remember, it's still a personal business," said one.

Generally, cross-border publishing transactions have worked out well with most respondents very satisfied with their experience. Nearly two-thirds said their transactions yielded results equal to or better than forecast, while just 20% felt that the expected benefits were not fully achieved.

Criteria for Cross-border Transactions

Engaging in cross-border transactions involves several issues beyond the basics of M&A. Establishing a business, whether licensing, joint venture or acquisition, in a “foreign” country requires knowledge of the micro- and macro- characteristics that distinguish one country from another. Therefore, a key requirement for a successful trans-national venture is to understand, and allow for, the cultural differences, business practices and the regulatory environment of the country in which you plan to operate. This means a willingness to delegate considerable authority to the local partner or management team. However, it does not mean *carte blanche*.

The most successful international publishers use similar techniques to provide necessary freedom to their local managers while ensuring that the businesses conform to certain core principles. These include cross training of managers, structuring consistent financial and operational reporting and maintaining a high level of communication among offices. In fact, despite the many electronic communication options available, it is still critical that face-to-face meetings form a large part of the entire process.

These meetings should be designed to ensure, as one executive put it, “that local management and home office are on the same page strategically,” but also to add the often-critical nuances that are buried in the financial reporting packages. What they should not be about are operational decisions that local management has been charged to make. Another executive put it succinctly, oversight should not replace local judgment. He added “Review; don’t preview.”

Other Hurdles

Obtaining Qualified Executive Talent

Being able to find the right executive talent can often be a daunting prospect. Attracting and keeping good executives are the most important factors in achieving projected benefits from a cross-border transaction. Ninety-four percent of the respondents considered this somewhat (25%) or very (69%) important.

Even as international publishing expands, there is difficulty in obtaining a sufficient number of qualified executives trained to operate in this environment. What might seem a simple answer, sending out legions of managers from the home office, is a practice that our survey respondents cautioned should be used only exceptionally. Most personal interviewees agreed but one reported success with dispatching carefully-selected general managers from the home country, to be replaced in time with indigenous managers.

Regulatory Issues and Government Regulation

Understanding and complying with local governmental regulations is critical to avoiding problems in a cross-border transaction. This is especially true in newer markets in Eastern Europe and Asia. However, there is a worldwide shift to more transparent regulation, lessening of non-tariff trade barriers and increasing standardization within trade blocs. No doubt reflecting the specific markets in which different respondents operate, there is a clear dichotomy of opinion

on this subject. Half believe that the issue is somewhat or very important while the other half consider it not important at all in their experience. But all cautioned that not carefully studying these issues is a significant mistake. Especially for a publisher thinking about making an initial acquisition in another country, it is important to learn about the regulatory environment with the assistance of local financial and legal counsel.

Economic Issues

The strength of the underlying economy, and the relative position of the publishing industry in it, are the most important hurdles identified by the publishing executives participating in the research. This is not at all surprising, but it is important to remember that staying abreast of the macro-economic and market specific indicators is more difficult when you and your investment are domiciled in different countries. It is, therefore, incumbent on an acquirer to consider the additional risk that comes from having less access to economic data specific to business prospects outside its home country. This is accomplished primarily through the application of judgment when considering among various trans-national growth opportunities.

Overcoming the Hurdles

The publishing executives with whom we talked focused on three areas to maximize the opportunity for a cross-border success.

Do Your Homework

The best way to minimize problems is to identify them before the transaction even takes place. Overwhelmingly (94%), our respondents encouraged their fellows about to embark on cross-border transactions to do more extensive due diligence than they would normally undertake. Extra due diligence pays large dividends, especially in cross-border deals. Not only will problems surface in time to be dealt with early, but also the buyer will have a much better understanding of the business and the market in which it operates.

It makes sense to get several different points of view and even to hire local specialized consultants before you are ready to make a deal. In this way, you are prepared before the negotiation begins rather than as it is progressing.

Build in Compensation for the Extra Risk...and then Hedge the Risk

Most (69%) of the publishing executives factor in a ROI increment for the risk involved in this kind of transaction. An almost equal number (68%) apply risk-mitigating financial techniques such as borrowing investment capital in local currency and otherwise hedging unpredictable currency fluctuations.

Staffing and Management

As this subject was identified as the biggest cross-border transaction risk, it is the area where successful cross-border publishers make the most effort. This extends beyond being on the lookout for the right talent to offering extensive training programs for middle and senior management worldwide. These programs are used to bring far-flung managers together to be inculcated into shared standards for business practices and ethics and to encourage cooperation among them.

Another technique employed by many is to post trusted officers from headquarters into acquired companies. This practice risks a negative reaction from the local staff and thus can be counterproductive if not handled in the best manner. When executed well, however, it gives corporate management a better sense of what is happening which leads to a greater level of comfort and, perhaps, less interference in the local operation.

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