

Teacher's notes Unit 7 Mergers and acquisitions

Level: Intermediate

At the time of writing (Summer 2007) acquisitions are very much in the news. The reason for this is the recent trend for European and American **private equity funds** (PEF) to buy out well-known and large public companies and then restructure them. Many people find this trend very worrying for a variety of reasons, which we will explore in the case study that follows.

This is a complex area but a very interesting one that develops from the content in the *Subject background* section on page 89 of the *Teacher's Book* and the content on pages 84 and 85 of the *Student's Book*. Your students may be familiar with this business trend. As a first step, find out what they know about private equity funds and get them to share their knowledge with the class. If they can contribute very little or nothing, then tell them that you will be focusing on PEFs later in the case study. If you have the time in your programme, you could ask your students to do some research on them as preparation.

Slides 1 to 9 tell the story of a fictional British company that started as a member's club but ended up in the hands of a private equity company with its future uncertain. It tells the story as a series of newspaper articles over a period of time

Slide 1: Motorists organization created

Slide 1 sets the scene for the case study by showing how the BAC started as a private member's club.

Ask your students to read the newspaper extract and to describe how they think a club is different financially and constitutionally to a private company.

Commentary

A club is created for the **mutual benefit** of its members only. For example, a private golf club is there so the members can play golf whereas a fitness centre set up as a company is there, first and foremost, to provide the shareholders with a profit.

[5 minutes]

Slide 2: BAC celebrates 50 years with record membership

Slide 2 shows briefly how the BAC grew into a very large and successful organization over a period of 50 years.

Ask your students to comment on the growth and development of the BAC. Then ask them to **speculate** on what the next major development **might have been** for the BAC. You might want to remind them at this point that the BAC was a member's club.

Commentary

Clearly the BAC's growth was phenomenal, reflecting the post-war expansion in sales of motor cars. The BAC also **diversified** and **broadened its range of services**.

Speculating about the future at that point, students may suggest a variety of scenarios, for example:

the BAC expanded too quickly, faced financial difficulties and had to sell parts of its business

the BAC took over other companies offering services to motorists

the BAC demutualized and became a private company with shareholders

the BAC demutualized and was sold to another company.

[5 minutes]

Slide 3: BAC likely to demutualize ...

Slide 3 brings us to the 1990s when BAC members voted in favour of **demutualization**, and the organization was bought by a French telecom company, TFA.

Ask your students to read the article and then to speculate on how the stakeholders in the BAC – the members, employees and customers – reacted to this news.

At this point you may feel the need to go into what **mutuality** and **demutualization** means in more detail. You can do this by going to Wikipedia, as suggested in **Slide 4**.

Commentary

Members may have had mixed feelings. If they voted yes, they would make some money, but, on the other hand, they would lose the feeling that the BAC is *their* club. Employees may have been feeling nervous about their jobs or optimistic about the opportunities. Customers may have been wondering what a foreign telecom knows about running a motoring organization.

[5 minutes]

Slide 4: Wikipedia link

If you are online and want to explore the theme of demutualization more, go to Wikipedia where you can find a section on *demutualization* with some interesting examples. This takes you to a section on *mutual companies*.

[10 minutes]

Slides 5 and 6: Reaction to the news of demutualization

Slides 5 and 6 looks further at the impact of an acquisition on the **stakeholders**. They contain some of the things which stakeholders said at the time of the acquisition by TFA. Which are positive and which are negative about the **future**, and with what **degree of certainty**?

Commentary

Slide 5

Woman on left: a negative comment picking up on TFA not being experienced in this area of business.

Man in the middle: he is concerned about the future quality of service.

Man on right: a typical concern about the future in the circumstances. Is my job safe?

Slide 6

Woman on left: this member's comment is very positive, mainly because she is going to make an unexpected profit (*windfall*).

Man in the middle: a mildly negative reaction to change.

Man on right: a very positive view about the future.

Note that these quotations use language in the *Future forms* section on page 88 of the *Student's Book*, for example *bound to be*.

[10 minutes]

Slide 7 BAC goes online

Slide 7 looks at the development of the BAC after the takeover by TFA. Before you show it, ask your students to **predict** what they think happened during this period, especially in the area of online services and products. Hopefully they will make guessing sentences like this:

Perhaps they cut jobs. or They created more jobs.

They probably re-organized the business.

*Maybe they improved/rationalized services.
They increased/reduced the number of services.
They went into new business areas.
I think they expanded abroad.
They introduced/launched online insurance services.*

Then ask your students to comment on the developments in BAC described in the newspaper article.

Commentary

The information in this news report shows that the BAC **introduced** two new online services, **expanded** their publishing and **improved** their breakdown service. And that it had more than doubled its number of customers since the 1950s.

[5 to 10 minutes]

Slide 8: TFA sells the BAC

Slide 8 deals with a period from when a **private equity company**, JMQ, took over the BAC.

First of all, you will want to have established what your students know about private equity companies or funds, and the controversy surrounding them, as we suggested at the beginning of this case study. If you are online, you can go to Wikipedia to find out more but here is a definition of **private equity funds**, taken from Wikipedia.

A fund that buys majority stakes in companies and/or entire business units to restructure their capital, management and organization. Usually the targets are delisted (unless already unlisted), held private and restructured over a period of 3-7 years, and then again listed through an initial public offering (IPO).

Private equity funds are controversial because they are perceived to have unfair tax advantages when they buy companies and because people think they are not interested in the long-term success of a company but rather in short-term profit. There are calls in the UK for more **regulation** of them. There are also concerns at the time of writing that banks are lending them money too readily.

Ask your students to read the article and comment on what happened. Ask them again to predict what they think happened next.

Commentary

TFA are making a good profit from the sale but you do wonder why they are selling a successful and large business. Speculating on the future, your students may suggest that

the new owners **restructured** the company, **sold off** parts and made some staff **redundant**.

Slide 9: BAC to be sold – again!

Slide 9 brings us to the present day situation where the BAC is still owned by the private equity firm, JMQ, but there are rumours that this may change.

You may need to teach the meaning of the expression to *float a company*, which means to offer shares in it to financial institutions and to the public. Ask your students to comment on what is happening.

Commentary

Well, once again the company is up for sale, with JMQ set to make a huge profit. But the brand's good name – its reputation – has undoubtedly been damaged because of the job losses and poorer levels of service to customers.

Note that this article is speculative in its tone, for example using the phrases *believed to be* and *it is said*.

This concludes the story of this fictional company. It demonstrates how as an organization grows successfully it has to change.

Acknowledgements:

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