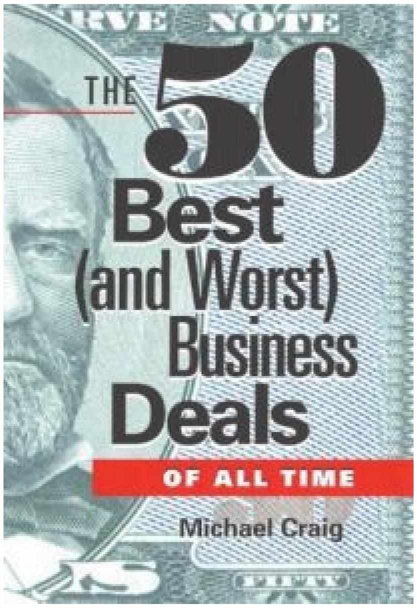

Book The 50 Best (and Worst) Business Deals Of All Time

Michael Craig
Career Press, 2000

Recommendation

Michael Craig, a securities attorney, describes the basis for success or failure in 50 big money business deals. He examines the strategy, risks and personality dynamics involved. Craig highlights 10 rules for success he gleaned by observing patterns in these deals, rules you can apply to your own business transactions. This well-crafted book groups several deals to illustrate each rule, although many of the deals reflect several principles. At the end of each story, the author recaps the lesson at hand and explains what went right or wrong. While executives, company owners, and those who do deals for them will find this book especially valuable, *BooksInShort* also recommends it to general readers, who will enjoy reading these inside accounts of well-publicized deals.

Take-Aways

- Follow the 10 rules for success in deal making.
- Focus on your strengths and take advantage of your adversary's weaknesses.
- Look for value where others don't see it.
- Think of ways to innovate in financial arrangements and in selling.
- Don't try to be too nice; the best deals result from bargaining hard and being mean.
- Do plenty of advance planning and information gathering.
- Take care of the employees after you make an acquisition, since you still have to run the place.
- Don't want something so much that you become a desperate buyer or seller. The greatest power in a deal is the ability to say 'no.'
- Look for future trends and use the long view to your advantage.
- Don't negotiate with people who are better at it than you are, since deal making is a skill.

Summary

The 10 Rules for Success in Deal Making

Michael Craig was always fascinated by big business deals and the money, strategy, risks and personalities evolved. In the late 1980s, he became involved in deal making during the contested takeover of Roper, an appliance maker. The bitter fight began after GE made a higher hostile bid than Whirlpool, which had a friendly deal with Roper. Eventually, GE and Whirlpool carved up Roper, but while everyone "won," the process was highly irrational.

> “Great opportunities arise from the financial catastrophes of others.”

As Craig watched this apparently chaotic process play out in deal after deal, he found that certain people and certain methods usually won, while certain strategies usually lost. As he perceived patterns, he supplemented his observations with extensive research. Although many factors are at play, he identified 10 basic rules that substantially shape the success of a deal. The deals described below each demonstrate at least one of the 10 rules, although most illustrate more than one. The rules are:

1. Focus on your strengths.
2. Take advantage of your adversary’s weakness.
3. Find value where others don’t see it.
4. Don’t get caught up in wanting.
5. Innovate.
6. Take care of the little people.
7. Be a pest.
8. Do your homework.
9. Predict the future and seize it.
10. Don’t negotiate with your betters.

Rule One: Focus On Your Strengths

Focus on what you do best. Commonly, the winner of a deal has a well-thought out plan and understands the subject of the deal, while the loser has usually strayed into an unfamiliar area. For example, the leveraged buyout firm Kohlberg Kravis Roberts & Co (KKR) did well when it followed its time-tested LBO plan, such as when it successfully acquired Beatrice Foods. Priscilla Presley likewise did well when she took control of the Elvis Presley Estate. Working with a financial adviser, she opened Graceland as a tourist attraction, staked legal claim to Elvis’ name and found ways to extend the Elvis brand name.

> “The main difference between ’duplicity’ and ’salesmanship’ is whether anyone gets hurt.”

By contrast, many conglomerates get into trouble when they buy companies in a variety of businesses and venture into areas where they lack sufficient knowledge, such as when LTV bought Jones & Laughlin Steel, which had no assets that could be sold or spun off to assist in financing. As a result, LTV nearly went bankrupt. Novell, a maker of network operating systems, bought WordPerfect, thus overpaying for a troubled company which it didn’t know how to fix. It lost its leadership in network operating systems as a result.

Rule Two: Take Advantage of Your Adversary’s Weaknesses

One way to take advantage of your adversary’s weaknesses is to look for a "desperate seller" or "desperate buyer." An early example of this is the Louisiana Purchase. The U.S. government wanted to improve its access to the Mississippi River, and it got a great deal because France was eager to sell, even at a low price.

> “Although you can’t pick your adversaries in a business deal, you can pick up on their motivations. If the deal is a matter of necessity to them, they are at the mercy of an observant adversary, who is now in a position to dictate terms or walk away, a circumstance the desperate buyer or seller wants to avoid at all costs.”

You can also take advantage of the financial difficulties of others. In 1915, Pierre du Pont rescued General Motors’ founder William Durant from a dangerous speculation in GM stock. He bought out Durant’s stock at a bargain price, a $100 million investment that grew into $3 billion by 1962. J.P. Morgan bought a controlling interest in Tennessee Coal & Iron from U.S. Steel in 1907, when the U.S. financial markets were panicking. John Kluge successfully bought and broke up Metromedia in 1984. When the market for communications properties became hot, he sold them for a premium price.

"Innovation in deal-making can reveal value, or make it accessible, where it would not have otherwise been apparent."

When you do acquire a damaged property or encounter a desperate seller be sure to get a discount. Otherwise, you could end up with a business failure - this was GE Capital's fate after it paid too much for Montgomery Ward.

Rule Three: Find Value Where Others Don't See It

You can benefit by discovering something first. But, be a good judge of value so you don't get stuck. William Seward, Secretary of State to Presidents Lincoln and Johnson, successfully negotiated the purchase of Alaska in 1867. Although it was an unexplored, frozen wasteland, he saw the potential for U.S. expansion. The discovery of oil and gold made the investment even more profitable. When Sir James Goldsmith acquired Diamond International in 1982, he believed in the value of the company's timber assets. He willingly acquired it during a recession, and then sold off its operating assets to get its timber almost for free. Similarly, when Ronald Perelman acquired Technicolor in 1982, he recognized that Technicolor had many unprofitable assets he could sell, leaving the core of a profitable company he could take over with little money. When Technicolor's main assets, notably its commercial film-development business, increased in value, he made a high profit. Warren Buffett likewise saw the value in Coca-Cola, when he purchased its stock in 1988. He paid a high price because he understood the power of the Coca-Cola name - the most recognized brand in the world.

Rule Four: Don't Get Caught Up In the Wanting

Do not convince yourself you have to have something. If you want something too much, you are likely to pay too much for it. A dealmaker's greatest weapon is the ability to say 'no.' If a seller recognizes that you want something too badly you can become easy prey. This trap of excess desire contributed to many of the business collapses in the late 1980s. Quaker was so intent on getting Snapple that it overlooked an unexpected 75% drop in earnings that was discovered during the negotiation period, and paid too much. Robert Campeau wanted to acquire Federated Department Stores so much in 1988 that he and his advisors let themselves be convinced by over-optimistic cash and sales projections. The value wasn't there and Federated soon went bankrupt.

Rule Five: Be Innovative to Make a Successful Deal

If you can use innovative methods you can find ways to profit where others cannot. By using innovation in financing or selling, you can discover value or make a hidden value accessible. In an early example of this process, the Dutch purchased Manhattan Island from the Canarsee Indians in 1616 for a very small sum. This innovative deal enabled them to avoid much of the conflict that occurred in other areas where Europeans seized Native American lands. In more recent history, restaurant equipment salesman Ray Kroc got so many orders from McDonald Brothers, a small, limited-menu shop, in San Diego that he was surprised. Kroc saw the shop's potential and offered the brothers a deal that was difficult to refuse. In the 1950s, Kroc sold franchises - a very innovative approach at the time - to get expansion money. Then, he put his company on a firm financial footing by going into real estate, leasing and then buying property for his franchises.

Rule Six: Take Care of the Little People

Treat a firm's employees well when you do a deal. Even if you buy a company for a great price, you still have to run it. For that, you need good employees. Often, dealmakers regard employees as a big expense and think they can save money with massive layoffs. However, dismissing employees en masse can result in harmful negative publicity that can damage future operations. Also, effective employees who already know the business can contribute significantly to future success. One way to keep employees aboard is to use employee ownership to make the operation run even more effectively. When KKR acquired Duracell, it included significant equity for employees, including management participation. As a result, motivated managers helped increase the cash flow so KKR and the managers all made money. When Gordon Cain took over seven commodity chemical businesses in 1987 under the Cain Chemical name, he gave equity shares to nearly every employee, enabling him to cut costs significantly. Then, when the company did well, everyone made a profit.

Rule Seven: Be a Pest

While being friendly can be helpful at times in closing a deal, most of the time you will do better by being mean. Although many of the big deals look outwardly friendly, with the principals shaking hands, conducting joint new conferences and providing generous severance packages, this façade often covers up hard bargaining. If you feel something is worth negotiating for, "it is worth getting all you can." In many cases, deal participants have gotten more by "becoming pests." Though others don't like such an adversary, a pest can wear down opponents in negotiations and get a better deal. In the 1980s, corporate raiders used this strategy when they purchased stock in a company and threatened a take-over. As a result, the company got put in play. The company then would buy back the raider's stock at a premium or find someone else to buy it. The raider would make a big profit, as occurred when T. Boone Pickens attempted to takeover Gulf Oil, which eventually led Standard Oil to take over Gulf. In the process, Pickens and his company, Mesa Petroleum, earned $500 million.

Rule Eight: Do Your Homework

Engage in extensive planning and information gathering. The bigger the deal, the more you generally need to plan and gather information, since such deals are so complex. If you don't do the necessary "due diligence," you could make a big mistake. When Sony acquired Columbia pictures in 1989, it unfortunately failed to develop an operating plan. Sony also signed Jon Peters and Peter Guber as co-CEOs at a time when they had an exclusive production deal with Warner Brothers, a competing studio. Warner Brothers sued Sony, Guber and Peters for breach of contract and sought an injunction to keep the men from working for anyone else. Sony paid $500 million to get out of the mess.

Rule Nine: Predict the Future and Seize It

You can do much better by taking the long-term view of a transaction, particularly if your adversaries take a short-term view. In the long run, view the assets of a company not just as they are now, but as they may become. This is especially vital for dealmakers in high-technology companies. Microsoft's ability to envision future computer trends served it well in 1980, when it purchased DOS and licensed it to IBM. Microsoft saw that IBM's entry into the personal computer market would vastly expand that segment. Thus, Microsoft was willing to take a relatively small up-front license fee to keep the license non-exclusive. Then, it proceeded to license DOS to IBM's competitors, making Microsoft an early powerhouse.

> "Many fine deals, rather than treating employees as an expense to cut, have succeeded because the buyer used employee ownership to improve the operation."

In 1997, Michael Robertson purchased the MP3.com domain name because he noticed that the term MP3 was often searched for on the Web. He bought the name for $1,000 from Martin Paul, who wanted a domain name with his initials. Then, he set up the site and offered anyone the opportunity to upload music on the site in return for offering one song for free. He planned to make money from advertising and making homemade CDs. The site got 10,000 visitors the first day it opened and within three years, Robertson's stake in the site was worth $200 million.

Rule Ten: Don't Negotiate with Your Betters

Deal making is a skill. If you are outclassed, turn to advisors who know better, or step away. For example, Merv Griffin was outclassed by Donald Trump's abilities as a dealmaker when he tried to acquire Resorts International, paid too much and went bankrupt.

About the Author

Michael Craig writes about big business and high finance for *Online Investor* and other magazines. He previously worked as a class action lawyer and spent 15 years as a litigator in cases involving large business deals as well as complex securities and consumer class actions.