



TUM

INOERR

Corporate transformation

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Introduction

The last few years have been shaped by a multitude of global challenges that have irreversibly affected our everyday lives as well as the business world. The Covid-19 pandemic, the war in Ukraine, the energy crisis, supply chain disruptions, the shortage of skilled labour and rapid technological changes have made it necessary for companies around the globe to rethink their worldwide business models and strategies, and to fundamentally adjust their structures and working methods. We are living in an age in which transformation has become the key to keeping up with ongoing change.

The market environment has changed fundamentally in a short period of time. Many businesses worry about missing the boat and being left behind in a rapidly changing economic landscape. Those who do not adapt risk falling victim to disruption. Seldom has the pressure on management and corporate leaders to adapt to continually changing conditions and to reposition the companies under their leadership so that they remain successful over the long term been so great.

Against this backdrop, we entered into an extensive dialogue about transformation in a series of interviews with over twenty leaders of large corporate groups from different industries. We discussed the significance of crises, technological progress and the war for talent as drivers of transformation. In addition, we examined the internal and external impetuses for transformation and the special challenges that companies have to deal with when implementing transformation processes. We also explored the question of the most significant means and strategies of effecting transformation.

Based on our finding that corporate acquisitions are, from our respondents' perspective, the most important means of transformation, we used a quantitative analysis of the transaction data from the last few years to examine the role of transformative corporate acquisitions in Germany. In addition to providing quantitative information, our analysis of the data gave us insight into the different objectives sought to be achieved through the acquisitions and their transformative backgrounds. In this context, we were also able to identify industry-specific features.

We are very grateful to our respondents for taking the time to speak to us and for their candour and willingness to share confidential experiences and assessments with us. Without a doubt, this topic will remain highly relevant in the future: the times of change are by no means over.

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Executive summary

Interviews

In our interviews, we identified the three most important drivers of corporate transformation as follows:

1. **Technological change**
2. **Satisfying stakeholder expectations**
3. **Business model changes**

External crises such as the Covid-19 pandemic, supply chain disruptions and the war in Ukraine have been catalysts for transformation. They have accentuated the need to implement cross-sector transformation goals. People's awareness of the significance of digitalisation was raised dramatically during the Covid-19 pandemic.

From the point of view of the respondents, **transformation drivers** which will play an even greater role in the future are ESG (Environmental, Social and Governance), sustainability, digitalisation and the war for talent.

Almost half of the respondents stated that **impetus for corporate transformation** came primarily from the management.

Suggestions for transformation, it was said, continue to come from Corporate Strategy, departments and corporate divisions and from M&A/Corporate Development. At the same time, management consultants were engaged to provide outside impetus.

The most important means for corporate transformation were corporate acquisitions.

Acquisitions of companies serve as catalysts for transformation and represent a quick and effective means of driving transformation.

Popular means for effecting transformations include establishing joint ventures, platforms and collaborations so as to obtain access to know-how and new markets.

Increasingly, companies are also adopting incubators and accelerator programmes or setting up their own venture capital units within groups in order to acquire talents, specialists, new technologies and business ideas. Some companies are also specifically buying in experts to move their transformations forward.

Moreover, sales of business units as part of portfolio management are also an important means of transformation.

Challenges result in particular from the fact that transformations tie up considerable resources and involve a great deal of effort and expense. Effective change management is crucial. Acquisitions, especially of young companies, require adequate post-merger integration.

The **motives for corporate acquisitions** include acquiring competencies, skills and knowledge for the buyer's own business (known as "competencies insourcing"). Other motives are the desire to generate growth, primarily through product innovations/development of new products, market launches, diversifying revenue streams and digitalisation. Buying in expertise in the digital field is also a way of protecting oneself against disruption.

In most industries, **acquisitions within the same industry sector** are disproportionately high. The reasons for this are mainly the wish to achieve synergy effects and growth through consolidation.

Tax and liability issues and co-determination only played a subordinate role or no role at all for the respondents in relation to corporate transformations.

Determining the status/ quantitative analysis

Using a comprehensive analysis of transaction data supplied by the Mergermarket platform, we were able to **determine the status** as regards the role that corporate acquisitions play in corporate transformations of German companies.

Having identified corporate acquisitions as the most important means of transformation in

our interviews, we examined the corporate acquisitions completed during the survey period in terms of the transformative goals sought to be achieved.

Our survey showed that **just over a quarter of acquisitions by German companies were made as part of their transformation strategy.**

However, the two strategies most frequently pursued were non-transformative growth strategies. This included **revenue growth through access to the acquired company's product portfolio.**

Among the transformative strategies, **revenue growth through product innovation** was the most important strategy.

In contrast, **digitalisation** as a transformation goal was still significantly less important in the analysed period.

The option of **diversifying revenue streams** as an additional transformative goal was pursued very rarely.

Transformative sectors were chiefly the media, pharmaceuticals and the consumer goods industry. The sectors with the **lowest share of transformative acquisitions** were the energy and telecommunications sectors.



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Corporate transformations – drivers, initiators and implementation

We conducted 21 interviews during our survey to gain deeper insights into the drivers, initiators and ways of implementing corporate transformations. Fourteen of the respondents held C-level positions, three were vice presidents and four were heads of Strategy/Corporate Transformation/Corporate Development/M&A. Three of the respondents were from the retail and media industries, two from the automotive and chemical industries and the remainder from industries such as pharmaceuticals, banking or software. Eleven people worked for listed companies. In the following, we present the findings of our interviews and highlight selected quotes from individual respondents.

The most important drivers of corporate transformation

Almost all respondents named technological change, meeting stakeholder expectations and changing (sometimes “dysfunctional”) business models as the three most important drivers of corporate transformation.

“The essential driver is the change in everyday life and, as a result, the change in business models. Anyone who does not take that into account will be left behind. If you don’t keep up with the times, time will pass you by.”

CEO

Slightly over half of the respondents named consolidating competition/restructuring in market segments as important drivers of corporate transformation. Changing customer needs, economic crises, building strategic resources and declining or insufficient profits were also mentioned as drivers of transformation.

When it comes to technological change, digitalisation plays a prominent role. It is seen as the only means of retaining and/or increasing competitiveness and creating prospects for development.

Moreover, respondents pointed to the growing significance of artificial intelligence as a transformation driver.

External crises such as the Covid-19 pandemic, supply chain disruptions and the Ukraine war were also seen as catalysts for transformation and as having a particularly severe impact on the implementation of cross-sector transformation goals, especially with regard to digitalisation.

Independent of the individual drivers, many respondents regarded the existence of a certain pressure to adapt as substantial. In some cases, it was a crisis related to their survival that forced transformation. Respondents stated that companies often waited until transformation became inevitable.

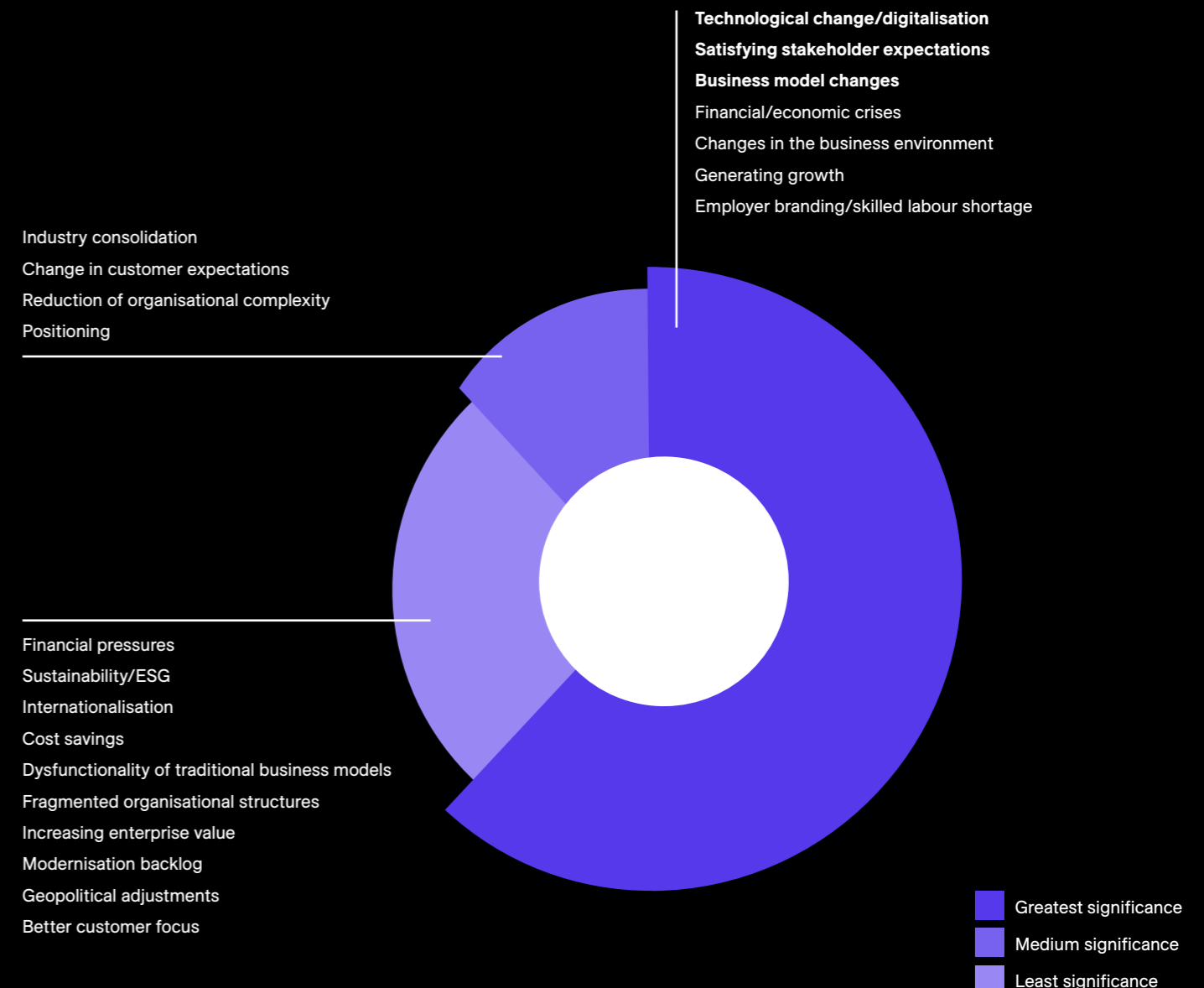
“The most important driver is the knowledge that ‘business as usual’ will drive the company into ruin. You need a bit of pressure.”

CEO

“Waiting until a crisis is at the door is a typically German phenomenon.”

CEO

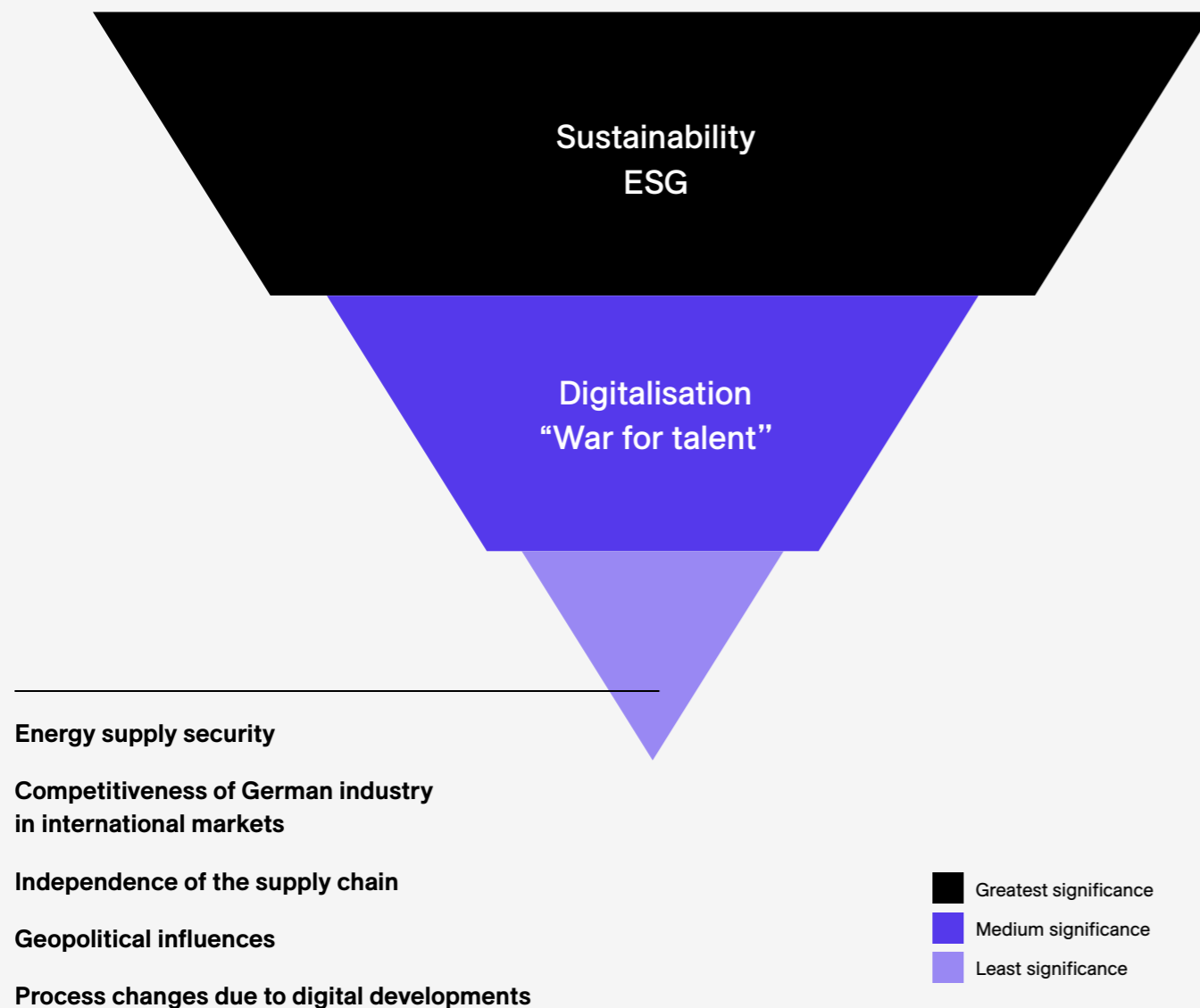
Significance of current drivers of corporate transformation



Future drivers of corporate transformation

Respondents named ESG, sustainability, digitalisation and the war for talent as drivers that will play an even greater role in the future. Some also mentioned energy supply security, fair competition for German industry in international markets, supply chain independence and geopolitical influences as important future factors affecting corporate transformations.

Significance of future drivers of corporate transformation



"ESG is of course an example of a change in mentality. If you do not live up to these standards today, you are simply no longer attractive as an employer. You will have no access to excellent talent and no longer be 'investable' for some investors."

CEO

Sustainability and ESG were especially emphasised during interviews. On the one hand, this was in order to meet investor expectations, and on the other, in order to be able to win the war for talent, which we classified as a driver of its own. Given this situation, many respondents considered "sustainability, diversity and inclusion" as indispensable.

According to the respondents, employees' expectations of companies have changed considerably in the war for talent. Above all, purpose and vision are paramount. Respondents stated that employees are increasingly looking to identify with the company they work for. This requires a different kind of transparency and collaboration based on trust.

Respondents also predicted that the speed at which change will progress in future will grow steadily.

For example, respondents assumed on the one hand that the number of external crises would increase in future. On the other, they

also pointed to the importance of technological developments such as quantum computing, data processing, robotics and artificial intelligence. They thought that people are not yet aware of some things that will suddenly play a role in two years from now. Accordingly, they felt that people needed to be open to change and not be afraid of it. It was felt that what was really needed was a proactive approach to ongoing transition that makes it possible to recognise changes before others do and to adapt to them. In volatile times, it is important to ensure the corporate group's ability to act and make decisions.

Being in a state of permanent transition makes it easier to react to changes rather than succumbing to routines. Many respondents thought that one should not allow oneself to become too comfortable with the status quo since this will change anyway.

"The only thing that doesn't change is that the speed at which change occurs gets faster and faster. And it's also not the case that we are now dealing explicitly with transformations, but rather with cultural change and innovation."

CEO

Impetuses for corporate change

Almost half of the respondents stated that impetus for corporate transformation came primarily from the management. Thus, transformation in corporate groups is largely a matter for C-level.

Some companies created a position on their board for a "Chief Transformation Officer" to drive transformation at management level.

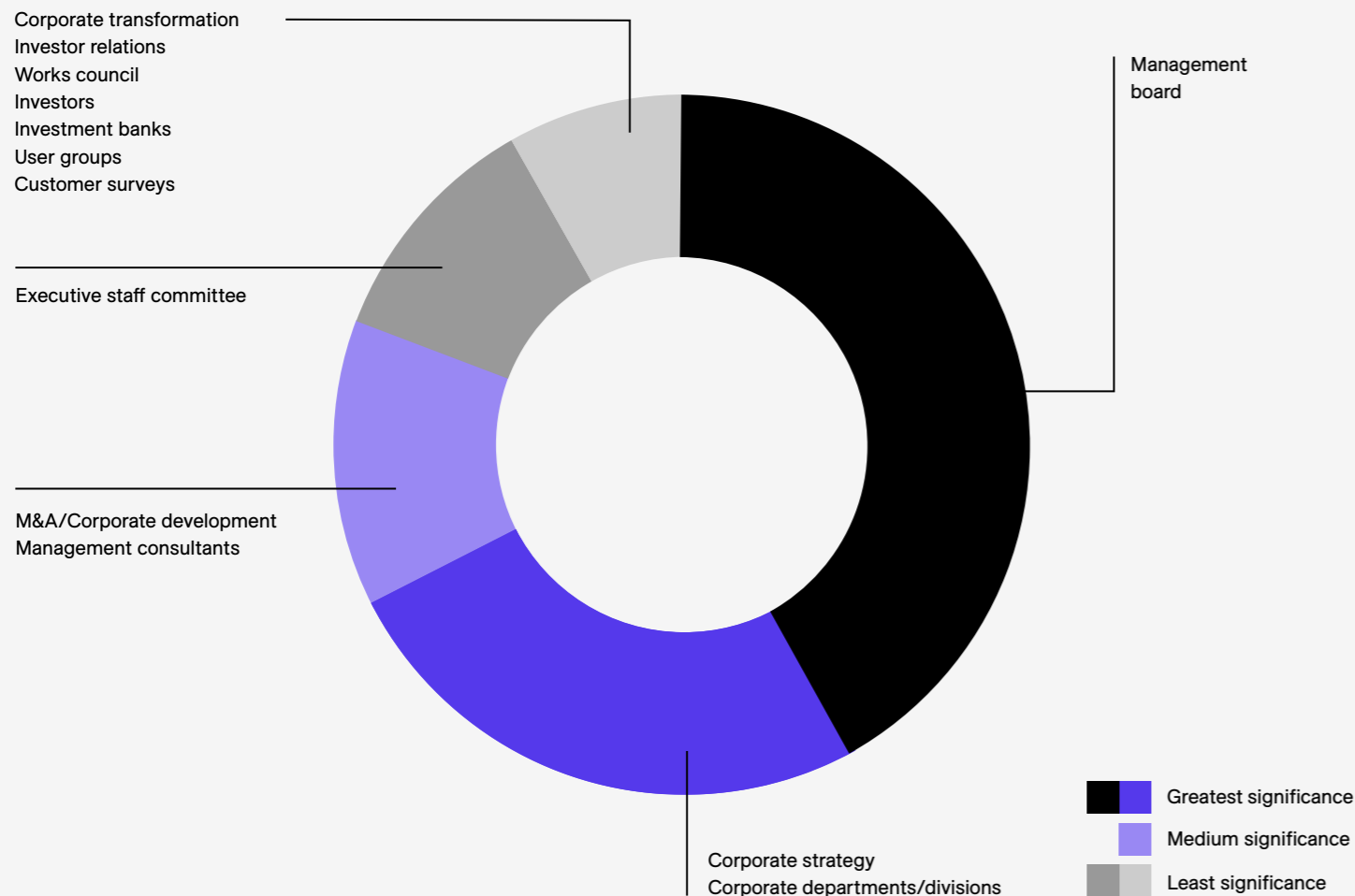
"We've appointed a 'Chief Transformation Officer' to sit on our board to deal with transformation. You have to push this at management level."

CEO

Impulses for transformation also come from Corporate Strategy, corporate departments and divisions, M&A/Corporate Development and the executive staff committee. We were told that ideas for transformation were mainly developed "in-house" and in very small groups. One software group even had its own department for "corporate transformation". However, management consultants were also engaged to provide outside impetus.

Some respondents also stated, for example, that investor relations, investors, investment banks, works councils, user groups and customer surveys provide impetus for corporate transformation.

Significance of impetuses for corporate transformation



Implementing corporate transformations

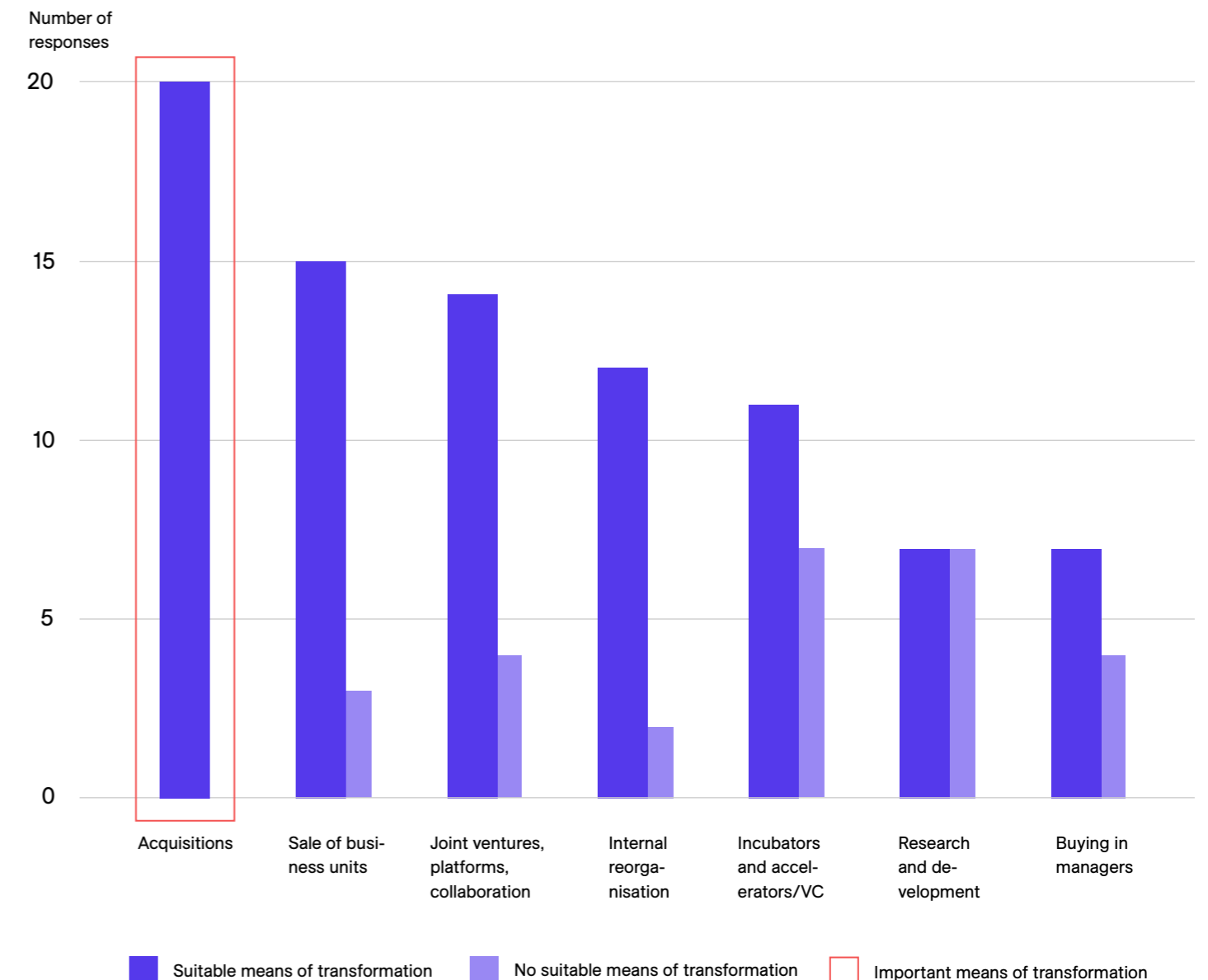
According to the respondents, the most important means of implementing corporate transformations is through acquisitions. In this context, it was pointed out that acquisitions usually work better and faster than in-house development. We were told that, for example, business models were purchased that were "not yet known or with which no experience had been gathered".

Acquisitions of companies served as catalysts for transformation. It was only in later phases of a transformation that the focus shifted to organic growth and development from within the group.

A large proportion of the respondents also mentioned selling business units and establishing joint ventures, platforms and cooperations as different means of transformation which would allow them to gain access to know-how, talent, product innovations and new technologies, or to also open up new markets. Incubators, accelerators, venture capital, research and development, and buy-ins of managers also played a role as different means of corporate transformation.

In addition, a good half of the respondents named internal reorganisation as a means of implementing corporate transformations.

Implementing corporate transformations



Challenges when implementing corporate transformations

One of the difficulties in relation to corporate transformations that was reported was that it tied up resources and that the process entailed significant expense.

According to our survey, effective change management is crucial for successfully implementing corporate transformations and can sometimes prove very hefty. It was said that redundancies and replacements played a significant role in the transformation process. It was also said that transformation requires the corporation to have the “right people” and the “right communication tools”. In particular, the need for transparency in dealings with employees was emphasised. It was thought that having the right management personnel for implementing strategies and creating added value were still crucial. According to the respondents, talents with transformation experience, who have already been through cultural change, have to be brought into the human resources area. Special emphasis was also given to the importance of diversity in filling positions.

“There, too, we bring in very diverse skills: a lot of women, a lot of different industries and backgrounds. It is absolutely essential that you drive transformation forward by employing lots of new people, but also by promoting good people internally. You have to bring in a lot of new and unencumbered thinkers.”

CEO

Holding discussions with companies which have already transformed themselves, but also obtaining advice from consultants, including with regard to transformation culture, were thought to be able to contribute significantly to the success of the transformation process.

The important role of post-merger integrations was emphasised particularly in relation to acquisitions. The respondents thought it was important, especially when acquiring start-ups and young companies, that the group takes on the role of the “silverback” for them and accompanies them through the ups and downs that normally occur. If one could do that, one would have a chance of integrating the company successfully.

Motives for corporate acquisitions

For most respondents, a central motive for a corporate acquisition is to take over the competencies, expertise and know-how of the target for their own corporate organisation (which is known as “competence insourcing”).

“Essentially, we’re not interested in the company itself (which has hardly any structures). It’s really about the talent of the founding team.”

CEO

Other motives given for acquisitions related to extending existing technology, expanding product portfolios

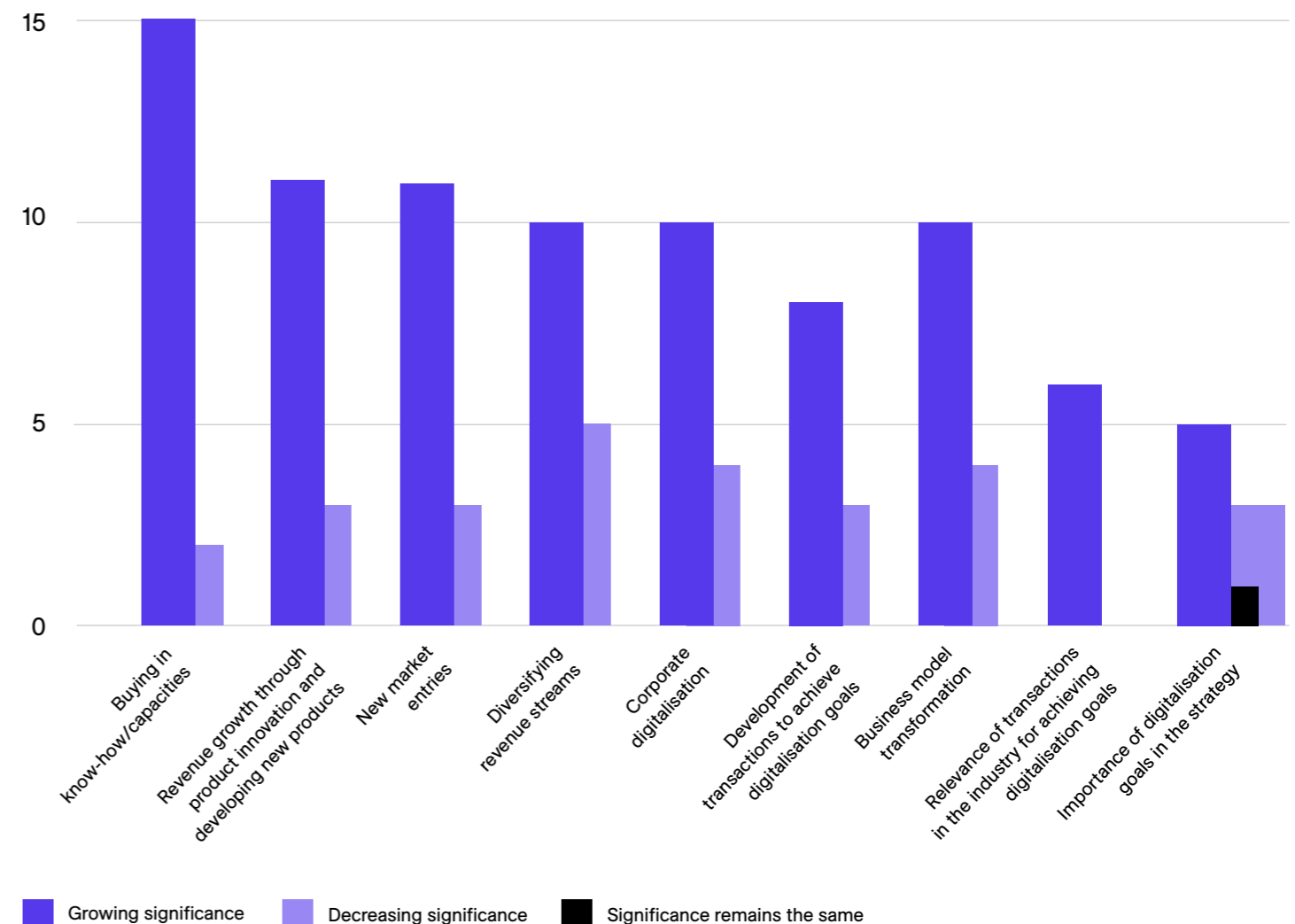
and product and technology innovations, and developing new products. Respondents were also motivated by a desire to diversify their geographic markets and other product lines, to generally diversify their revenue streams and to strengthen their digital offerings.

Another motive that was expressed was the wish to protect themselves against disruption, especially by obtaining expertise in the digital field, adapting to technical requirements or market conditions and accessing new business models.

Respondents particularly emphasised the role of digitalisation. Their awareness of its significance was raised dramatically during the Covid-19 pandemic.

Motives for corporate acquisitions

Number of responses



In most industries, acquisitions within the same industry were disproportionately high in order to create synergies. Growth through consolidation in one's own sector is also of crucial importance.

External acquisitions play a minor role in sectors such as software, chemicals, re-insurance, retail, media, industrial supplies & parts and banking. On the other hand, in the case of chemical distributors and in the automotive area, acquisitions outside the sector seem to play a more decisive role.

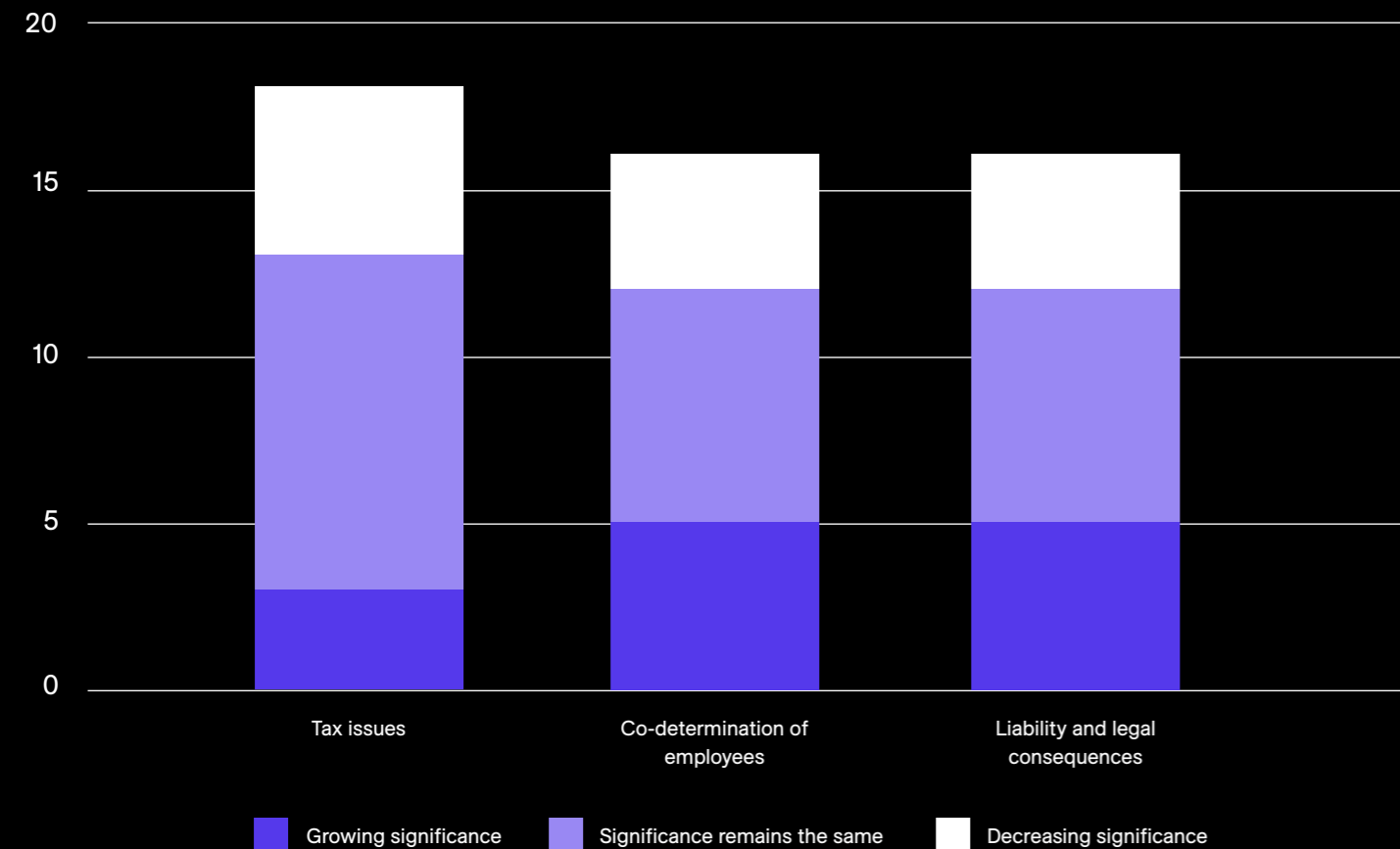
Accordingly, transformation mainly takes place "in one's own playing field" and transformation potential is therefore largely sought within one's own ranks. Only the chemical and automotive sectors think outside the box in this sense. One possible explanation would be that these sectors are comparatively well-developed and a transition is taking place that requires the inclusion of other sectors.

Importance of tax and liability issues and co-determination

Tax and liability issues, legal consequences and co-determination mostly play only a subordinate role or no role at all in the case of corporate transformations.

Other drivers of corporate transformation

Number of responses



Corporate transformations in Germany

Based on the statements and assessments of our respondents, we conducted a quantitative analysis of Mergermarkets' M&A data to determine the scope of corporate transformations in Germany.

Following our interviews where corporate acquisitions were identified as the most important means of transformation, we examined and quantified corporate acquisitions in Germany, analysing their transformative backgrounds and sector-specific features.

Mergermarket is widely recognised as a leading platform for collecting M&A data and is frequently used by M&A professionals for analysing (potential) corporate acquisitions.

We extracted information on deals completed by German companies, whether as purchasers or sellers, from 2016 to 2020, excluding the years impacted by the Covid-19 pandemic to avoid distorting the results. The resulting dataset comprised a total of 5,268 transactions, including details of the target companies, selling companies, acquiring companies, and brief press releases outlining the scope and, in some cases, the strategy behind the acquisitions.

The role of transformative transactions

On the basis of a sample of 500 transactions from the data set, we analysed the strategies of the acquiring companies. The business strategies were grouped according to the categories listed below (Rabier 2017). The three strategies marked can be defined as transformative strategies, i.e., these were – independent of pure revenue growth or investment strategies – conducive to a transformation of the company in the analysed time period.

- Cost reductions through economies of scale/scope
- Revenue growth through access to the target company's product portfolio
- Revenue growth through access to the target company's markets
- Market capitalisation/reduction in competition
- Lucrative financing alternatives
- Market liquidity
- **Revenue growth through product innovations and developing new products**
- **Diversifying revenue streams**
- **Digitalisation goals**

The main strategy of German companies in corporate acquisitions was to increase revenues by accessing product portfolios (143; 35%). It was noticeable that this strategy was most frequently pursued in the agricultural (67%) and energy sectors (62%).

The second most common strategy (76; 19%) was to increase revenues by entering the target's geographical home market. This strategy was mainly used in the utilities sector (40%) and in the computer (hardware) sector (40%). Thus, the two most common strategies pursued in corporate acquisitions are not transformative.

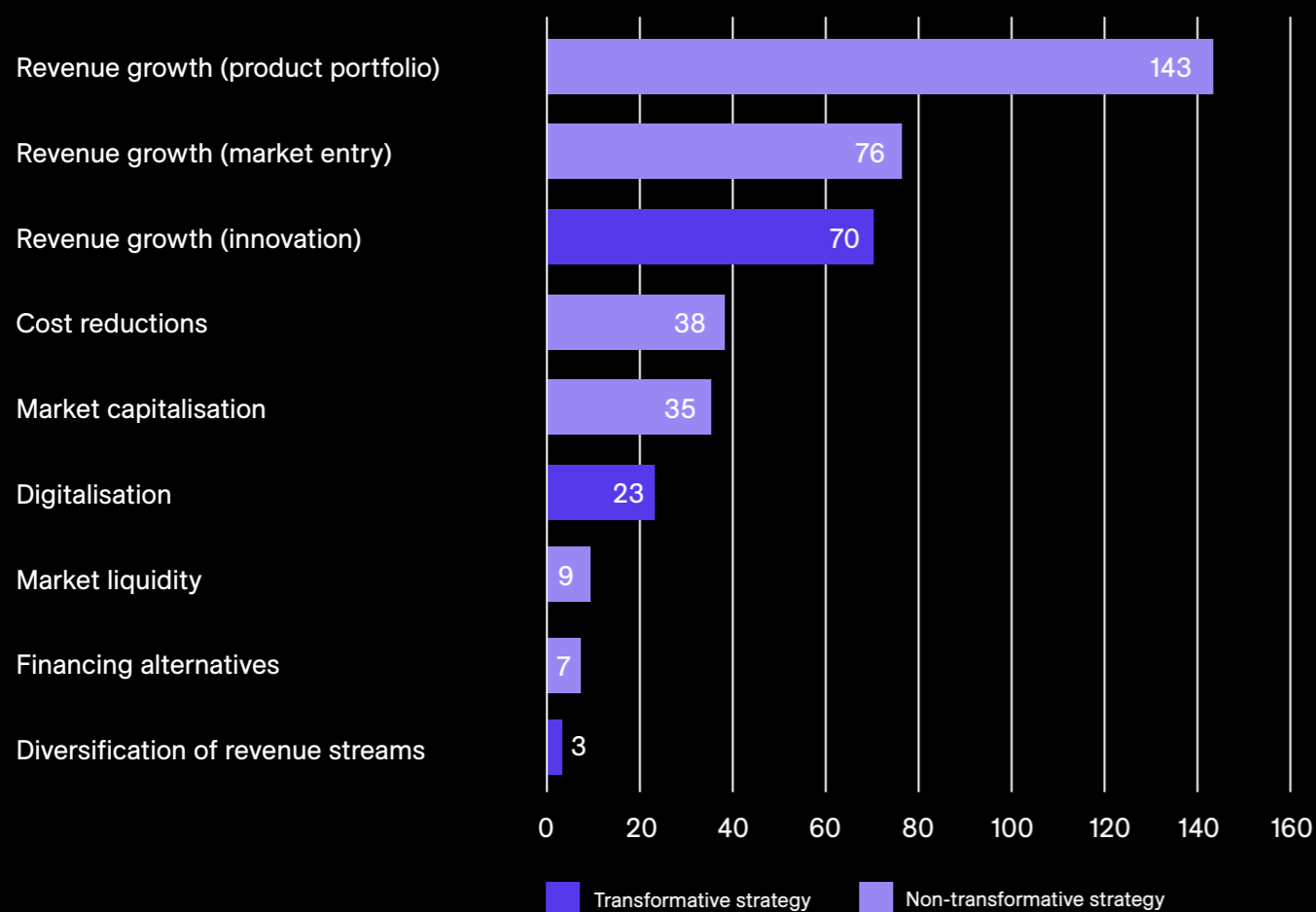
The third most common strategy (70; 17%) was to grow revenue by obtaining innovative solutions and products from the target company. This strategy was pursued especially frequently in industry (electronics) (33%)

and agriculture (33%). Thus, the third most common motive for corporate acquisitions is the pursuit of a transformative strategy.

On the whole, it can be said that corporate acquisitions reflect a strong emphasis on growth among companies. The primary aim is to leverage synergy effects. In the period from 2016 to 2020, digitalisation was already the strategic background of many corporate acquisitions. However, it was only half as often the driving factor for corporate acquisitions compared to revenue growth through innovation. The diversification of revenue streams, which also belongs to the transformative strategies, only very rarely played a role.



Strategies of corporate acquisitions and divestments by German companies between 2016 and 2020



With regard to transformation goals, it is apparent that a good quarter (27%) of all corporate acquisitions in the survey period could be characterised as having a

transformative background. On the other hand, a total of almost three quarters (73%) can be assigned non-transformative motives.

Transactions by sector

The sectors with the highest share of transformative acquisitions were media (47%), the medical sector (pharmaceuticals) (38%) and the consumer goods industry (food) (38%).¹ The sectors with the lowest share of transformative acquisitions were energy (6%), telecommunications: hardware (0%) and telecommunications (0%).

The analysis of the transactions from the data set has shown that the transformative sectors account for an above-average share of intra-sector acquisitions. The media sector acquired companies within its own sector in 70% of cases, the medical sector (pharmaceuticals) did so in 63% and the consumer goods industry (food) in 65% of cases.

In comparison, the share of intra-sector acquisitions is on average lower among the less transformative sectors. Although in the energy sector 70% of acquisitions were internal, in telecommunications (hardware) only 36% of acquisitions occurred within the sector. In telecommunications, the figure was even as low as 34%.

¹ The mining sector had the highest share of transformative acquisitions in the sample (50%). We should, however, point out that the mining sector contained a total of just two subjects in the data set and should therefore be interpreted with caution.

Intra-sector and extra-sector transactions

The frequency of sales and acquisitions of companies in industry and the industrial services sector was particularly noticeable. In this sector, a total of 753 companies were bought (17% of all company purchases) and 430 companies were sold (17% of all corporate sales). Close on the heels of this sector was the services sector where there were 677 corporate acquisitions (16%) and 364 corporate sales (15%). This was followed by the computer software, medical, internet/ecommerce, automotive and construction sectors, as well as various others, which each accounted for less than 4% of total acquisitions. In general, almost all sectors show more acquisitions than divestments.

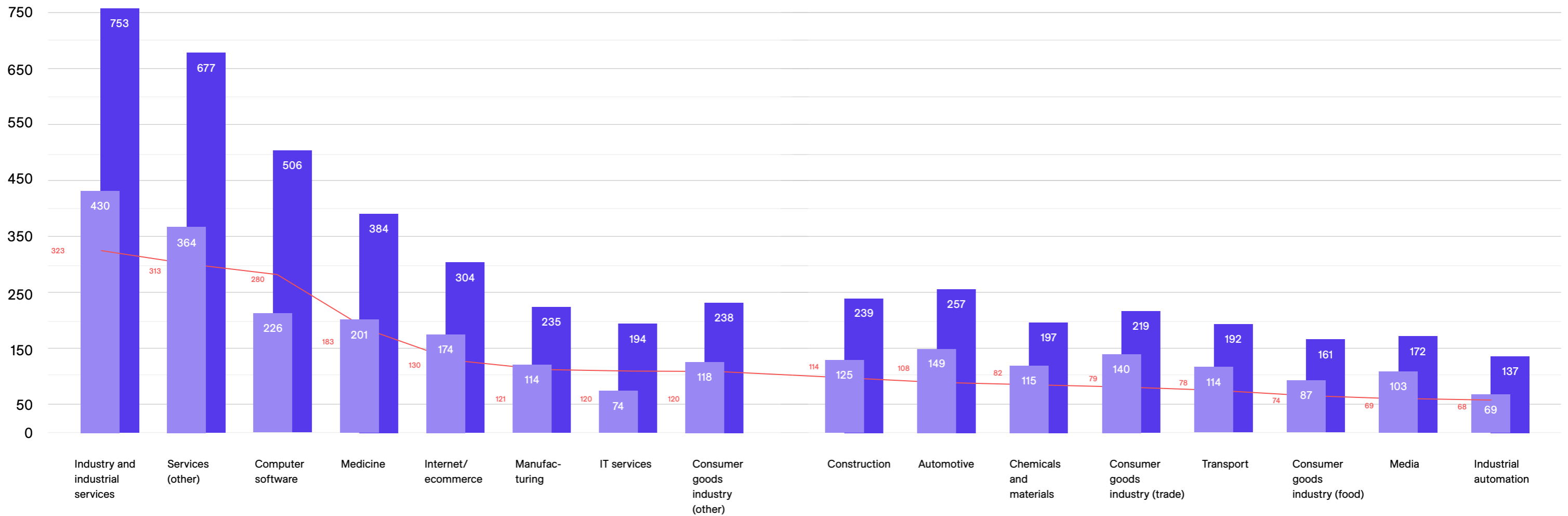
In terms of absolute numbers per sector, an average ratio of 60% corporate acquisitions to 40% corporate divestments emerges across all sectors.

The only sectors at odds with this are energy and mining, which were the only sectors with more corporate divestments than acquisitions. One possible explanation for this is the high demand from abroad or low demand from within Germany. Another noticeable result is the high demand in the ecommerce/Internet sector and in the software industry.

Both sectors show a relatively high acquisition rate in relation to total trade, with net acquisitions of companies (corporate acquisitions and divestments) of 280 and 130 respectively. This indicates that digitalisation strategies and digital solutions play a crucial role in corporate transformations.

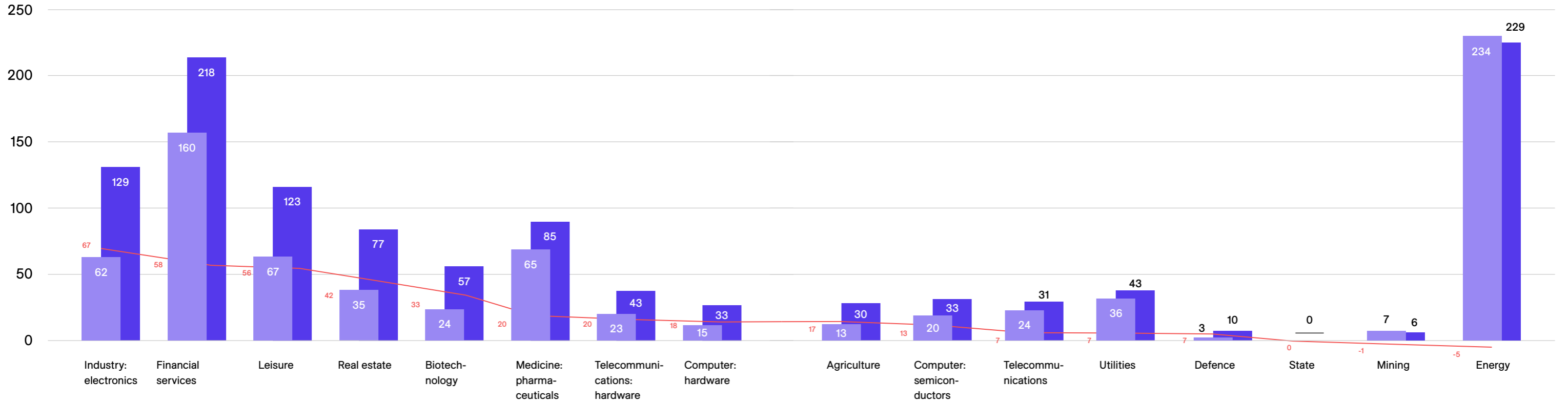
Strategies of corporate acquisitions and divestments by German companies between 2016 and 2020

Number of German companies



Sector-internal and sector-external corporate acquisitions and divestments by German companies between 2016 and 2020

Number of German companies



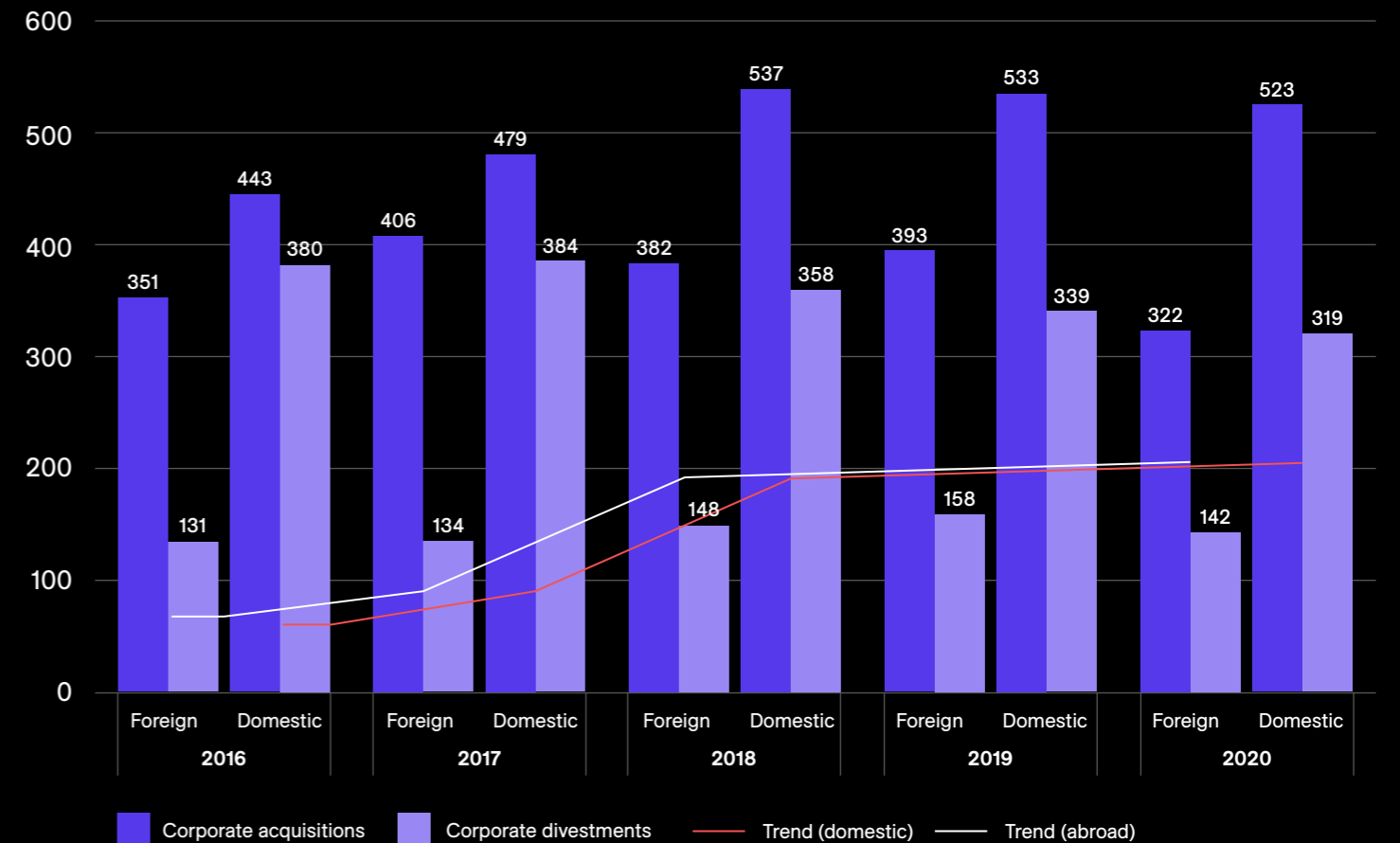
Analysis of transactions in Germany and abroad

Overall, significantly more companies were acquired in Germany than abroad. Between 2016 and 2018, German companies increased their corporate acquisitions both in Germany and abroad. However, this trend stagnated in the period from 2018 to 2020. It can be assumed that, as from spring 2020 onwards, the Covid-19 pandemic, which was first reported to the WHO on 31 December 2019, and the resulting recession were related to stagnating corporate acquisitions in Germany.

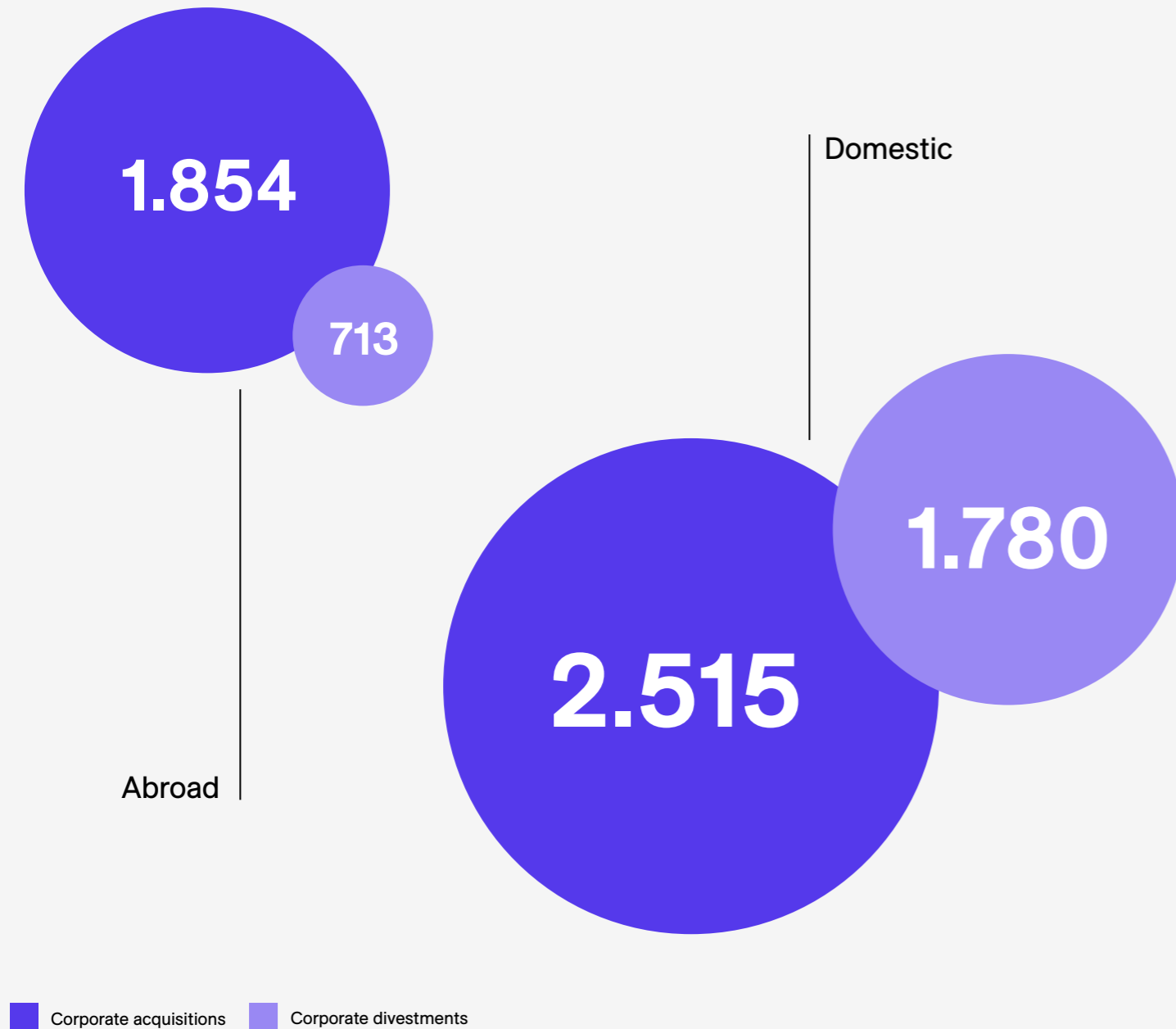
German companies acquired a total of 2,515 German companies (58% of all corporate acquisitions) and sold 1,780 German companies (71% of all corporate divestments) between 2016 and 2020. A total of 713 German companies were acquired by foreign purchasers.

Domestic and foreign corporate acquisitions and divestments by German companies over the period from 2016 to 2020

Number of German companies



Domestic and foreign acquisitions and divestments by German companies between 2016 and 2020



German companies sold or bought companies from 85 different countries.

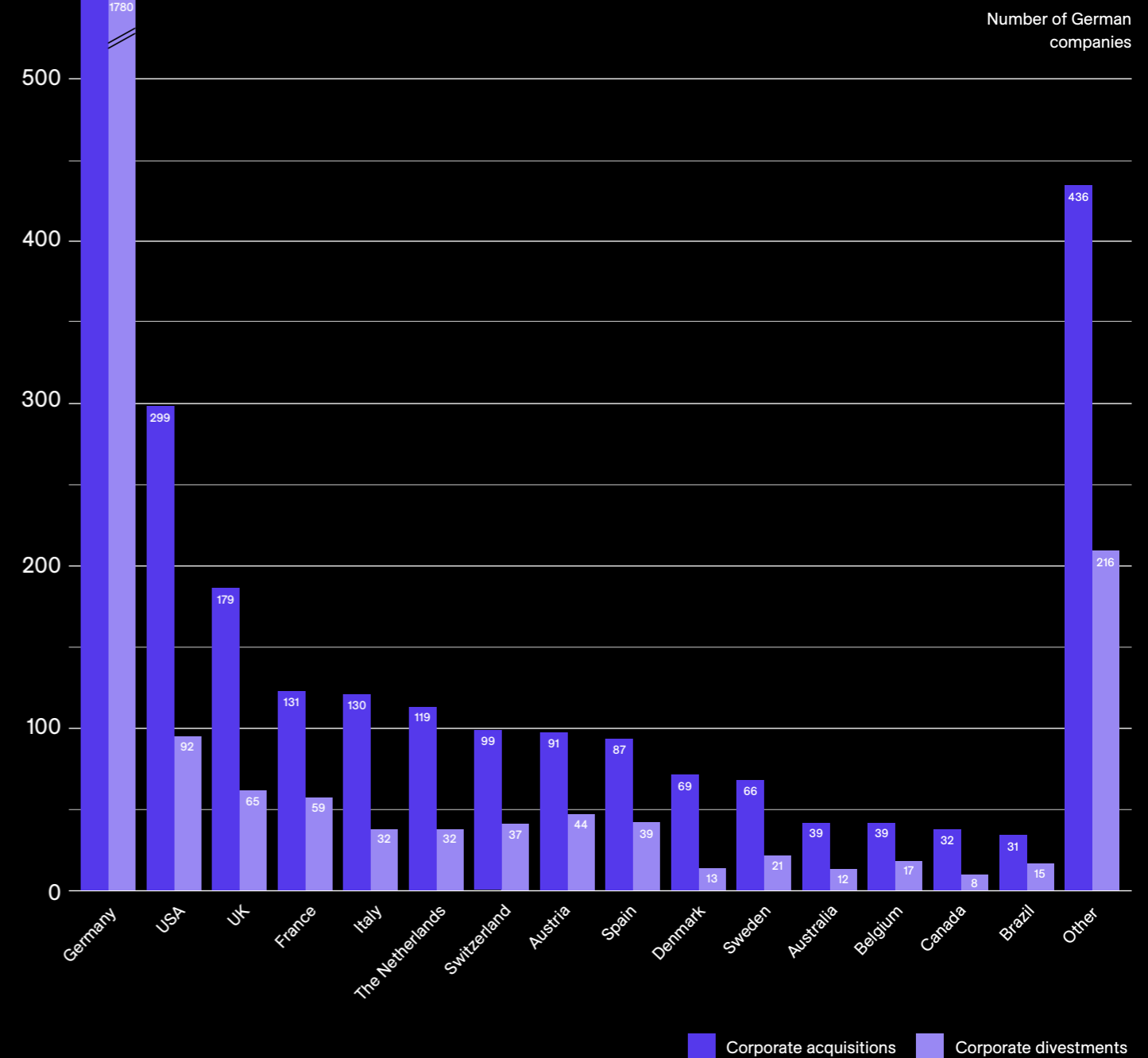
The United States is in second place as German companies acquired a total of 299 (7%) US companies and sold 92 (4%) of the US companies owned by them. 207 companies were thus transferred to the portfolios of German companies between 2016 and 2020.

The countries in third to fifteenth place are at a similar level. Specifically, this includes acquisitions and

divestments from the United Kingdom, France, Italy, the Netherlands, Switzerland, Austria, Spain, Denmark, Sweden, Australia, Belgium, Canada and Brazil, which each represent between 4% and 1% of all acquisitions and divestments. Accordingly, German companies acquired more companies in almost all countries than they sold companies in other countries.



Ranking of domestic and foreign corporate acquisitions and divestments by German companies between 2016 and 2020



About Noerr

In a rapidly changing world, Noerr anticipates developments, transforming change into advantage and charting new ways into the future. Covering the full depth and breadth of corporate and business law, its 500 advisors craft solutions with a strategic perspective. Together they help international corporations, family-owned businesses, financial investors and the public sector to achieve maximum possible impact, sustainability and resilience.

Noerr has offices in ten countries, partners with top law firms worldwide and is the exclusive member firm in Germany for Lex Mundi, the world's leading network of independent law firms with in-depth experience in 125+ countries.

About the Chair for Strategy and Organisation at the TUM School of Management

The Technical University of Munich (TUM) is one of the best universities in Europe. It is characterised by outstanding achievements in research and teaching, interdisciplinarity and talent promotion. It has strong alliances with companies and scientific institutions around the world. In Germany, TUM is one of the three top Universities of Excellence. It consistently performs exceptionally well in international and national rankings. Since 1927, a total of 17 scientists and alumni of TUM have been awarded the Nobel Prize.

Professor Isabell M. Welpé is the Chair for Strategy and Organisation at the TUM School of Management. Her current research team consists of 15 doctoral students from the fields of business administration, psychology and computer science. The team is led by Professor Welpé and Dr. Treffers and conducts top-level interdisciplinary research on various topics, including strategy, leadership, organisation, digital transformation, innovation, entrepreneurship and start-ups, diversity, equality and inclusion, blockchain technology, and artificial intelligence.

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