# 4. STRATEGIES

Despite uncertainties about some of the deep changes under way, European unification is rapidly taking shape. Far-reaching decisions make unification increasingly irreversible. European businesses are involved in a wave of mergers and acquisitions -- some of them hostile takeovers, uncommon in Europe until recently. The mergers take place in every economic sector and their number is growing fast. In 1985, among the top 1 000 European companies there were 140 "national" mergers, achieved to consolidate core markets before expanding to other European countries. In both 1987 and 1988, there were 225 national mergers. Spanish banks provide a good example of this regrouping. For example, Banco de Viscaya and Banco de Bilbao, regional banks of similar size, have formed Banco Bilbao Viscaya, a new entity of international stature. At the same time, cross-border deals targeted on Spain have more than doubled, from less than 50 in 1986, to well over 100 in both 1987 and 1988 (Table 13).

Managers know they cannot wait for every detail of new business opportunities before they respond to competition. It might still be too early to develop precise strategic plans, but an overall goal must be set now.

## 4.1 European Strategies

### a) Cross-Border Acquisitions

Very few banks around the world have chosen to be truly "global," offering a full range of products through a very large network and dealing with a clientele ranging from top-ranking corporations to individual customers. Wholesale banking is not viable if it focuses exclusively on lending (because margins on loans to large companies are excessively competitive. Lending must be coupled with corporate finance products that generate fees and commissions.) Retail banking is profitable when it can combine high-margin products, such as consumer lending, with low-cost deposits, with additional profits coming from funding treasury mismatch. Branch networks are necessary for distributing retail products; attempts to develop new retail facilities are too costly and time consuming. Thus the only sensible way to gain new distribution capabilities is to buy an existing network.

A handful of European banks have clearly indicated their desire to build a significant presence in other major EC Member States. The most visible moves have been made by Deutsche Bank, which is aggressively engaged in a buying spree across Europe. Deutsche Bank has acquired the subsidiary of Bank of America in Italy; Banco Commercial Atlantico in Spain; Morgan Grenfell in the U.K.; and is searching for an acquisition in France. The large French banks are also developing a very coherent network. After two acquisitions, Crédit Lyonnais is a major player in the Benelux countries and participates in Italy with Credito Bergamasco. Banque Nationale de Paris is consolidating its banking and insurance presence in the major European countries. The large British banks are well established across Europe, and are expanding. Barclays has entered Spain, and Lloyds Bank and Midland Bank have made acquisitions in the Federal Republic of Germany.

These highly publicized deals are limited in number because there are few large, profitable and reasonably priced targets. Hostile takeovers are still rare in the financial sector, and foreigners could probably not take control of a major local institution against political opposition. Local governments are encouraging consolidation of the important players in their domestic markets in preference to outsiders. Potential candidates for takeover, being in short supply, might prove very expensive, limiting returns for a long time. Some past cases of foreign