

# Merger Activity under the UK Fair Trading Act 1973\*

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## 1. Introduction

In a previous paper (Masuda, 2002) we surveyed the procedure of merger regulation under the Fair Trading Act 1973 in the UK and then principally assessed the effectiveness of regulation policy by the Office of Fair Trading.

This report surveys merger activity in the UK and aims to examine some characteristics of mergers. There are some sources of information about merger activity in the UK. For example, data in the *Annual Report of Director of General of Fair Trading, Business Bulletin: Acquisitions and Mergers within the UK*, the number of businesses on the VAT register and the number of mergers drawn from a questionnaire (Cosh and Hughes, 1994). We employ data in the *Annual Report* out of these sources. This data is collected under the Fair Trading Act 1973 and thus was not always comprehensive. A better indicator of overall activity is provided by the *Business Bulletin*.

The next section surveys the following merger activities: the number of mergers, merger types, some relationships between target companies and bidding ones, and nationality of merger companies. Finally this report ends with a summary of our findings and a discussion of the future direction of research in this area.

## 2. Merger Activity in the UK

### 2.1. The Number of Mergers under the FTA 1973

Table 1 presents the number of qualifying cases under the Fair Trading Act 1973 (hereafter the FTA 1973) and the number of mergers collected by the Central Statistical Office. Qualifying shows that the Monopolies and Mergers Commission (hereafter the MMC) examined whether the proposed merger qualified for

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Table 1. The Number of Merger Cases:1971-95

	Proposals qualifying under the Fair Trading Act 1973			Business Bulletin	Fair Trading Act cases as percentage of industrial and commercial
	All cases		Industrial and commercial	Industrial and commercial	Numbers (a)÷(b)×100
	Numbers	Assets test for: £ million		Numbers (b)	
1995	235	178,066	253	482	52.9
94	231	102,202	215	676	31.8
93	197	50,085	181	524	34.5
92	125	83,172	112	432	25.9
91	183	87,333	158	506	31.2
90	281	100,040	227	778	29.1
89	281	96,100	258	1,077	24.0
88	566	98,902	276	1,499	18.4
87	521	121,911	279	1,527	18.3
86	323	123,301	238	842	28.3
85	192	57,488	144	474	30.4
84	259	80,688	201	568	35.2
83	193	45,495	143	447	32.0
82	190	25,999	144	463	31.1
81	164	43,597	126	452	27.9
80	182	23,289	141	469	-
79	257	13,140	220	534	-
78	299	11,999	202	567	-
77	164	4,675	155	481	-
76	163	4,323	133	353	-
75	160	5,786	116	313	-
74	141	7,621	88	504	-
73	134	4,878	114	1,288	-
72	134	3,588	95	1,210	-
71	130	1,687	95	884	-

Note: A better indicator of overall merger activity in the industrial and commercial sectors than including the financial sector(s) is provided by statistics collected by the Central Statistical Office, and published in *Business Bulletin: Acquisitions and Mergers within the UK*.

Source: The data in the following tables is calculated from the *Annual Report* (various years).

investigation. Thus the number of qualifying cases shows the figures that excluded “ found not to qualify, proposals abandoned, and informal guidance cases ” from total number of cases examined by the Office of Fair Trading.<sup>(1)</sup>

As mentioned above, data collected under the FTA 1973 was not always comprehensive. The number of qualifying cases in the industrial and commercial sectors under the FTA 1973 is about 30% of those sectors in the *Business Bulletin*. Every figure has increased since the late 1980s. We can understand this phenomenon as follows. A large rise in the number of cases had arisen from not only a vigorous merger activity among companies, but also the procedural and statutory changes in accordance with the introduction of some New Competition Laws. Investigation activity with deregulation policy since the 1980s has been on public sector and privatized industries. Furthermore, it has been argued that recent mergers have been a response to changing market conditions as the development of the single European market has taken place.

A merger situation that qualifies for investigation must meet four criteria. It is for the MMC to determine,<sup>(2)</sup> in the course of its investigations, whether the case referred does satisfy the criteria. It is said that two of the four criteria are significant ones.

That is, the market share test: as a result of the merger, 25% or more of the supply or purchase of goods or services of a particular description in the UK or a substantial part of it comes under the control of the merging enterprise, or a 25% share is increased. The assets test: the total gross assets of the company to be

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taken over exceeds £ 70 million in value.

Satisfying one or both of these tests will qualify a merger for examination, provided that at least one of the enterprises is in the UK, or under the control of a UK company (Office of Fair Trading, 1998, p.10).

Table 2 shows the relationship between the details of the findings of the MMC and the number of criterion involved.

Table 2. References to the MMC under the Fair Trading Act 1973

Finding of the MMC	Qualification criteria under the Fair Trading Act 1973															
	Share of supply of at least 25%								Assets in excess of £ 70million*							
	1996	95	94	93	92	91	90	total	1996	95	94	93	92	91	90	total
Not against the public interest	0	2	0	1	0	1	3	7	0	0	0	0	0	1	4	5
Against the public interest	3	3	0	1	3	2	5	17	3	1	0	0	1	0	0	5
Proposal abandoned	0	0	1	0	2	1	0	4	0	0	0	0	0	0	0	0
Decision awaited	0	1	4	0	0	0	0	5	0	0	0	0	0	0	1	1
Total	3	6	5	2	5	4	8	33	3	1	0	0	1	1	5	11
as percentage of all qualifying mergers in this category	1.1	2.2	2.2	2.7	12.8	9.5	17.4		1.1	0.4	0	0	1.4	0.8	2.8	
Finding of the MMC	Meeting both criteria								subtotal							
	1996	95	94	93	92	91	90	total	1996	95	94	93	92	91	90	Totals
	1996	95	94	93	92	91	90	total	1996	95	94	93	92	91	90	Totals
Not against the public interest	2	0	0	0	2	1	3	8	2	2	0	1	2	3	10	20
Against the public interest	2	0	0	0	0	0	5	7	8	4	0	1	4	2	10	29
Proposal abandoned	0	0	0	0	2	0	3	5	0	0	1	0	4	1	3	9
Decision awaited	4	2	3	1	0	1	1	12	4	3	7	1	0	1	2	18
Total	8	2	3	1	4	2	12	32	14	9	8	3	10	7	25	76
as percentage of all qualifying mergers in this category	2.9	0.7	1.3	6.2	26.6	15.4	35.3		5.1	3.3	3.5	2	8	3.8	9.9	

Note. \*: Threshold raised from £ 30 million in February 1994.

Over the period 1990-1996, examining the total numbers for each criterion it was found that the largest number of cases occurred in the “ market share test ”, followed by the “ meeting both tests ”. For the “ assets test ” is not always many. When we observe the findings of the MMC, there were 29 cases against the public interest and 20 cases not against the public interest in total. In cases against the public interest, the majority were market share test. We can thus understand that the MMC has stressed the impact of merger on market dominance.

Table 3 presents a relationship between industries and the number of criterion involved. Comparing the

Table 3. Analysis by main activity and qualification criteria

Industry	Numbers of cases															
	Share of supply of at least 25%								Assets in excess of £ 70 million*							
	1996	95	94	93	92	91	90	total	1996	95	94	93	92	91	90	total
Agriculture,forestry and fishing	0	1	0	1	0	0	1	3	0	0	1	0	0	0	0	1
Coal,oil and natural gas	0	0	2	3	0	1	0	6	4	2	3	1	1	8	4	23
Electricity, gas and water	0	2	0	1	0	0	0	3	8	10	0	2	3	2	1	26
Metal processing and manufacturing	1	4	2	0	1	1	2	11	1	0	0	2	2	4	3	12
Mineral processing and manufacturing	11	8	1	4	2	5	0	31	1	4	2	3	0	4	7	21
Chemicals and man-made fibres	3	2	12	8	7	2	6	40	2	5	6	8	8	12	15	56
Metal goods (not elsewhere specified)	1	1	2	1	0	0	2	7	0	1	0	3	1	2	2	9
Mechanical engineering	9	5	1	4	4	2	3	28	1	3	4	6	4	5	12	35
Electrical engineering	2	8	4	4	1	6	2	27	3	2	1	6	4	5	11	32
Vehicles	4	1	6	0	0	0	1	12	0	2	1	3	0	3	7	16
Instrument engineering	3	2	2	1	1	1	1	11	0	0	0	0	0	0	1	1
Food, drink and tobacco	13	12	14	9	7	5	4	64	9	9	2	6	12	9	13	60
Textiles	0	1	2	1	0	1	1	6	0	1	0	0	0	1	0	2
Leather goods and clothing	1	1	0	0	0	0	0	2	0	0	0	1	1	2	3	7
Timber and wooden furniture	0	1	0	0	0	1	1	3	1	0	1	0	0	0	2	4
Paper, printing and publishing	7	12	4	2	2	1	1	29	4	2	2	3	3	4	7	25
Other manufacturing industries	8	12	1	0	2	4	2	29	5	3	1	4	1	2	1	17
Construction	3	3	5	0	0	0	1	12	5	0	1	4	3	3	1	17
Distribution	7	11	16	7	3	4	3	51	3	10	7	10	5	13	18	66
Hotels, catering and repairs	0	5	2	2	0	0	3	12	2	5	3	9	2	2	7	30
Transport and communications	53	49	51	17	4	3	10	187	8	3	8	9	7	10	5	50
Banking and finance	0	0	0	0	1	2	1	4	9	9	8	9	9	9	21	74
Insurance	0	0	0	0	1	0	0	1	4	3	1	3	0	11	11	33
Ancillary financial services	3	0	3	0	1	0	1	8	2	6	1	4	0	2	1	16
Other business services	4	10	9	4	1	1	0	29	10	8	5	8	3	11	21	66
Other services	5	2	8	1	1	2	0	19	11	7	3	7	2	4	7	41
Total	138	153	147	70	39	42	46	635	93	95	61	111	71	128	181	740

Note. \*: Threshold raised from £ 30 million to £ 70million in February 1994.

“ market share test ” with the “ assets test ”, the total number of these tests turned out numerous cases in the former test since 1994. Observing every industry, the number with two tests is numerous in transport and communications, food, drink and tobacco, and distribution industries. The last two industries also increased in the “ market share test ”. The Food, drink and tobacco industries also have numerous cases in the “ meeting both criteria ”. Banking and finance industry has the largest number in the “ assets test ”.

## 2.2. Analysis by Merger Types : Numbers and Values of Assets

Table 4 shows the percentage shares of proposed mergers by numbers and values of assets of target companies classified by merger types.

Table 4. Percentage of proposed mergers by number and value of assets of target companies classified by type of integration:1970-96

	Horizontal (%)		Vertical (%)		Diversifying (%)		Total (100%)	
	by number	by value	by number	by value	by number	by value	number	value ( £ million)
1996	93	97	2	1	5	2	274	153,623
95	91	96	1	0	8	4	275	178,097
94	88	86	5	11	7	3	231	162,203
93	90	81	3	1	7	18	197	50,085
92	93	97	1	0	6	3	125	83,171
91	88	89	5	5	7	6	183	87,333
90	75	81	5	3	20	16	261	100,044
89	60	44	2	3	37	53	281	96,107
88	58	45	1	1	41	54	306	98,902
87	67	80	3	1	30	19	320	121,912
86	69	74	2	1	29	25	313	123,361
85	58	42	4	4	38	54	192	57,488
84	63	79	4	1	33	20	259	80,688
83	71	73	4	1	25	26	192	45,494
82	65	64	5	4	30	32	190	25,938
81	62	71	6	2	32	27	164	43,597
80	65	68	4	1	31	31	182	22,289
79	51	68	7	4	42	28	257	13,138
78	53	67	13	10	34	23	229	11,999
77	64	57	11	11	25	32	-	-
76	70	66	8	7	22	27	-	-
75	71	77	5	4	24	19	-	-
1970-74	73	65	5	4	23	27	-	-

Horizontal mergers are those where the largest and/or second-largest activities of the enterprises overlap. Vertical mergers are those where either the largest or second-largest activities are at different stages in the production or distribution of the same product. Mergers that are neither horizontal nor vertical are classified as diversifying (the *Annual Report*, 1996, p.83).

The horizontal type makes up the largest percentage shares in both numbers and values. These percentage shares have increased since 1990. Ranked next is the diversifying type. This type's percentage share, however, has decreased since that year. We can understand that mergers in the UK are principally horizontal and recently this type has increased.

Table 5 includes the number of cases by size of gross assets of target companies. In terms of total numbers, the smallest asset size has the largest number of cases. From 1985 to 1992 the number of cases of larger sizes ( £ 25-49.9, 50-99.9 and 100-249.9 million) exceeded that of the smallest asset size. The smallest asset size has again increased since 1993.

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Table 5. Analysis by size of gross assets of target companies:  
Numbers and percentages of totals: 1979-96

Numbers and percentages of totals: 1979-90									
Gross assets of target companies: £ million									
Numbers	0-	25-	50-	100-	250-	500-	1,000	Total	
	24.9	49.9	99.9	249.9	499.9	999.9	and over		
1996	101	32	33	42	22	14	30	274	
95	118	23	33	46	21	18	16	275	
94	112	25	29	25	17	9	14	231	
93	67	31	39	31	10	8	11	197	
92	28	39	16	21	6	8	7	125	
91	39	28	38	36	17	11	14	183	
90	48	51	50	44	23	25	20	261	
89	56	52	63	48	25	15	22	281	
88	59	55	75	59	19	20	19	306	
87	78	66	76	49	24	12	15	320	
86	48	63	49	74	31	19	29	313	
85	30	49	31	39	22	11	10	192	
84	70	64	47	35	15	14	14	259	
83	78	40	27	21	11	2	13	192	
82	73	46	24	27	8	7	5	190	
81	69	35	20	19	8	3	10	164	
80	106	29	17	14	8	4	4	182	
79	192	27	19	9	3	5	2	257	
78	166	25	17	12	7	0	2	229	
Total	1,538	780	703	651	297	205	257	4,431	
Percentages of totals								%	
	1996	36.9	11.7	12.0	15.3	8.0	5.1	10.9	100
	95	42.9	8.4	12.0	16.7	7.6	6.5	5.8	100
	94	48.5	10.8	12.6	10.8	7.4	3.9	6.1	100
	93	34.0	15.7	19.8	15.7	5.1	4.1	5.6	100
	92	22.4	31.2	12.8	16.8	4.8	6.4	5.6	100
	91	21.3	15.3	20.8	19.7	9.3	6.0	7.6	100
	90	18.4	19.5	19.2	16.9	8.8	9.6	7.7	100
	89	19.9	18.5	22.4	17.1	8.9	5.3	7.8	100
	88	19.3	18.0	24.5	19.3	6.2	6.5	6.2	100
	87	24.3	20.6	23.7	15.3	7.5	3.7	4.7	100
	86	15.3	20.0	15.6	23.6	9.9	6.1	9.3	100
	85	15.6	25.5	16.1	20.3	11.5	5.7	5.2	100
	84	27.0	24.7	18.1	13.5	5.8	5.4	5.4	100
	83	40.6	20.8	14.1	10.9	5.7	1.0	6.8	100
	82	38.4	24.2	12.6	14.2	4.2	3.7	2.6	100
81	42.1	21.3	12.2	11.6	4.9	1.8	6.1	100	
80	58.2	15.9	9.3	7.7	4.4	2.2	22.0	100	
79	74.5	10.5	7.3	3.5	1.2	1.9	0.8	100	
78	72.5	10.9	7.4	5.2	3.1	0	0.9	100	
Total	34.7	17.6	15.9	14.7	6.7	4.6	5.8	100	

Table 6 similarly shows values of assets of target companies. While the largest asset size was only a small number of cases as shown in Table 5, the value of assets is the largest one. Its percentage share accounted for about 88% of the total value in 1994. Values of this asset size class have increased in recent years, and this fact means that the scale of mergers has also done so.

Table 7 presents the relationship between asset sizes of target companies and merger types. Observing the number of subtotal cases, the horizontal type occurs in numerous cases in the smallest asset size. There are many cases of vertical and diversifying types in the asset sizes £ 50-99.9 to 100-249.9 million. We can again confirm that the horizontal type has recently increased in totals.

Table 8 shows data relating to values of assets by merger types. With asset sizes, the amount of assets has gradually increased in every merger type.

Table 6. Analysis by size of gross assets of target companies:

Values of assets and percentages of totals:1979-96									
Gross assets of target companies: £ million									
Total assets	0-24.9	25-49.9	50-99.9	100-249.9	250-499.9	500-999.9	1,000 and over	Total	(Average assets)
1996	714	1,176	2,459	6,270	7,839	9,841	125,324	153,623	561
95	758	845	2,574	7,366	7,330	12,856	146,368	178,097	648
94	1,018	777	2,181	3,522	6,305	6,321	142,079	162,203	702
93	536	1,174	2,515	5,069	3,374	6,149	31,268	50,085	254
92	171	1,356	1,152	3,123	1,880	5,882	69,607	83,171	665
91	209	1,116	2,795	5,478	6,300	7,368	64,067	87,333	477
90	257	1,845	3,519	6,757	7,742	18,262	61,662	100,044	383
89	345	2,042	4,366	7,200	8,619	10,477	63,058	96,107	342
88	510	2,046	5,507	9,657	6,367	14,406	60,409	98,902	323
87	491	2,518	5,220	7,577	8,596	8,389	89,121	121,912	380
86	460	2,339	3,466	11,811	10,723	13,974	80,588	123,361	394
85	220	1,798	2,004	6,085	7,675	7,617	32,089	57,488	299
84	925	2,369	3,122	5,861	5,441	9,152	53,818	80,688	311
83	1,027	1,391	1,877	2,839	3,863	1,273	33,224	45,494	237
82	1,115	1,530	1,609	4,647	3,175	4,765	9,097	25,938	137
81	964	1,299	1,396	3,320	3,460	2,323	30,835	43,597	266
80	1,343	1,095	1,212	2,229	2,732	2,089	11,589	22,289	122
79	1,865	953	1,351	1,384	821	3,721	3,043	13,138	51
78	1,569	887	1,165	1,932	2,194	0	4,250	11,999	52
Total	14,497	28,556	49,490	102,127	104,436	144,865	1,111,496	1,555,469	
Percentages of totals								%	
1996	0.5	0.8	1.6	4.1	5.1	6.4	81.6	100	
95	0.4	0.5	1.4	4.1	4.1	7.2	82.2	100	
94	0.6	0.5	1.3	2.2	3.9	3.9	87.6	100	
93	1.1	2.3	5.0	10.0	6.7	12.3	62.4	100	
92	0.2	1.6	1.4	3.8	2.3	7.0	83.7	100	
91	0.2	1.3	3.2	7.5	7.2	8.4	73.4	100	
90	0.2	1.8	3.5	6.8	7.7	18.3	61.7	100	
89	0.4	2.1	4.5	7.5	9.0	10.9	65.6	100	
88	0.5	2.1	5.6	9.8	6.4	14.6	61.1	100	
87	0.4	2.1	4.3	6.3	7.1	6.9	73.1	100	
86	0.4	1.9	2.8	9.6	8.7	11.3	65.3	100	
85	0.4	3.1	3.5	10.6	13.4	13.2	55.8	100	
84	1.1	2.9	3.9	7.3	6.7	11.3	66.7	100	
83	2.3	3.1	4.1	6.2	8.5	2.8	73.0	100	
82	4.3	5.9	6.2	17.9	12.2	18.4	35.1	100	
81	2.2	3.0	3.2	7.6	7.9	5.3	70.7	100	
80	6.0	4.9	5.4	10.0	12.3	9.4	52.0	100	
79	14.2	7.3	10.3	10.5	6.2	28.3	23.2	100	
78	13.1	7.4	9.7	16.1	18.3	0	35.4	100	
Total	0.9	1.8	3.2	6.6	6.7	9.3	71.5	100	

Table 7. Analysis by size of assets of target companies, and type of merger (the Number of cases)

size of assets £ million	Horizontal								Vertical								Diversifying								Total
	1996	95	94	93	92	91	90	sub-total	1996	95	94	93	92	91	90	sub-total	1996	95	94	93	92	91	90	sub-total	
0-24.9	96	118	109	67	28	39	47	504	3	0	2	0	0	0	0	5	2	0	1	0	0	0	1	4	513
25-49.9	31	22	23	29	36	22	37	200	0	1	0	2	0	2	1	6	1	0	2	0	3	4	13	23	229
50-99.9	30	28	24	33	15	36	30	196	0	1	1	2	0	1	7	12	3	4	4	4	1	1	13	30	238
100-249.9	35	34	18	23	19	29	32	190	2	0	5	2	1	2	1	13	5	12	2	6	1	5	11	42	245
250-499.9	21	19	11	8	5	15	17	96	0	1	2	0	0	1	1	5	1	1	4	2	1	1	5	15	116
500-999.9	12	16	7	7	7	9	17	75	1	0	0	0	0	2	1	4	1	2	2	1	1	0	7	14	93
1,000 and over	29	14	12	10	6	11	15	97	0	0	1	0	0	1	1	3	1	2	1	1	1	2	4	12	112
Total	254	251	204	177	116	161	195	1,358	6	3	11	6	1	9	12	48	14	21	16	14	8	13	54	140	1546

## 2.3. Industrial Sectors of Target Companies

Tables 9 and 10 include classification by the numbers and asset sizes of target companies. The total numbers of cases over the period 1983-1996 was largest in the distribution industry, followed by transport and communications, food, drink and tobacco, other business services, and banking and finance industries in that order. Observing the trends in numbers of cases, transport and communications, food, drink and tobacco industries have increased in recent years.

Amount of assets is largest in the banking and finance industry, followed by coal, oil and natural gas, food, drink and tobacco, insurance, and distribution industries in that order.

Table 8. Analysis by size of assets of target companies, and type of merger (Values of assets : £ m)

Table 6. Analysis by size of assets of target companies, and type of merger (values of assets : £ m)																	
size of assets £ million	Horizontal							sub- total	Vertical							sub- total	
	1996	95	94	93	92	91	90		1996	95	94	93	92	91	90		
0-24.9	645	758	1,004	537	171	209	249	3573	29	0	5	0	0	0	0	34	
25-49.9	1,142	815	697	1,087	1,248	866	1,314	7,169	0	30	0	88	0	41	37	196	
50-99.9	2,232	2,615	1,760	2,141	1,102	2,671	2,071	14,592	0	88	75	139	0	172	517	991	
100-249.9	5,440	5,578	2,483	3,719	2,836	4,295	4,966	29,317	240	0	732	334	167	261	107	1841	
250-499.9	7,341	6,799	4,046	2,587	1,592	5,441	5,616	33,422	0	273	697	0	0	379	348	1697	
500-999.9	8,583	11,408	4,774	5,415	5,355	6,051	12,039	53,625	558	0	0	0	0	1,317	781	2656	
1,000 and over	123,888	143,084	124,569	25,268	67,953	58,578	52,002	595,342	0	0	16,000	0	0	1,842	1,700	19542	
Total	149,271	171,057	139,333	40,754	80,257	78,111	78,257	737,040	827	391	17,509	561	167	4,012	3,490	26957	
size of assets £ million	Diversifying							sub- total									
	1996	95	94	93	92	91	90										
0-24.9	40	0	9	0	0	0	8	57									
25-49.9	34	0	80	0	108	170	494	886									
50-99.9	227	321	346	235	52	52	930	2163									
100-249.9	589	1,788	308	1,015	120	922	1,684	6426									
250-499.9	498	258	1,562	787	288	480	1,778	5651									
500-999.9	700	1,449	1,547	733	527	0	5,442	10398									
1,000 and over	1,436	3,284	1,511	6,000	1,654	3,647	7,960	25,492									
Total	3,524	7,100	5,363	8,770	2,749	5,271	18,296	51,073									

Table 9. Analysis by activity of target companies : numbers of cases

Industry	Numbers of cases															Total
	1996	95	94	93	92	91	90	89	88	87	86	85	84	83		
Agriculture,forestry and fishing	0	1	1	1	0	0	1	4	1	4	2	1	0	2	18	
Coal,oil and natural gas	4	2	5	4	4	9	4	9	20	8	7	4	9	8	97	
Electricity, gas and water	9	12	0	3	3	2	1	3	4	0	0	0	0	0	37	
Metal processing and manufacturing	4	5	2	4	4	5	7	6	9	1	3	10	14	6	80	
Mineral processing and manufacturing	11	12	3	7	2	9	9	9	16	10	13	9	11	7	128	
Chemicals and man-made fibres	5	7	19	20	15	18	27	12	13	16	13	6	21	9	201	
Metal goods (not elsewhere specified)	1	2	2	4	1	2	6	11	5	5	6	3	10	3	61	
Mechanical engineering	12	6	5	13	10	7	16	27	31	26	20	14	7	15	209	
Electrical engineering	6	10	5	11	7	13	16	16	20	20	15	3	9	11	162	
Vehicles	8	3	9	4	0	3	8	10	11	14	15	3	5	7	100	
Instrument engineering	5	3	2	1	2	1	2	7	3	4	5	1	2	0	38	
Food, drink and tobacco	29	29	23	15	20	15	24	20	19	21	38	14	13	11	291	
Textiles	1	2	2	1	0	3	1	3	4	3	3	4	4	1	32	
Leather goods and clothing	2	1	0	1	1	2	3	3	9	6	2	1	3	1	35	
Timber and wooden furniture	1	2	1	0	0	1	3	2	0	2	0	3	2	0	17	
Paper, printing and publishing	11	16	6	5	6	5	8	14	23	19	10	8	7	9	147	
Other manufacturing industries	17	22	2	4	5	7	4	6	5	12	5	6	4	7	106	
Construction	12	5	8	4	4	3	3	4	3	6	7	4	3	5	71	
Distribution	12	24	24	17	8	18	23	27	33	42	30	25	31	28	342	
Hotels, catering and repairs	7	11	5	11	2	2	10	7	3	10	2	1	7	5	83	
Transport and communications	69	50	63	30	11	13	18	7	9	9	8	7	16	6	316	
Banking and finance	18	14	10	9	11	12	22	14	13	20	28	21	29	17	238	
Insurance	7	4	1	3	1	13	11	7	12	15	12	7	7	14	114	
Ancillary financial services	1	5	5	4	1	2	3	2	5	6	25	20	23	3	105	
Other business services	14	17	16	12	4	12	22	33	28	34	26	13	13	9	253	
Other services	8	10	12	9	3	6	9	18	7	7	8	4	9	8	118	
Total	274	275	231	197	125	183	261	281	306	320	303	192	259	192	3399	

Table 10. Analysis by activity of target companies : values of assets

Industry	Values of assets: £ million														Total
	1996	95	94	93	92	91	90	89	88	87	86	85	84	83	
Agriculture, forestry and fishing	0	13	73	2	0	0	8	209	69	110	37	11	0	54	586
Coal, oil and natural gas	1,546	254	55,540	107	352	8,807	1,740	6,263	32,921	2,302	1,466	137	17,333	388	129,156
Electricity, gas and water	20,914	12,629	0	270	1,898	189	39	72	237	0	0	0	0	0	36,248
Metal processing and manufacturing	475	117	47	382	160	2,752	249	4,595	2,373	21	499	1,668	514	2,114	15,966
Mineral processing and manufacturing	9,303	830	543	1,509	15	441	6,850	2,413	1,115	360	3,190	529	52	592	27,742
Chemicals and man-made fibres	2,238	1,221	13,762	1,996	787	4,483	6,437	4,069	3,602	1,378	2,837	2,276	1,651	277	47,014
Metal goods (not elsewhere specified)	2	2,056	17	358	668	198	101	3,848	201	284	308	3,374	276	9	11,700
Mechanical engineering	665	419	647	625	469	384	2,666	2,786	7,324	10,908	5,645	2,739	2,168	678	38,123
Electrical engineering	693	1,091	190	2,313	586	10,778	1,834	6,477	2,196	4,260	2,880	751	913	314	35,276
Vehicles	1,971	568	2,806	583	0	341	3,979	1,801	1,275	947	6,614	522	196	412	22,015
Instrument engineering	412	259	20	2	63	109	56	1,105	118	926	257	31	18	0	3,376
Food, drink and tobacco	8,185	13,475	6,110	758	6,007	1,189	11,462	14,574	6,575	5,133	23,459	5,258	3,005	1,890	107,080
Textiles	90	882	32	6	0	502	6	444	578	70	67	264	71	70	3,082
Leather goods and clothing	33	21	0	326	236	283	182	360	350	216	960	43	85	27	3,122
Timber and wooden furniture	150	150	147	0	0	51	481	423	0	194	0	137	398	0	2,131
Paper, printing and publishing	2,110	895	12,036	705	320	2,703	2,139	1,435	3,676	730	1,016	1,146	448	547	29,906
Other manufacturing industries	3,043	9,994	77	495	626	630	173	1,412	439	677	506	1,446	380	1,802	21,700
Construction	3,066	823	1,069	1,298	1,283	3,753	893	344	140	773	1,224	389	107	233	15,395
Distribution	1,696	4,921	1,856	2,052	2,056	4,498	3,529	7,374	4,981	5,272	6,960	3,196	3,450	3,428	55,269
Hotels, catering and repairs	4,991	1,872	448	2,914	581	115	2,583	2,016	461	2,337	195	35	242	118	18,908
Transport and communications	20,116	1,170	3,158	11,960	508	2,235	1,737	2,360	633	2,092	2,498	246	3,411	1,944	54,068
Banking and finance	52,075	103,773	51,387	3,751	64,272	39,223	39,666	15,713	3,304	65,431	46,951	21,467	29,673	10,481	547,167
Insurance	15,742	8,202	5,527	1,088	30	4,197	3,907	8,177	12,378	5,079	4,753	3,609	6,528	17,631	96,848
Ancillary financial services	32	5,346	811	1,279	2	221	73	100	1,950	5,430	6,352	5,736	7,398	1,839	36,569
Other business services	2,363	2,720	4,354	10,220	318	2,343	7,397	4,680	6,565	6,195	3,086	2,416	1,483	281	54,421
Other services	1,712	4,395	1,545	5,086	1,935	1,908	1,856	3,061	441	789	1,573	60	416	366	25,143
Total	153,623	178,096	162,202	50,085	83,172	92,333	100,043	96,111	93,902	121,914	123,333	57,486	80,216	45,495	1,438,011

Calculating asset size per case, distribution, transport and communications industries have not always had large values. On the other hand, insurance, banking and finance industries have large values per case.

## 2.4. Merger Matrix

Tables 11 and 12 show the relationship between target companies and bidding ones. Observing the number of cases in Table 11, 294 cases on the diagonal represents mergers within the same asset sizes. That is, the intra-same asset size merger is about 20.5% ( $294 \div 1,435$ ). On the other hand, areas above and below the diagonal represent the inter-asset size merger. That is, the area above the diagonal shows that bidding companies acquired larger asset size companies than theirs. The number of these cases was 141 and accounted for about 9.8% of the total. The area below the diagonal shows that bidding companies acquired smaller asset sizes companies than theirs. The number of these cases was 1,000 and accounted for about 69.7% of the total. Obviously, bidding companies more often acquired smaller asset sizes companies than theirs. The largest number of cases was on bidding companies with the smallest asset size acquired the same asset size.

Total numbers in the far right column in Table 11 show the number of companies acquired by bidding companies. Bidding companies with the largest asset size acquired the largest number of companies, followed by £ 100-249.9, 0-24.9 and 50-99.9 million asset sizes in order.

Next examining values of assets in Table 12, the ratio of merger within the same asset size to total is about 65.8 % ( £ 510,342 million). The percentage of bidding companies acquiring larger asset sizes companies was about 19.4% ( £ 150,519 million). The percentage of bidding companies acquired smaller asset sizes companies was about 14.8% ( £ 115,178 million). Different from the figures of Table 11, amount of assets is largest on the diagonal, followed by areas above and below this line in that order. This finding implies that



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Table 11. Analysis by size of assets of target companies  
by assets of bidding companies (Number of cases):1990-96

Assets of bidding companies: £ million	Assets of target companies: £ million							Total %	
	0- 24.9	25- 49.9	50- 99.9	100- 249.9	250- 499.9	500- 999.9	1000- and over		
0-24.9	115	18	10	21	9	2	4	179	12.5
25-49.9	67	12	8	4	5	0	1	97	6.8
50-99.9	64	25	34	17	4	2	3	149	10.4
100-249.9	94	28	48	25	15	2	1	213	14.8
250-499.9	36	29	15	30	13	5	4	132	9.2
500-999.9	37	25	16	31	10	8	6	133	9.3
1,000 and over	73	74	86	97	49	66	87	532	37.1
Total	486	211	217	225	105	85	106	1,435	100

Table 12. Analysis by size of assets of target companies  
by assets of bidding companies (total values of assets):1990-96

Assets of bidding companies: £ million	Assets of target companies: £ million							Total %	
	0- 24.9	25- 49.9	50- 99.9	100- 249.9	250- 499.9	500- 999.9	1000- and over		
0-24.9	673	613	721	3,057	3,063	1,416	27,537	37,080	4.8
25-49.9	404	434	578	511	1,709	0	6,353	9,989	1.3
50-99.9	426	853	2,361	2,479	1,449	1,286	12,690	21,544	2.8
100-249.9	799	1,002	3,319	3,999	5,064	1,432	1,842	17,457	2.2
250-499.9	294	1,050	1,061	4,228	4,737	3,208	13,299	27,877	3.6
500-999.9	331	882	1,094	4,838	3,515	5,551	62,212	78,423	10.1
1,000 and over	613	2,827	6,537	15,243	18,016	47,846	492,587	583,669	75.2
Total	3,540	7,661	15,671	34,355	37,553	60,739	616,520	776,039	100

mergers within the same asset size are significant.

## 2.5. Nationality of Merger Companies

Table 13 shows the number of foreign companies involved in mergers. Total numbers in the far right column in this table represent the number of qualifying mergers (see Table 1). Targets show UK companies that have acquired foreign companies. Bidders show foreign companies that have acquired UK companies.

The total number of foreign companies involved in mergers was 1,980 cases over the period 1979-1996. This number accounted for about 47.1% of the total (4,202 cases). Among these 1,980 cases, target companies made up 875 cases and bidders made up 1,105. The number of bidders was slightly larger than the number of targets.

Table 14 indicates the nationality of merger companies. The total numbers of mergers is highest in transport and communications, distribution, food, drink and tobacco industries as shown already in Table 9. Both target and bidder cases also often occur in chemicals and man-made fibers, mechanical engineering, food, drink and tobacco, and electrical engineering industries.

## 3. Summary and Discussion

We have surveyed merger activity in the UK using data in the *Annual Report*. While this data was not always comprehensive, the principal findings may be summarized as follows:

Table 13. Foreign companies involved in merger situations:1979-96

	Targets		Bidders		Total
	Total as % of		Total as % of		
	Total numbers	all mergers	Total numbers	all mergers	
1996	35	12.8	73	26.6	274
95	51	18.5	70	25.5	275
94	30	13.0	49	21.2	231
93	37	18.8	51	25.9	197
92	18	14.4	40	32.0	125
91	36	19.6	70	38.3	183
90	61	23.2	92	35.0	261
89	64	22.8	82	29.2	281
88	63	20.6	78	25.5	306
87	78	24.3	74	23.1	321
86	45	14.4	64	20.4	313
85	32	16.7	37	19.3	192
84	39	15.1	49	18.9	259
83	52	27.1	64	33.3	192
82	55	28.9	58	30.5	190
81	44	26.8	48	29.3	164
80	65	35.7	60	33.0	182
79	70	27.2	46	17.9	257
Total	875	20.8	1,105	26.3	4,202
	44.20%		55.80%		
	1,980 (100%)				
	47.10%				100%

Table 14. Nationality of target companies:1978-96

Table 4.1. Incidence of target companies: 1978-99																	
Industry	Numbers of cases															Total	
	UK			EU			US			Other			EU				1998-99
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c		
Agriculture, forestry and fishing	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	
Coal and mineral gas	4	1	0	1	0	0	4	2	0	0	0	0	0	5	2	0	
Electricity, gas and water	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Metal processing and manufacturing	6	1	1	7	0	0	4	0	0	5	2	0	15	3	0	0	
Mineral processing and manufacturing	11	0	1	12	1	4	7	3	2	2	1	1	22	5	3	0	
Chemical and non-metallic products	5	1	2	7	2	7	10	3	7	10	9	9	32	14	16	0	
Metal goods (excluding machinery)	1	1	1	2	0	0	4	1	0	2	1	0	7	2	1	0	
Machinery engineering	12	3	7	6	1	3	15	1	5	10	2	3	28	6	8	0	
Electrical engineering	6	3	2	10	4	4	11	4	3	13	2	3	24	9	5	0	
Vehicle	6	2	5	3	1	0	0	0	0	3	1	2	9	4	4	0	
Instrument engineering	5	2	3	3	0	3	1	1	1	2	1	2	7	3	5	0	
Food, drink and tobacco	20	4	0	16	0	0	15	3	4	25	0	4	40	7	8	0	
Textiles	1	0	1	2	2	0	1	0	0	3	0	0	4	2	0	0	
Leather goods and clothing	1	0	0	0	0	0	1	0	0	2	0	0	3	0	0	0	
Printing and publishing	1	1	0	2	1	0	0	0	0	0	0	0	3	1	0	0	
Other manufacturing industries	17	9	7	33	11	4	2	0	1	9	3	2	51	15	9	0	
Construction	12	0	4	9	1	0	4	2	2	4	0	1	20	2	3	0	
Distribution	12	0	4	14	1	0	17	2	0	16	3	0	33	5	2	0	
Health, social and welfare	7	3	0	11	2	3	11	1	2	2	0	0	24	3	2	0	
Transport and communications	60	4	0	64	0	2	60	2	1	11	2	3	73	4	5	0	
Banking and finance	10	4	0	14	0	0	9	3	1	12	4	0	25	7	1	0	
Insurance	7	2	0	9	0	0	3	0	0	13	0	0	22	2	0	0	
Auxiliary financial services	1	0	1	2	1	0	4	1	0	7	0	0	11	1	0	0	
Other business services	14	2	2	17	0	2	10	4	0	22	2	0	34	6	2	0	
Other services	0	0	1	1	0	0	0	0	0	1	0	0	2	0	0	0	
Total	271	30	72	279	41	70	121	20	41	122	18	70	364	61	82	0	

Notes: a: Total mergers; b: Foreign companies; c: Target companies; d: Bidding companies.

1. A qualification criterion was majority in the market share test. This finding suggests that the MMC has stressed the impact of mergers on market dominance.
2. Merger type in the UK is principally horizontal and the number of this type has increased in recent years.
3. The number of cases by asset size of target companies was found the largest numbers of cases in the smallest asset size ( £ 0-24.9 million).
4. The number of horizontal type cases was most prevalent in the smallest asset size.
5. Regarding industrial sectors of target companies, a large number of cases were found in the tertiary industry, for example distribution, transport and communications, other services, and the banking and

finance industries.

6. Most bidding companies acquired companies with smaller asset sizes than their own. Bidding companies in the smallest asset size mainly acquired target companies with the same asset size. Bidding companies in the largest asset size acquired the largest number of companies in total. On the other hand, values of assets in mergers between the same asset size companies were the largest.
7. For nationality of merger companies, the number of bidders was slightly larger than that of targets. The number of cases were highest in transport and communications, and distribution industries.

Mergers have increasingly been recognized as an important means of growth and diversification for many companies. The process is extremely well documented for larger companies. There is a large amount of literature analyzing their scale, their variation over time, their determinants and their effects on market share and performances in the UK (Cowling, *et al*, 1980 ; Hughes, 1993). However our findings indicate that merger activity in the UK was mainly of the horizontal type and in addition the majority of cases occurred between the smallest asset size companies. This finding shows that smaller companies are more merger-intensive in their growth than larger ones. This finding also suggests that it is necessary to analyze merger activity in the small business sector. Analysis of post merger effects for small companies is even sparser for the UK. Hughes (1989) and Cosh and Hughes (1994, p.153) analyzed post merger effects and some relationships to competition policy.

Hughes (1989) also analyzed some relationships between small company's merger activity and competition policy. He reached the following conclusions. As with mergers, circumstances can be identified in which inter-firm agreements that restrict competitive rivalry may also be beneficial for small-firm growth prospects. Cosh and Hughes (1994, p.313) analyzed the impact of merger on the performance of small companies. They found that acquisition of small and medium enterprises in their sample appears to have had a negative impact on average in terms of profitability performance, but there is some evidence that the deterioration is substantially reduced by five years after the acquisition.

Mergers between small companies play a role of competitive rivalry to larger ones. There is scope for new comparative analysis on the extent of mergers involving small companies among countries and their impact on performance.

## Notes

- (1) Masuda, 2002.
- (2) Masuda, 2002.

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