

CASE STUDY 4: Cross Border M&A Between BP and Amoco

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British Petroleum P.L.C. announced today that it would acquire the American oil giant Amoco for \$48.2 billion in stock in the largest oil industry merger ever.

The deal would also be the largest takeover of an American company by a foreign concern.

If approved by regulators and by shareholders of both companies, BP Amoco, as the company is to be known, would be the world's third-largest multinational oil company in terms of net income after the Exxon Corporation and the Royal Dutch/ Shell Group of Companies.

Consumers in the United States are unlikely to feel any immediate effects of the deal. Prices at gas pumps are mostly dependent on world oil supplies, which are currently plentiful. And while the consolidation of gasoline outlets may slightly decrease retail competition, the combined exploration prowess of the companies could eventually result in larger supplies of crude oil.

Executives at other oil companies said that the deal benefited both B.P. and Amoco. The main strength of British Petroleum, they said, is in looking for and finding oil reserves. But the company is weak in the business of refining oil into products and chemicals and distributing it to consumers, operations at which Amoco excels.

"The strength of Amoco is in areas that are lacking at B.P. such as the natural gas reserves which it possesses and petrochemicals," Andrew Avramides, an oil consultant in London, said. "The merger brings these assets into a larger, far more comprehensive structure, making BP Amoco a true giant with enhanced structures."

The merger will allow the companies to consolidate their spending on exploration, which would exceed that of Exxon and Royal Dutch/Shell. In addition, officials of both companies said the deal would allow them to become more competitive in regions like the former Soviet Union, China and Latin America, where competition has increased as companies seek new sources of revenue.

People close to the talks said that the chief executive of British Petroleum, Sir John Browne, approached the chairman of Amoco, H. Laurance Fuller, in late spring about a possible merger. Sir John believed that consolidation was inevitable and, an executive close to the deal said, "Both of these guys said if we don't pick a partner, we are going to be last."

The two companies employ a total of 99,450 workers worldwide. Amoco, with 43,450 total employees, expects to cut 5,000 to 6,000 jobs, but none in its Chicago headquarters, Dan Dietsch, the company's media relations adviser, said. A spokesman for B.P. said the company planned to cut about 1,000 jobs in Cleveland when refining and marketing operations there are moved to Chicago. Other cuts are expected at Amoco's research offices in Houston.

Amoco and B.P. said that Chicago would be the headquarters for the new company's North American operations in refining, marketing and transportation, "and, in due course, the worldwide chemicals business." Amoco is the fourth-largest company in the Chicago area.

Guiding Questions:

- What do you think motivated BP to consider making the deal with Amoco? What type of deal was it? Merger or Acquisition?
- What type of integration strategy do you think can be used for this type of deal?
- What types of human resource challenges may arise during the pre- and post-merger phases of the deal. You should name at least three for each phase.
- Provide justifications for your answers