

The Reed Elsevier Merger – a Publishing Merger for the 90s

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1 The Merger

On 1 January 1993 Butterworths' UK based parent company Reed International merged with the Dutch based publisher Elsevier to form a new operating company, Reed Elsevier.

The merger sees two of the world's largest publishing organisations form a \$12.4 billion company with interests in newspapers, consumer and trade magazines; business, scientific and consumer publishing around the world. The combined operation now has over 25,000 employees worldwide, of whom 11,000 are resident in the UK, 4,500 in the Netherlands, 7,500 in the US and 700 in Australia.

2 The Background

In recent years, both Reed and Elsevier have grown by improving the spread and focus of their activities and by pursuing active acquisition strategies to reinforce areas of strength and to penetrate new markets.

Reed has been an international publishing and information group, well established in the UK, US and Australasia. In Australia the group is represented by Butterworths, Octopus, DW Thorpe, IPC Magazines and Reed Business Publishing. Reed's strategy has been to have a broadly based portfolio of international businesses with market-leading positions in large or growing markets. These cover professional publishing, business-to-business publishing, travel information, exhibitions and consumer publishing.

Elsevier has become the world's leading publisher of English language scientific information, publishing around 1,000 scientific journals. The group is active in professional and business-to-business publishing, particularly in the US and in continental Europe. It also has consumer publishing interests, principally in The Netherlands.

In the past, much of the growth of income and value of both companies has been achieved by improving the focus and efficiency of their respective activities. Reed has been transformed into a publishing company from a conglomerate with interests in packaging, paper, paint and publishing. Elsevier has disposed of its commercial printing and certain publishing operations which were capital intensive and produced

low returns, concentrating instead on publishing scientific, professional and business information on which better returns have been achieved.

This growth has been combined with active acquisition strategies.

3 *Reasons for the Merger*

For Reed the merger allows a much broader geographical spread, particularly in continental Europe. The merger also provides a way of improving the balance of Reed's business by building up professional, information and subscription based businesses which are less vulnerable to the economic cycle. By so doing the merger will build on the significant strength of both companies and create a better base for future development.

For Elsevier the main advantage of the merger is Reed's much wider spread of business, particularly in the professional publishing areas, in travel and information in Reed Reference and in Reed Exhibitions. There has been little overlap between companies in these areas.

4 *Key Merger Strengths*

The merger builds on the past experience and success of both companies by creating a group with the strength and ability to expand profitably in the publishing and information markets of the 1990s and the opportunity to derive additional profitability from the combination of its businesses.

A) FINANCIAL SPRINGBOARD FOR DEVELOPMENT

Reed Elsevier becomes one of the world's largest publishing and information groups. Its scale and financial strength create a sound basis for the development of new products and penetration into new markets.

On the basis of historical figures, the merged group is one of the strongest publishing and information companies in the world.

B) TECHNOLOGY

Reed Elsevier believes that the publishing industry over the next decade will be characterised by the continuing development of electronic and optical forms of storage and transfer of information. Advanced communications systems will accelerate the integration of text, images and sound. Research and experimentation will be required before these technologies can be applied commercially. Any group seeking to compete successfully must have sufficient resources to participate in this process at a global level.

Both Reed and Elsevier have had significant experience in emerging technologies with the increasing use of CD-ROM, database management, and networking both internally and with customers. This provides a significant basis for further development and penetration in these growing new market places.

c) **BALANCED PORTFOLIO AND MARKET LEADING POSITIONS**

The merger gives Reed Elsevier increased scope to maximise value by improving product spread, mix of revenues and geographical coverage.

More balanced product spread

Reed Elsevier will occupy a significant position in a number of key markets. Elsevier is world leader in the scientific information market; Reed adds to this leading positions in travel information and exhibitions. Elsevier and Reed will augment each other's position in the US business-to-business magazines and directory markets, reinforcing Reed's strong market position. In the UK, Reed is a leader in the legal and business information markets and has a strong position in educational books. In the Netherlands, Elsevier is a market leader for business information. Each group is a leader in selected consumer markets.

Improved mix of revenues - by geography and type

The combined business will be less vulnerable to economic cycles because of its broader spread of types of revenue and of geographical markets. Recovery from recession should bring a sharp improvement in the more advertising-dependent group businesses, particularly in the UK.

The English-speaking world, particularly the US, continues to be a prime area for business growth. In addition, a new accent will be placed on expansion in continental Europe to exploit the opportunities which political and economic change are creating.

5 Reed Elsevier Strategy

The strategy of Reed Elsevier is now to focus on:

- subscription based publishing serving the professional and business-to-business markets
- English-language publishing with products that can transcend national markets
- A new accent on expansion in continental Europe
- Further expansion in the US and Asia/Pacific Region
- The creation of a strong position in the emerging electronic publishing market

6 *Impact for Butterworths and the Australian legal market*

As noted above, one of the main advantages to Elsevier of the merger was to spread its business into the professional publishing area. There has been little overlap between the companies in this area so it is expected there will be little change involving people in this business.

Although it is early days for the merged operation there is enthusiasm for the opportunities it creates, particularly the enhanced prospects for growth in electronic publishing, the financial strength and depth of management, and all that flows from a global leader in publishing and information.
