Companies eye partnership deals to counter low growth

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With global economic growth slowing, inflation staying low and digital innovation generating uncertainty, companies are increasingly looking at partnership deals with other firms, even competitors, to boost revenues, consulting firm EY said Monday.

In its half-yearly review of corporate deal-making, EY found that 40 percent of firms plan to enter alliances of some kind. Such deals can involve sharing resources to undertake specific projects, and are usually informal and less permanent than joint ventures.

Partnerships are becoming increasingly popular. IBM, Apple and Johnson & Johnson and others are working together to develop mobile apps that would help patients. EY itself recently entered into an alliance with LinkedIn to offer services via social networks.

"Alliances are increasingly being seen as a means to take advantage of the expertise of others," said Pip McCrostie, EY's global head of transactions. "They provide a more informal, lower risk approach, enabling companies to respond quickly to changes to the market."

Elsewhere in its survey, EY said companies remain very interested in acquisitions in order to offset the impact of lower growth. It found that 50 percent of the executives it polled intend to make transactions over the coming year.

Though down from the record 59 percent recorded in October, the appetite for mergers and acquisitions, or M&A, remains well above the survey's seven-year long-run average of 41 percent.

In effect, companies look to bolster their finances by purchasing other firms and reaping their profits—provided valuations are not exorbitant. In a slower-growth world that has its roots largely in the slowdown in China's economy, deals can help cushion firms' finances.

"Prolonged low economic growth coupled with market disruption, is generating a strong M&A appetite," said McCrostie. "Given the pressure on pricing and the pace of change, organic growth alone is often not enough."

Companies are also shifting to bigger deals, according to EY, with a five-fold increase in the number of firms looking to make acquisitions worth $1 billion or more.

Not all deals work out as planned, including the decision by Pfizer and Irish rival Allergan to scrap a $160 billion deal following new Treasury Department rules to block American companies from moving their corporate addresses overseas—on paper—to avoid U.S. taxes.

Still, the number and value of deals have shot up over the past few years from the lows recorded during the global financial crisis of 2008-09 and the ensuing global recession. M&A really picked up steam last year, when many blockbuster deals—worth over $10 billion each—were announced. They included the takeover of British-based SABMiller by Anheuser Busch InBev and the merger between Heinz and Kraft Foods, which is now called Kraft Heinz.

The pace of announcements has eased somewhat this year, perhaps due to the volatility in financial markets over the first couple of months. However, markets have steadied since then, a sign that investors are a little less fearful.

EY's survey was based on interviews with 1,700 executives in 45 countries.