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MERGERS AND ACQUISITIONS

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Abstract: **In order to expand the market share most of the companies are increasingly adopting the strategies of merging their companies or acquiring the small companies so that they can attain the economic growth and can rise their prosperity levels by suppressing the competition from the new entrants in the market. In this paper we learn the brief gist of what is mergers and acquisitions and why all of them are not successful along with recent mergers and acquisitions.**

Keywords: **Mergers, Acquisitions.**

I. INTRODUCTION

In India alone there are more mergers and acquisitions in the current years and that itself proves that there is a huge competition among the firms in order to sustain they are adopting whichever the way is possible. Vodafone and Idea have recently (2018) merged into a combined entity resulting in Vodafone having 45% stake and Idea having 29% stake whereas Aditya Birla Group, Idea's parent will own 26% because of the competition of Reliance Jio and Airtel. Not only that in order to help the central government meet its disinvestment, in 2018 Oil and Natural Gas Corporation Ltd (ONGC) acquired 51% stake in Hindustan Petroleum Corporation Ltd (HPCL). Another merger is Bank of Baroda, Vijaya Bank and Dena Bank in order to solve the problem of bad loans ratio merged together making them the 3rd largest bank in India. Hindustan Unilever Limited (HUL) purchased the GlaxoSmithKline's (GSK) which is popular for brands like Horlicks and Boost for a value of $317 billion. In order to improve its domestic capacity and make inroads into the automative steel industry which is dominated by Bhusan Steel, Tata Steel acquired it with an amount of $4.9bn for a 73% stake which is approved by NCLT.

II. LITERATURE REVIEW

Mergers and Acquisitions have become the most frequently used methods of growth for the companies in this century. They present a company with potentially higher market share and open it up to a more diversified market.

These mergers and acquisitions have become more so that the companies can be expanded internationally. Many theories have been offered to explain why mergers and acquisitions (M&As) occur. Market power theories argue that consolidation creates oligopoly benefits. Benefits from diversification or tax considerations have also been suggested as a motive for M&A activity (Gregoriou & Neuhauser, 2007).

Based on the nature of merging companies' mergers are classified. Some of them are:

Horizontal mergers: A horizontal merger is a merger or business consolidation that happens between corporations that operate within the same trade. Competition tends to be higher among companies operating in the same space, meaning synergies and potential gains in market share are much greater for merging firms (Grant & Kenton, n.d.).

Ex: A merger between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature. The goal of a horizontal merger is to create a bigger firm with more market share.

Vertical mergers: A vertical merger (also called vertical integration) is a merger between a manufacturer and a supplier. This can be completely different from a horizontal merger between 2 firms that manufacture similar items.

Ex: The merger between PayPal and eBay in 2002. PayPal is an app used for transferring money and eBay is an online shopping app even though they are in different business areas they merged together and it resulted in increased number of transactions.

Conglomerate merger: When two companies that operate in a completely different industry merger together to form a new company it is known as a conglomerate merger. This is typically done to diversify into alternative industries, that helps cut back risks. For example, L&T merger with Voltas Ltd.

Product extension merger: It is executed among companies which sell different products of related category. They also seek to serve a common market.

Acquisition: An acquisition on the other hand, is the purchase of an asset such as a plant, a division or an entire company. Acquisition is an 'arms-length deal' where one company purchases the shares of another company and the acquired company is no longer the owner of the firm (sudarsanam, 1995).

The term 'takeover' is sometimes used to refer a hostile situation. This happens when one company tries to acquire another company against the will of the company's management (Gaughan, 2002). However, a takeover is similar to an acquisition and also implies that the acquirer is much larger than the acquired (sudarsanam, 1995).

Mergers and acquisitions are friendly transactions in which the senior management of the companies negotiates the terms of the deal and the terms are then put in front of the shareholders of the target company for their approval (Gaughan, 2002). Whereas in a takeover, a different set of communication takes place between the target and the bidder, which involves attorney and courts. Bidders here attempt to charm on to the shareholders usually against the recommendations of the management.

The differences between merging and acquiring are very important to consider valuing, negotiating and structuring the client's transactions (sudarsanam, 1995). 'In line with common practice terms 'mergers', 'acquisitions' and 'takeovers' will be used synonymously in this dissertation (Chiplin & Wright, 1988). At the end, the differences in the meaning may not really matter as the result of these processes is often the same i.e. 2 firms that had separate ownership are operating under the same roof, usually to obtain some strategic and monetary objective (Sherman & Hart, 2006).

Recent international mergers and acquisitions:

Amazon/Whole Foods Market-$13.7bn: In perhaps the most visible deal of the past year, the e-commerce behemoth Amazon stepped out into the real-world last August with a major acquisition of the brick-and-mortar food retail company Whole Foods Market. On paper, Amazon and Whole Foods don't seem like a natural match: Amazon is known for its absurdly quick turnover of inventory and its logistical mastery. Whole Foods, on the other hand, gives off the vibe of a local artisanal food shop where time and effort goes into everything. The changes are likely to attract a new customer base that has avoided Whole Foods because of its niche reputation and relatively high prices (Rivera, 2018).

Disney/21st Century Fox-$52.4bn: - In a real shake-up of the entertainment business, Disney announced it would purchase the entertainment assets of Rupert Murdoch's 21st Century Fox in December, for a mammoth $52.4bn. *X-Men*, *The Fantastic Four* and *Deadpool* may finally team up with their Marvel brethren in Disney's Marvel Cinematic Universe. Through this acquisition, Disney is also doubling its stake in the streaming service Hulu, which solidifies its position in the streaming market, especially given its planned direct-to-consumer streaming service, which is set to launch in 2019 (Rivera, 2018).

CVS/Aetna – $69bn: -In what is sure to rock the US healthcare market, CVS – the biggest pharmacy chain in the country – announced the purchase of the fifth-largest health insurer for $69bn in December. So significant is the deal, in fact, that the American Antitrust Institute has lobbied the US Government to block the deal, arguing that it would leave other players in the market with little or no incentive to compete. The deal comes as industry titans are feeling threatened by major players like Amazon, which is also poised to enter the market. CVS' merger also put pressure on other significant players in the market to make bold moves; health insurer Cigna bought prescription benefit management company Express Scripts in a $67bn deal (Rivera, 2018).

Intel/Mobileye – $15.3bn: - Intel – which was recently overtaken by Samsung as the world's largest chipmaker has made a major move into the autonomous driving space with its acquisition of Israeli visual sensor company Mobileye in August. Through the merger, Intel is looking to position itself as a leader in what is undoubtedly one of the hottest fields in tech right now. The companies are already in partnership with German automaker BMW on a fleet of 40 self-driving vehicles, which will hit the road in the second half of 2018. Mobileye's technology is already used by a number of players in the market, most notably Tesla, which has perhaps the best-recognised automated driving programme in the car industry (Rivera, 2018).

Verizon/Yahoo – $4.48bn: -Anyone old enough to remember the internet in the late 1990s will remember Yahoo's digital dominance. It was the most popular starting point on the web in 1998, before the burst of the dotcom bubble – and, more importantly, Google – violently wrenched it from its perch. Verizon, the American telecommunications conglomerate, finally ended Yahoo's tenure as an independent company last June. Yahoo's glory days may be long over, but its recent history has not been underwhelming: in 2016, Yahoo was the world's sixth most visited site. The company now operates under Oath, Verizon's digital content subsidiary, which also controls AOL and Huffington Post (Rivera, 2018).

III. CONCEPT

Every merger and acquisition of companies that happened till now is not possibly successful, but the mergers that occurred for the genuine reasons have stayed on, whereas those which occurred for wrong reasons have failed. In order for the merger to be successful the planning plays an important role along with a good strategy that helps in finding a good management team and the right information that helps a company to know whether there is cultural compatibility between them.

For any merger the main goal is to create value and enhance it. Now a days the competition is increasing, the companies are not able to cope up with that so they need new strategies and innovations to mark their presence in the market so if the company merge with a company having strong market presence then it can expand its footprints and build a strong portfolio. Every company goes through hard times at that time the survival of a company becomes a challenge so at that point of time merging is the only option they can think of.

Many companies do not simply believe in only one product line so they add the new products and gain a competitive edge over others. When the two merged companies are producing the similar products or goods & services, they will merge their location and it will reduce the operating costs which results in profit maximization of both the companies.

Ex: Adidas in the year 2005 acquired Reebok at an estimated value of $3.78bn. It is because of the cut throat competition from Nike, Adidas & Puma. The core competencies of both the companies led them in increase of sales revenue by 52% in 2006, by making them cross the mark of EUR 10bn.

By taking them as an example, we can say that proper communication and coordination, clear goals and strategies along with effective implementation led them to the path of success because both the companies have dissimilar factors as one is a German company which is all about sports, other one is an American entity which redefined lifestyle. Each of these brands have their own identity even if they are merged together by keeping their individuality intact.

But if we look at the merger of Microsoft-Nokia it is not that successful, because when the Microsoft was struggling because of Apple it decided to merge with Nokia in 2013. After merging there is a mass layoff of Nokia employees which resulted in reduction of output in smartphones and this led to Nokia's share decline from 41% to the level of 3% even though it has Microsoft support.

The main reason of this failure is that they don't have common vision and passion and the developers are unwilling to invest their resources and the software they made is incompatible and both the companies don't have proper planning and strategies as they did mass layoff and they were not able to identify the risks and threats which lead to less productivity, power struggle, sudden change in the dynamics of the market and the cultural compatibility is missing unlike the other companies.

IV. CONCLUSION

Based on the above examples, we can understand that the firm's strategy determines on how it gives competition in the market. The merging and acquisition strategies enables a company in making the profit and makes it easier to define plans and goals in a more meaningful way so that the gaps in the organization are filled and the business longevity is ensured. The businesses are adopting these strategies mainly because the competitive environment can change quickly thus it requires a change in strategy and it is a vital management tool.

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