

Lessons from Merger and Acquisition Analysis

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Abstract. The Merger and Acquisitions (M&A's) activity is influenced by a multitude of factors (like strategic, behavioural, and economic). It is a particular aspect of the M&A process, where the acquirer holds a vision with its own distinctive competitive strategy, accordingly tries to dictate the future developments in the post-merger scenario. Consequently, the resulting post-merger entity undergoes evolution and partake some actions leading to strategic-fit cohesion.

Also, such state of affairs directly affects different entities of the value chain. Developing on these lines, this paper tries to analyze M&A in different industries and identify the key factors that led to success/failures of these M&A's.

Keywords: Mergers and Acquisitions, Reasons for failures, Business associations

1. Introduction

During the last few decades the business landscape has been deeply impacted by the globalization. Firms can no longer expand by embracing part-by-part approach for diverse markets, while ignoring the spillover and transmission effect of the elements constituting the economic scene. The outlook needs to be comprehensive and prudent for surviving in today's business scene. Furthermore, the existence of multinational firms along with domestic ones makes the sustenance all the more challenging. Organizations have options to grow by selecting organic or non-organic approaches to outperform competitors [1]. Under organic growth strategy, companies work upon their core competencies, which do not diminish, but have their own life cycles [2]. To accelerate the business growth companies have now accepted the inorganic growth strategies, where businesses try to align with other businesses, which closely resonate with their core strategic objectives [3]. At the same time other researchers have highlighted the need for cautious and well-planned integration strategies which eventually lead to sustainable learning outcomes that holds potential to unlock desirable synergies between entities. Additionally, the researchers emphasize that the end objectives and characteristics of the involved entities make each M&A's unique [4].

Most of the firms today understand these and therefore following channels have emerged and are widely accepted as part of company's growth strategy: Mergers, Acquisitions [5], Takeovers - Friendly, Hostile, Reverse & Back flip [6][7], and Others (like Dawn Raid, Poisson Pill, etc).

Among the various inorganic approaches, a merger involves two equal entities combining into one, and acquisition involves a company acquiring controlling stake in another. Apart from these routes there exists another approach i.e. takeover, in which a company makes a bid for a target company. An analysis of the different M&A's across different sectors has been presented in the following section and based on the understanding key dimension have been identified.

2. Analysis of historic business scenarios

Over the years such activities have taken place across business sectors. In the same light few examples have been identified, based on the analysis of the facts as published in secondary literature. Various M&A's that seemed feasible and imbued with potential, but failed have been analyzed below.

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2.1. Automotive Sector

Daimler Benz/Chrysler [8]: Business leaders felt that within four-to-five years the merged entity will be among the major three automotive companies in the world. However, this did not happen and the prominent reasons for failure were cultural clash, different market segments, and mismanagement. The huge rifts in business practice and management approach stay unchanged. Much of the clash was fundamental to unions of both the companies, which had dissimilar salary structures, hierarchies and values. Chrysler's and Daimler-Benz's brand images were absolutely opposite. Culture clash exist as much amid products as it existed among the employees. Such clash coupled with dragging sales and recession worked towards destabilizing the new alliance. Further, various key members of Chrysler's management team left and few key people looked withdrawn after the merger.

New York Central and Pennsylvania Railroad [9]: Merger took place to adjust to unfavourable industry trends and to restructure operations and diminish the competition. The prominent reasons for failure were lack of long term planning, cultural clashes, and poor management even in the face of crisis. The merged entity failed to keep up with mounting employee costs, regulations, and key cost-cuttings. Strict regulation constrained company's capability to adjust rates charged to shippers/passengers, enforcing cost-cutting as the sole way to maintain the bottom line.

2.2. Communications Sector

Sprint (S) and Nextel: It was believed that merging opposite ends of a business spectrum would create a large communication alliance. But reasons like technological issues, not meeting customer expectations, and cultural differences proved detrimental for the merged entity. Sprint was bureaucratic, whereas Nextel was entrepreneurial. Sprint had an awful standing in customer service. Post merger, Nextel executives and managers objected to the cultural differences and left the company in hordes. Unmatched competition affected the sales severely and the company had to go for lay-offs. Incompatible wireless technologies also posed a major hurdle for the merged entity.

2.3. Retail Sector

Sears / Kmart [10]: The goal was to do away with Sears's traditional base of shopping malls and purchase of dozens super Kmart locations were seemed ideal for accelerating that process. Apart from that cost savings in the supply chain and in administrative overhead seemed achievable. But the prominent reasons for failure which emerged were absence of long-term strategy, unable to compete with existing competitors, lack of brand, focus on wrong category of products, failure to integrate successfully, and failure to anticipate customers' needs

Quaker/Snapple [11]: Quaker expected benefits by emerging as the third largest beverage manufacturer and distributor in the U.S. These visions brought both the companies together to realize significant synergies. The merged entity didn't conduct the transition properly: two of Snapple's three founders left the company and half of its sales division and many executives were forced out. Quaker's faced \$ 75 million losses in 1995 due to delay on its part to implementing marketing, operational, and organizational initiatives. Snapple didn't react quickly enough to changing market conditions and began to experience inventory management difficulties. Competitor's strengths were not analysed correctly and marketing strategy failed to position Snapple appropriately.

2.4. Others

Time Warner –AOL [12]: Warner merged with AOL to effectively distribute its content via online channels. Pooling Time Warner's broadband systems, media contents, and subscribers together with AOL's brand image, and internet infrastructure would generate noteworthy synergies. Also increases benefits for customers, international position enhancement, and revenue growth seemed achievable. AOL's was overvalued due to Internet bubble and was never an equal entity as compared to Warner. The combined entity failed to implement its vision and communicate it to all the stakeholders; moreover, it proved unsuccessful to identify new trends in the industry, which specifically were advent of VoIP and broadband. The proposed synergies never materialized.

EBay – Skype [13]: The business integration never worked because for customers communicating via email was good enough to close a deal. Foremost the cultural differences between the two entities were too huge to overcome; whereas EBay is particularly conservative Skype is all about democratization of voice. Additionally, Skype changed its management teams too frequently during its four-year interaction with eBay, highlighting the tremendous inconsistencies.

Mattel/The Learning Company [14]: Mattel desired to transform into a global children's merchandise company distancing itself from traditional toy manufacturing. The combined entity envisioned huge sales over the internet channel. Mattel didn't check the significant management turnover, change in American demographics and distanced itself from the customer preferences, which left it behind in producing innovative toys. Problems got complicated along with incompatible cultural dissimilarities amid the old line-manufacturing company and the new market beginner.

From the above understanding different dimensions leading to failure are presented in table 1

	Daimler Benz/ Chrysler	New York Central / Pennsylvania Railroad	Sprint (S)/ Nextel	Sears / Kmart	Quaker/ Snapple	Time Warner/ AOL	Ebay/ Skype	Mattel / The Learning Company
Cultural clashes	√	√	√				√	√
Unequal partners					√			
Technological issues			√					√
Unclear strategy								
Dissimilar market positioning	√							
Lack of long term planning		√		√		√		
Customer expectations not met			√	√			√	√
Focus on wrong product category				√			√	
Failed to implement their visions						√		
Failure to predict market trends						√	√	√
Improper integration planning								
Mismanagement	√	√			√		√	√
Unable to integrate				√	√		√	
Operational issues		√			√			
Improper communication						√	√	

Table 1: Snapshot of the merger and acquisition analyzed

As can be seen from table 1, based on the failures of different merger, it is seen that cultural compatibility precipitates as critical criteria while screening a potential firm for M&A. On the other hand a successful integration strategy can fetch vital leanings out of the inherent cultural differences, and hence watching for “ideal cultural fit” may not be the best option [15]. Simultaneously, the successful integration is rather feasible between diversified organizational cultures [16]. These researches have highlighted the benefits that cultural diversity can bring for a combined entity, but the only key is to watch for appropriate business integration process. At the same time analyzing table 1 underscores the significance and enormity of cultural issues for firms looking for M&A.

Further, from table 1, in line with the findings of [17][18][19] we can conclude that unclear strategies can create a climate of uncertainty, which severely hampers the speed and effectiveness of integration. The retention of personnel, proposed leadership, and management team of the post merger entity are the important factors for successful integration [20]. Looking at above incidents, it can be surmised that things don't always draw out as expected. There are M&A occurrences where the alliances were recognized with much salutation, but they failed miserably due to one or the other reasons. The associated reasons appear very mundane but were either looked over or were not considered having any significant influence over the integration of the businesses. Therefore another important facet that needs to be appreciated is to agree upon all the parameters which hold significance in an M&A scenario [21]. The understanding of the different dimensions with reinforcement of these dimensions as referred in literature can be summarized as Cultural clashes, Technological mismatch, Unclear strategy and Improper integration planning.

To explore these issues further a parallel has been extended across the few M&A that have taken place in the recent past and are presented in the following section.

3. Extending the parallel analysis for recent M&A's

Further, few of the top and successful M&A's for 2010-2011 are:

Indian M&A - International [22]

i. *Dr. Reddy's Labs acquired Betapharm*: This is with the strategic intent of becoming a mid-sized global pharmaceutical company with strong presence in all key pharmaceutical markets along with *strategic* presence in the European market.

ii. *Mahindra & Mahindra (M&M) acquired SsangYong*: M&M has been on a diversification spree and the acquisition is a strategic fit for Mahindra. M&M is expecting benefits by harnessing synergies between the two companies.

iii. *Tata Chemicals acquired British Salt*: The acquisition is aligned with Tata Chemical's strategy to increase its existence in the food & farm sectors and will provide raw material from Brunner Mond operations.

iv. *Airtel's acquired Zain in Africa*: Bharti's acquisition is in line with its strategy to expand into Africa, which is one of the fastest growing mobile services markets.

International M&A [23]

i. *Wal-Mart-Massmart merger*: The rationale behind the merger is to expand into Nigeria, the Democratic Republic of Congo, Angola and Senegal markets. Further Wal-Mart plans to utilize the acquisition as a springboard to the rest of Africa.

ii. *Microsoft acquired Skype*: The acquisition will benefit both consumers and enterprise users by increasing the accessibility of real-time video and voice communications. This will provide new business opportunities resulting into more revenues. Microsoft will expand its portfolio of products and services, and Skype will gain an increased reach.

Indian M&A – Domestic [24]

i. *Reckitt acquired Paras Pharma*: The acquisition is in line with the Reckitt's growth strategy in healthcare market in India, which is one of the promising health care markets in the world.

ii. *ACC acquired Encore Cement & Additives*: The acquisition will help ACC to strengthen its presence in the coastal Andhra Pradesh where it had no presence, earlier.

iii. *GTL Infrastructure acquired Aircel towers*: Strategic growth was the driver for the acquisition by which GTL increased its tower count across all the telecom circles in India.

In the above M&A's the objectives for M&A can be clustered under the following heads [27]:

i. **Active investing**: Leveraged buy-out companies and private equity firms fit here, where they acquire a company and attempt running it in a more efficiently and profitably manner.

ii. **Growing scale**: The main aim is to grow scale in specific business elements and become more competitive, which is not same as simply becoming larger.

iii. **Building adjacencies**: To expand into adjacent businesses by expanding to new locations, into new products, to higher growth markets, or looking for new customers.

iv. **Broadening scope**: The aim is to broaden the scope by buying specific expertise.

v. **Redefining business**: For redefining a business in situations where an organizations capability, knowledge, and resources become outdated, for example, due to a major technological change.

vi. **Redefining industry**: Strategic acquisitions which holds potential to redefine an entire industry, changing the competition scenarios, and pushing competitors to reconsider their business models.

In line with the different rationale and the factor that can possibly contribute to a successful M&A can be analyzed by drawing the Similarities that exist between the below alliances

i. 'The DaimlerChrysler Merger' vs. 'Mahindra-Ssang Yong'

ii. 'The DaimlerChrysler Merger' vs. 'Tata JLR'

iii. 'Sears / Kmart' vs. 'Walmart-Massmart'

iv. EBay / Skype' vs 'Microsoft (Skype)'

As an extension to this study, analysis to draw out similarities in business operations and objectives of historic M&A's and few of the recent mergers can be taken up. Further, leanings derived from the published

literature can be used to analyze them in the light of the factors that can contribute to successful integration of the companies involved in M&A's and further extend the study to understand the implication of the different value chain partners of the merged entities.

4. Conclusion

The paper analyzes the past failures in M&A's and establishes the importance of the various factors like cultural clashes, technological mismatch, unclear strategy, and improper integration planning. These factors if not considered during the establishment of plausible challenges in the post M&A scenario, can lead to integration complexities or under achievement of desired synergies. Hence in today's business scene where inorganic approaches have become norms for the future growth, companies must come up with a holistic list of parameters for successful integration and extend this beyond the merged entities to the different value chain partners of the merged entities.

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