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A STRATEGIC MANAGEMENT OF MERGERS & ACQUISITIONS

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ABSTRACT

Mergers and acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, Mergers is the combination of two companies to form one, while Acquisitions is one company taken over by the other. M&A is one of the major aspects of corporate finance world.In this paper we have discussed what mergers and acquisitions are and how they are a part of any organizations strategic planning policy. Organizations 'merge' generally with similar organizations or 'acquire' weaker organizations, and the essence as to why they do so is that the value of two is greater than one.

They basically merge with or acquire each other's strengths and try to overcome one another's weaknesses thus leading to increased market shares and profitability. We have discussed the various rationales for mergers and acquisitions like the strategic rationale, speculative rationale, management failure rationale etc, along with their types that include vertical integration, horizontal integration and conglomeration. We have also put light on how companies go strategically about mergers and acquisitions.

Keywords: Mergers &Acquisitions, Profitability, Speculative rationale, Horizontal integration

I. WHAT IS MERGERS & ACQUISITIONS?

Mergers and acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, ***Mergers*** is the combination of two companies to form one, while ***Acquisitions*** is one company taken over by the other. M&A is one of the major aspects of corporate finance world. The reasoning behind M&A generally given is that two separate companies together create more value compared to being on an individual stand. With the objective of wealth maximization, companies keep evaluating different opportunities through the route of merger or acquisition.

II. MERGERS AND ACQUISITIONS AND STRATEGIC MANAGEMENT

Initially, that is in the past decades mergers and acquisitions were merely financial transactions aiming to control undervalued assets and the target was an industry or business very different from the acquirer's core business. Cash flows merely sufficient for debt repayment was the main goal. Mergers and acquisitions in recent times are very different.

'Today, the typical merger or acquisition is quite strategic and operational in nature.'

This implies that today, managers are not just buying undervalued assets as discussed above but what they are buying are installed customer bases, better distribution channels, greater geographical boundaries, organizational competencies and a variety of new talent. All of these acquired factors in turn offer more strategic opportunities to organizations so that they can gain an edge over their competitors' products and services. Such organizations are successful in consolidating business units in an attempt to maximize revenues and share prices.

'Strategic Planning has long been emphasized by organizations as an important tool leading to business success.'

Many studies conducted in this regard revealed that seldom did managers had any clear strategic rationale for M&As and the impact these deals will have on the company in the upcoming periods. As discussed above, companies have recently shifted their emphasis from cost saving to using M&As as a strategic driver for growth in corporations.

Mergers and acquisitions have several reasons to be justified. Organizations that undertake such deals can either gain from them or can be a complete failure. It is therefore very important to align any organizations strategic plans with their M&A plans. This can be done by an effective tool that is due diligence that implies the screening of all the potential merger and acquisition targets.

III. THE IMPORTANCE OF MERGERS AND ACQUISITIONS

Mergers and acquisitions generally referred to as M&A are a very important means whereby companies respond to the ever-changing strategic environment.'Many firms have no alternative but to merge, acquire or be acquired'.Simply put when organizations have no chance of survival they give themselves a last chance by merging or by being acquired. The basic goal of businesses in today's world is to grow or death is destined for you. Companies that are successful that is those companies that are growing will snatch market share from their competitors, will generate high economic profits and provide reasonable returns to shareholders. On the other hand companies that experience stagnant growth lose both their customers and market share in addition to destroying shareholder value.

'Mergers and acquisitions (M&A) play a critical role in both sides of this cycle.'

Mergers and acquisitions enable successful companies to grow faster than their competition by combining the strengths of the companies that have merged. On the other hand, they lead to total extinction of the weaker companies by having them acquired by other large and successful companies. 'Mergers and acquisitions are a vital part of any healthy economy and importantly, the primary way that companies are able to provide returns to owners and investors.' and also that 'Merger and acquisitions are among the most powerful and versatile growth tools employed by companies of all sizes and in all industries.'

This also signifies the importance of mergers and acquisitions in that they are highly efficient growth tools employed by organizations of all sizes and virtually in all industries. This depicts as M&As being a global trend.The Reasons behind Mergers and Acquisitions Companies and businesses use mergers and acquisitions for many reasons. Some are mentioned below:

Mergers and acquisitions can pave ways for entering new markets, Adding new product lines and increasing the distribution reach—that is gaining a core competence to do more combinations.

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Mergers and acquisitions are used to increase / enhance shareholder value.

This is done by:

- Cost reductions that are achieved by combining departments, operations, and trimming the workforce—this cost reduction in turn leads to increased profitability.
- Increasing revenue by absorbing a major competitor and thereby increasing market share.
- Cross-selling of products / services.
- Tax savings that are achieved when a profitable company merges with or takes over a moneyloser.
- Diversification that can stabilize earnings and boost investor confidence. ◊Some mergers and acquisitions take place when management of any business recognizes the need to transform corporate identity.
- Mergers and acquisitions are also used for risk spreading
- Acquisitions are undertaken to achieve vertical and horizontal operational synergies where synergies signify that the whole is greater than the parts.
- Some mergers and acquisitions take place for market dominance and reaching economies of scale.

IV. LIFE-CYCLE OF MERGERS AND ACQUISITIONS

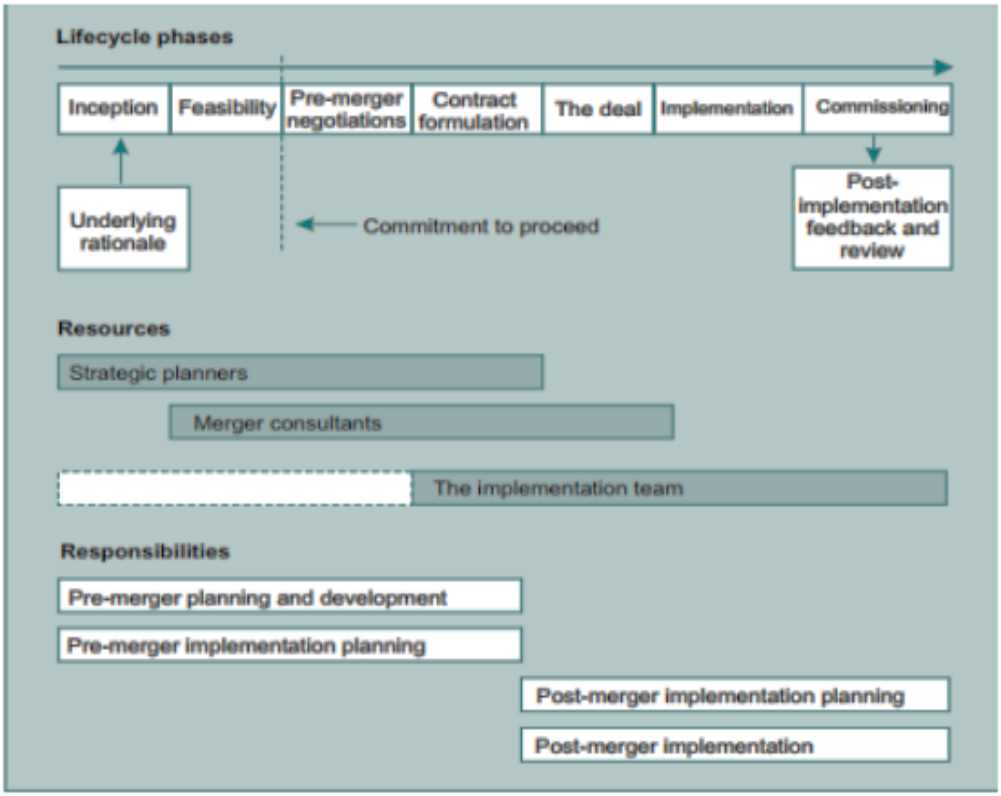

Figure1: M&A Flow chart

Almost all mergers and acquisitions begin with the inception phase. In this phase, the process is initiated by the senior managers of the organization. This step is usually followed by the feasibility stage where the financial and land logistics area is analyzed. The merger or acquisition may be taking place for the improvement of the

financial position and market value. The feasibility phase includes a detailed analysis of the financial characteristics of the proposed merger while considering timescales, synergy generation and other variables.

During some point or towards the end of the feasibility phase, a proper decision is made on how to take things to the next level. At this point, the organization commits its self to the merger or acquisition and starts allocating the funds and resources as needed.

The next phase is known as the pre-merger phase and it starts immediately after the commitment to proceed. In this phase, the senior managers of both the organizations enter into negotiations to form a structure of the new combined organization. The services of external professional consultants are also needed in this phase. After the negotiations are made, The deal takes form of a merger. The contract sets out the rights, duties and obligations of both the organizations under the terms of the deal. As soon as the contract is in place, the implementation process begins.

This process includes the mechanics of actually making the merger happen. In real life, merger and acquisition life cycles can be considered in much more complex terms. In practice, it is necessary to subdivide each life cycle phase into manageable chunks to have sufficient control and response. Merger implementation managers usually establish detailed reviews and associated reporting procedures and formats for each phase. The procedures prove to be very helpful in keeping the entire merger focused and on track. Figure 1 shows the various phases of the life cycle. Strategic planners dominate the early phases as they are responsible initiating the merger and for making the strategically correct decisions

V. IMPORTANT TACTICS FOR MERGERS AND ACQUISITIONS

There are five overarching areas that all CEO's and strategists should address to ensure a successful M&A journey:

1. Internal capabilities: The process of assessing and integrating of a target company should be carried by a business development team.
2. Strategic goals and alignment: It is very important to evaluate a company's strategic and financial goals—determining if they can be achieved faster or more easily via organic growth or an acquisition.
3. Selection criteria: Selection should be based on post-acquisition market share, cost reduction and synergy opportunities. Flexibility should be maintained as criteria in one industry may not apply to another.
4. Target selection: The target selection process needs to be carried out quickly keeping in mind that it should be explicit and transparent.

VI. MERGERS AND ACQUISITIONS - SUCCESSES AND FAILURES

M&As can either be successful or complete failures. A study in which 180 cases were studied showed that two-thirds of mergers and acquisitions fail. Substandard outcomes were also considered as failures.

According to an earlier research, inadequate planning, hurry to close the deal, not being able to foresee the future integration problems and projecting synergies that turn out to be illusionary are all causes of failure.

A detailed merger plan over how the implementation of the merger or acquisition should be executed and implemented is extremely important. A successful merger plan will bear fruitful results. In the mergers that do

succeed, experiences and preparation are said to be the key factors. A merger or acquisition has a higher chance of succeeding if the organization and its management has previously experienced and survived a merger.

VII. CONCLUSION

Mergers and acquisitions are being used as an important strategic tool for survival by many organizations in today's competitive business environment. The essence of mergers and acquisitions is that the value of two companies together is greater than one. Companies merge with or acquire other companies to make use of one another's strengths and these results in increased market shares and profitability that are vital for survival.

Mergers and acquisitions enable companies to work as one and thus increase their total market value. In this paper, we have discussed what mergers and acquisitions really are, their causes and their importance. We have also described the ways to screen a potential target and the rationales behind mergers andacquisitions.

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