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Merger and Acquisition: Avoiding the Path of Decay

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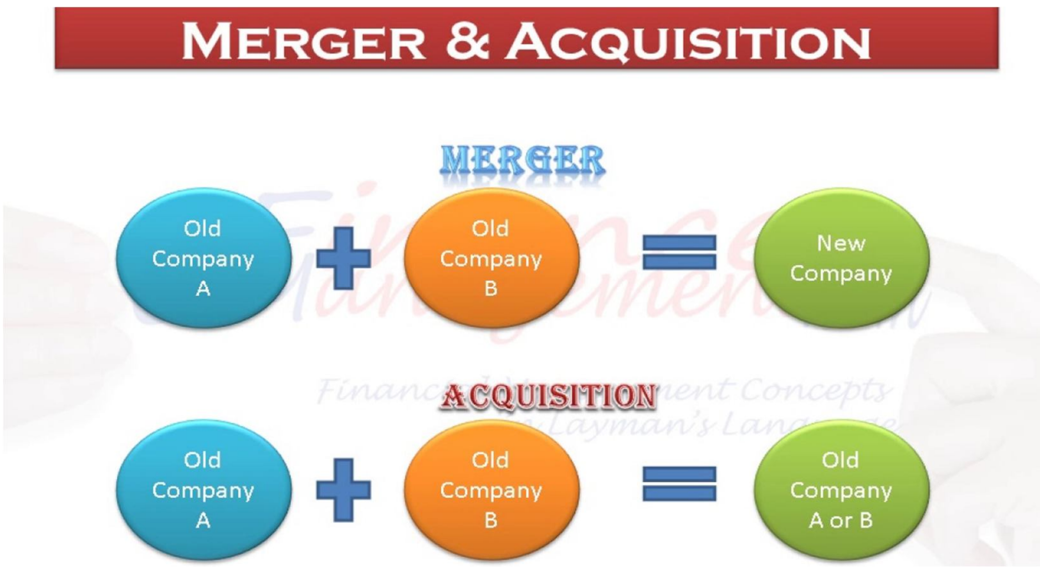

Abstract: ***Huge amount of capital and resources are involved in merger and acquisition so it has raised the interest of all stakeholders that are employees, customers of merging, acquiring and acquired companies and everyone wants monetary and non-monetary returns. But due to some decays, that levels of objectives or benefits are not achieved which we have presumed. So main objective of this paper is to pointing out the main pitfalls which change the promising motivations and objectives into the failed implementation in the process of merger and acquisition which destruct the motive of merging. In this paper we highlight the points to prevent managers engaged in the process of merger from the potential hazards leading to value destruction. If we do not work on the pitfalls of merging & acquisition then it will affect the customer loyalty, distress the employees, affect corporate culture & it can increase the amount of debt owned which would result in the huge financial loss. In this we consider that to avoid the decays in the process of merging we should give a special consideration to the customers because customers are the main parties which would affect by the merging on the huge level & pitfalls in the merging can take away company's customers to their competitors so in the merging & acquisition we should choose that Path where we would have less decays & can work to remove them.***

Keywords:-
1) ***Synergy:-working together to create something greater than either of individual do alone***
2) ***Pitfalls:-Risk***
3) ***Decay:- Decomposition***
4) ***Consolidation:-unite***

I. OBJECTIVE OF THE STUDY

1) To know the reasons for Merger & acquisition
2) To know how it affects the customers
3) To the types of Merger & Acquisition
4) To know what kind of pitfalls falls in merger & acquisition
5) To know How to avoid the Pitfalls.

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II. INTRODUCTION

A. *Merger & Aquisition*

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.

1) *Mergers & Acquisitions can take place:*

- By purchasing assets
- By purchasing common shares
- By exchange of shares for assets
- By exchanging shares for shares

2) *Types of Mergers and Acquisitions:*

Merger or amalgamation may take two forms: merger through absorption or merger through consolidation.
Mergers can also be classified into three types:-

- Horizontal Merging:-Where two firms of the same industry merged
- Vertical Merging: - Merging at different production stages or value chain.
- Conglomerate: - Merging of unrelated industries).

3) *Reasons for Mergers and Acquisitions:*

- Financial synergy for lower cost of capital
- Improving company's performance and accelerate growth
- Economies of scale
- Diversification for higher growth products or markets
- To increase market share and positioning giving broader market access

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- Strategic realignment and technological change
- Tax considerations
- Undervalued target
- Diversification of risk

4) Principle behind any M&A is 2+2=5

There is always synergy value created by the joining or merger of two companies. The synergy value can be seen either through the Revenues (higher revenues), Expenses (lowering of expenses) or the cost of capital (lowering of overall cost of capital).

Three important considerations should be taken into account:

- The company must be willing to take the risk and vigilantly make investments to benefit fully from the merger as the competitors and the industry take heed quickly
- To reduce and diversify risk, multiple bets must be made, in order to narrow down to the one that will prove fruitful
- The management of the acquiring firm must learn to be resilient, patient and be able to adopt to the change owing to ever-changing business dynamics in the industry.

B. Merger & Acquisition:-Avoiding The Path Of Decay

In this paper our main research is on that what kind of hurdles we face in merger & acquisition & how to avoid those hurdle

➢ DECAYS (HURDLES) IN MERGER:-

1) Bad for consumers:-

With the merger, competition can reduce the industry and the new company may have higher pricing power.

2) Merging teams & their Culture:-

Both the companies have different-different Culture & environment, so when they merge it becomes difficult to them adjust with each other's culture which creates the tension between employees. Mergers are very much like marriages. You are merging people, personalities and cultures. And, marriages don't always go as planned, often ending in divorce. But, "divorce" in the M&A sense is typically much harder to accomplish, meaning you are stuck with these issues, whether you like it or not.

3) Big Company Let Down:-

Oftentimes, entrepreneurs think selling to, and working for, a big company will solve all their problems, as big companies have bigger budgets, etc. But big companies bring as many headaches, as they do solutions. The start-ups of small companies most likely got lost in the big Companies.

4) Decrease in Jobs:-

A merger can result in job losses. An acquiring company may shut down the under-performing segments of the company.

5) Huge Financial requirement:-

In the process of merging the companies need the big amount of finance to set the new venture they have to finance the loans & if the merging get fail they have to face the huge financial loss.

6) Legal Procedure:-

We have to follow the lengthy legal procedure to get merged; it is not easy to get legal permissions of merging. Getting M&A transactions properly documented for maximum protections in the event something goes wrong down the road is not easy. It requires the skills of very experienced lawyers.

7) Increase in cost:-

We do merging to cut the cost but sometimes it increase the cost because to this process we need to hire the experts & have to give them good salary & incentives. On the other hand we have to spend on training of employees to train them so that they can adjust with new culture & environment.

8) Diversification:-

When in merging & acquisition we introduce new products & services in our product line it also creates problem because we have to make new sales policies & strategies to introduce the new product in the market which is the headache that how to induce the customers we have to deeply study the market, customer requirement & hire the experts to make policies.

- How to avoid pitfalls (Decays) of merger and acquisition

1) Deep study of legal aspects

It is an important exercise of M&A transaction and helps both parties identify any legal risks associated with the merger. Due diligence also provides an opportunity to minimize those risks.

At the initial stage, all corporate documents are thoroughly reviewed which include Articles of Association. It also covers aspects relating to registrations of company's employees with the regulatory authorities. The second phase includes reviewing details related to company's shareholders, financial liabilities, contractual rights and obligations.

There are several regulatory considerations when performing M&A. In some cases, there is a need to obtain specific approvals from M&A transaction from government regulatory bodies, especially when the company is part of core economic activities of the country like banking, insurance, electricity or water supply. Some areas of economy require licenses and NOCs to collude. Additionally, government agencies exist that ensure industries stay competitive. M&A transactions usually present a possibility of collusion between firms, in order to raise price and create a monopoly situation. This situation generated extraordinary profits for the company, but exploits consumers, since they don't have a choice and end up purchasing the goods at a higher price. Competition commissions exist on order to make sure that markets stay competitive. As the firm grows in size after M&A transaction, a different set of tax brackets may be applicable. This needs to be takes into considerations since it could adversely impact company's profits. Such a development will be irksome to shareholders and other stakeholders.

2) Understand labour laws

Some countries have stringent labour laws, which need to be taken into account before M&A transaction take place. Big firms find themselves in spotlight when it comes to labour laws. The acquirer needs to understand how the labour laws are going to impact the company once the merger is complete. Moreover, the politics of labour unions also needs to be understood and reconciled with. Sometimes, the employees are not happy with the proposed merger, which could threaten to disrupt the operations of the company. It must also be made sure that labour is not exploited under the new administration, which can be done by paying a fair wage, providing safe working condition and health insurance.

3) Take care of post-sale team

The skill set it takes to grow a small stand-alone business are very different from the skill set required to grow a larger business through M&A activity. You want to make sure person has past experience in dealing with M&A related issues like merging businesses, teams, financials, etc. and someone that knows how to operate a much bigger company, typically with more procedures and controls for scalability.

4) Merging of not only companies but teams & cultures should also be merged

Mergers are just like marriages. You are merging personalities, people and culture. When two person are married, some type of bonding should be there between two personalities only then marriage is successful otherwise it fails. Similarly when two companies are merged some similarity should be there either in culture or traditions. That's why proper care should be given to culture, traditions of both companies because both companies have employees who are working in the company. If employees feel that their culture, traditions are not harmed and they are satisfied, only then merged company will grow faster otherwise results of merger will not be fruitful.

5) Make sure that you are buying a company or you are just buying a share in the company

A proper care should be given at the time of purchasing a company. Make sure that you are just buying a share in the company or you are buying total ownership of the company.

Let's take an example of eBay. In 2005, eBay spent $2.6 billion on Skype, which it hoped would increase sales on its platform by giving buyers and sellers an instant communications channel and eBay put Skype for sale four years later (taking a $936 million write-down in the value).

But there was a little known fact complicating the situation: The purchase didn't include full ownership of Skype's underlying technology.

6) Communicate with **all** *shareholders, even those with a small stake.*

The next thing which should be kept in mind is that all your shareholders should be well informed about merger whether that shareholder has small stake or large stake. By doing this a sense of loyalty is created among shareholder and they feel that they are also an important part of the company. A more respect towards the company is build up.

*7) Do SWOT (strengths, weakness, opportunities and threat) analys*is

The SWOT analysis will help you match your company's SWOT to target SWOT. It helps you to determine where there are alignments. When making an acquisition there are many concerns like management strength, operational structure and system, competitive advantage, competitive barrier, industry position, market share, profitability etc. Customer concentration is the biggest concern and threat to concern. So to avoid the pitfalls SWOT analysis should be there.

8) Use the statement 'business as usual' or 'change will be minimal'

Mergers and acquisitions require a transformation that is incredibly disruptive as it involves organizational restructuring, management team changes, combination and rationalisation of product and service line portfolios, reconfiguration of supply chain and distribution arrangements. During an acquisition or merger the dynamic can have a psychological effect on employees' perception and satisfaction, career path, as well as corporate politics. As senior management's effort to keep employees focused and productive by using the phrasing "Business as Usual" or "Change will be Minimal".

9) Merge to Acquire the capabilities

We have to do mergers and acquisitions take place in order to acquire unique capabilities or resources, which could prove paradigm-shifting for the company so that we can induce the competitor's customers. This would include patents and licenses, which the acquiring company will gain access to once the merger is completed. A patent, licenses or certain technology could make a lot difference for the company, which could help it substantially increase sales and profits, since it might create a natural monopoly situation for the new company. When two different companies combine, it could also result in unlocking hidden value, which becomes apparent as resources and experiences combined bring innovation and efficiency

10) Personal Incentives:-

For the successful implementation of merger & acquisition the company should give the proper incentives & benefits to the managers so that they work with proper honesty & zeal.

11) Financial Analysis:-

In this there should be proper financial analysis of both companies to know the financial position of the company like financial analysis, Ratio analysis to fix the financial targets.

12) Give Training to handle large clients:-

Mergers and acquisitions, especially in the service industry, also take place in order to follow big clients. There are a lot of examples of such M&A activity happening for law firms, since sometimes the clients are so big, it forces firms to merge in order to serve them better. The merged firms should have to train their employees & spend on more resources to handle powerful clients. It also gives companies a way to bootstrap earning, hence better performance at the stock exchange for listed companies.

III. EXAMPLE OF MERGER & AQUSITION IN INDIA

Flip kart and Myntra | Deal size: USD 300 million - 330 million

After months of speculations, India's premier e-commerce start-up Flipkart acquired its fashion-focused rival Myntra in May 2014, a move which was in light of Amazon's expanding presence in India. Neither party confirmed the exact value of the acquisition, but reports placed the cash and stock deal between USD 300 million and USD 330 million. Myntra remained a separate entity following the acquisition and continued to expand its presence in the country, as did Flipkart. Myntra founder and CEO Mukesh Bansal were appointed on Flipkart's Board and were made head of the fashion division of the e-commerce conglomerate.

IV. RECOMMENDATIONS

1) Before going for merging & acquisition we have to firstly check own customer requirement & Select the Experts for this process.
2) Study the market
3) Do the Financial Analysis of Both companies.
4) Deep study the Legal procedure of Merging & Acquisition.
5) Give Training to Work force to Adjust in new Culture & Environment

V. CONCLUSION

Many companies find that the best way to get ahead is to expand through mergers and acquisitions. For others, separating the public ownership of a subsidiary or business segment offers more advantages. At least in theory, mergers create synergies and economies of scale, expanding operations and cutting costs. But in this process we face much kind of hurdles or pitfalls which can lead it to the failure implementation so while doing merger & acquisition we have to do the deep study, take the help of experts & know the customer requirement so that we can avoid the decays.

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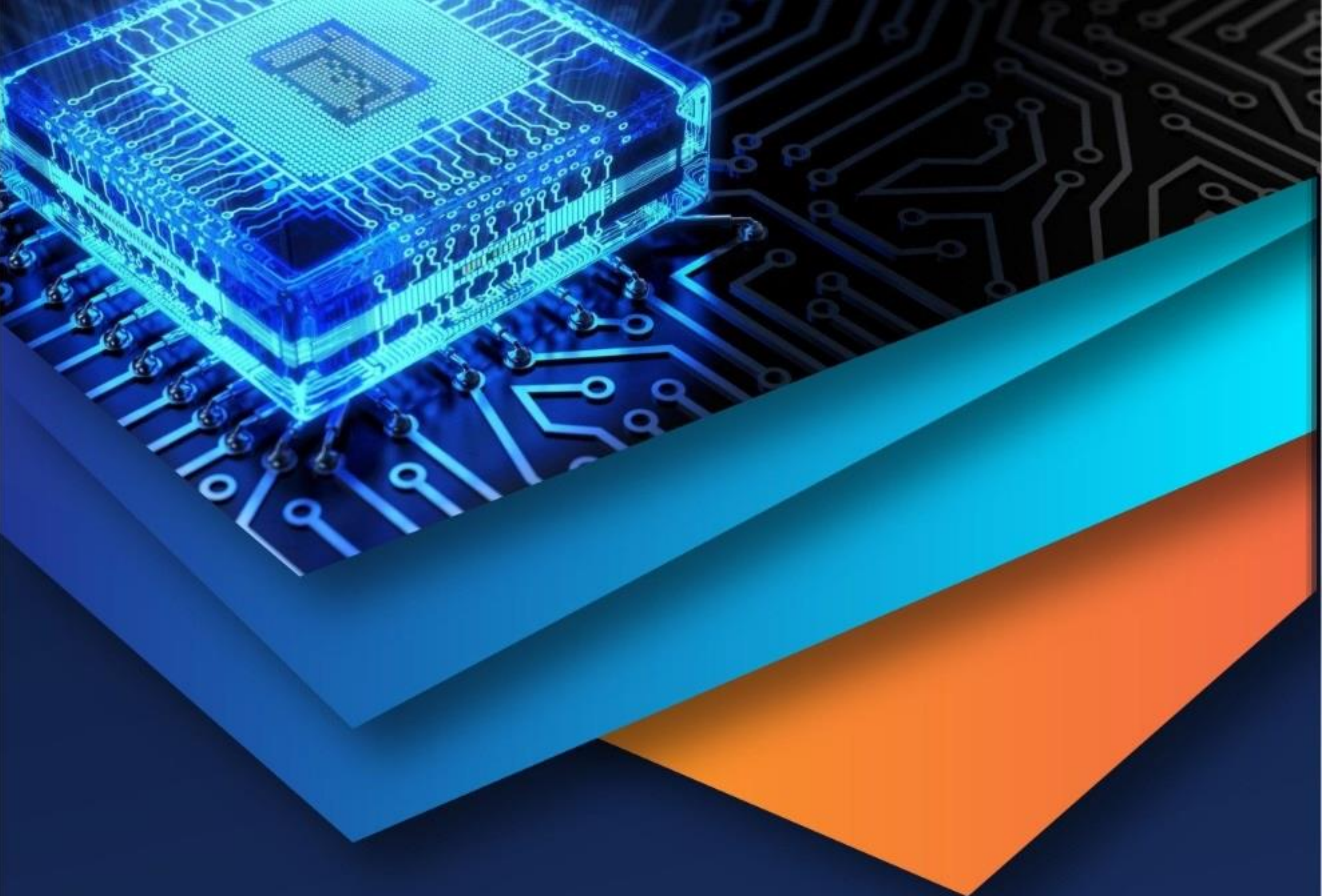

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