Unit-4

Companies merge with or acquire other companies for growth. This growth manifests itself in different ways, such as market share, geographic expansion, and knowledge transfer and product diversification. Growth is what underpins all of these motives.

However, when we say that a transaction is accretive or adds value, it means that the company has grown as a result of the deal. The opposite can be said of transactions which are dilutive or destroy value.

At DealRoom, we **work with hundreds of companies and intermediaries** on an ongoing basis as they attempt to maximize value from mergers and acquisitions.

Most, if not all, of these companies have already established the "**why**" for their transaction before they turn to our platform for their **due diligence requirements**.

The following are just some of the reasons why they, and others, decide to merge with or acquire other companies with examples.

Reasons for Mergers and Acquisitions

1. To grow the business
2. To achieve revenue synergies
3. To achieve economies of scale
4. To diversify
5. To vertically integrate the business
6. To avail of tax benefits
7. For knowledge transfer

1. To Grow Your Business

This is the most commonly cited motive for undertaking a deal, and it's hardly surprising: If you're not at least passively looking at M&A as a strategic option for your company, you'd better be confident in your company's prospects for significant organic growth.

A 2020 survey of **300 companies** involved in M&A in 2019 said that **34%** of respondents said, before the deal, growth was their priority. Everyone else, that is **66%** of respondents, said that although growth hadn't been their priority, it should have been.

Although growth is a catch-all answer, it's first on this list because, as the survey respondents' answers show, it's the most important. Companies exist for value creation and that the best way to achieve this is through growth.

Virtually all of the world's largest value creators have undertaken M&A at some stage to achieve growth, even when they could achieve double digit organic growth at the same time.

2. To Achieve Revenue Synergies

The "**1+1>2**" effect.

In a well-thought-through deal, synergies can be found in several places.

These include revenue synergies (say, through cross-selling products: Starbucks' purchase of Teavana being a case in point), cost synergies (cost savings that come from scale, such as supply chain efficiencies, etc), and even operational synergies (whereby the performance of the merged company is stronger than the combined performance of the two companies unmerged).

3. To Achieve Economies of Scale

Closely related to synergies as a motive for M&A are economies of scale.

As a general rule, the higher **the production volume, the lower the unit cost**. This explains why auto companies, to take one example, have merged in such numbers over the past half-century.

Using the same rationale, scale also allows companies to take advantage of bulk purchases with their partners and suppliers, again helping to bring down their unit costs.

4. To Diversify

Be it geographic or otherwise, M&A is a proven way for companies to successfully diversify.

Mars started as a humble bar of chocolate but a series of acquisitions (and a lot of product innovation) including several in pet food, and a merger with Wrigley (a manufacturer of chewing gum) made it a global **conglomerate**.

In fact, there isn't a conglomerate that exists that didn't do so without partaking in mergers and acquisitions to at least some degree.

Not all companies are looking to become conglomerates. Geographic diversification is a common motive for deals, particularly cross-border deals. In theory, and very often in practice, it's easier to gain a foothold in a different geography by acquiring (or merging) with another company rather than starting from scratch.

This is true in any industry and explains why cross-border deals alone reached nearly **$500 billion** in 2019.

5. To Vertically Integrate Your Business

Diversification is **horizontal integration**, acquiring other companies on your own supply chain is **vertical integration**.

That means **Coca-Cola** buying bottling and distribution companies, **Kellogg's** buying wheat producers, **Apple** buying a screen manufacturer, and **Exxon Mobil** buying oil distributors. Essentially, anywhere that a company can generate further value by bringing someone on their supply chain under their umbrella, an acquisition will be considered.

6. To Avail of Tax Benefits

Companies are less likely to talk about tax purposes as a "**why**" for a deal.

Acquiring a loss-making company in a given year can also allow a buyer to enjoy some of the above benefits, while simultaneously reducing their own tax liability. Trust us, they're far more likely to mention the former motive ahead of the latter.

7. For Knowledge Transfer

The acquisition of knowledge, often in the form of intellectual property, is a common motive for M&A, particularly among technology companies.

For example, if **Google**, wanted to acquire expertise in artificial intelligence, it would be easier for them to do so by acquiring a pre-existing artificial intelligence company (and their patents) than starting from scratch.

For good examples of this, look no further than the acquisitions that big tech companies have made in self-driving car technology over the past decade.

Conclusion

At **DealRoom**, our clients have all manner of motives for their mergers and acquisitions. Put another way, they nearly all possess a good 'why' for their transactions.

Whenever you're considering a transaction, whether it be a merger or an acquisition, make sure there's a good 'why' for the transaction.

As soon as it has been established, talk to us about how we can simplify the process for you.

Types of Takeovers

1. **Friendly Takeover**: When the target firm's management and most **stakeholders** voluntarily agree to sell off the company's significant share to the acquirer, the move is welcomed.
2. **Hostile Takeover**: Sometimes, acquirers secretly **buy the shares** of non-controlling stakeholders from the open market. Over time they slowly grab a majority stake in the target company. The management and board of the target firm are unaware of such developments.
3. **Reverse Takeover**: It is a strategy that private firms adopt to get listed. Instead of spending much, they procure a listed **public company**. It helps companies sell shares without going through the complex IPO procedure.
4. **Bailout Takeover**: Struggling businesses get rescued under the rehabilitation schemes set forth by the **financial institutions**. The acquirer has to put forward a proposal to the financial institution for acquiring the target company.
5. **Backflip Takeover**: This acquirer turns itself into a subsidiary of the target company to retain the brand name of the smaller yet well-known company. This way, the larger acquirer can operate under a well-established brand and gain its **market share**.

1. and its future business viability.
2. **Take the Decision**: Based on the expected benefits and limitations of the buyout, the acquirer has to assess the strategic value addition of the combined entity before making the final call.
3. **Assess Value of Target Company**: In this stage, the acquirer conducts a financial valuation of the target company at the price consideration. Additionally, the acquirer looks at alternatives that can finance the buyout transaction.
4. **Make the offer**: The acquiring company has to send a buyout proposal to the target firm.
5. **Conduct Due Diligence**: Once the offer has been accepted, the acquirer undertakes complete **due diligence** of the target company. This stage involves a thorough investigation and inspection of the target company's legal, financial, and operational position.
6. **Implement the Takeover**: Finally, the definitive agreement is prepared, and the deal is closed.

Takeover Examples

Following are some real-world examples of takeovers.

Example #1

In November 2018, CVS Health and Aetna entered into a **$69 billion** merger agreement. It is an example of a friendly acquisition. CVS Health first announced the merger back in December 2017; both entities expected significant **synergies**. In addition, the merger resulted in the **amalgamation** of CVS Health pharmacies with Aetna's insurance business, resulting in lower operating expenses.

Example #2

In November 2009, Kraft Foods offered **$16.2 billion** to Cadbury, and the offer was rejected straightaway. In response, Kraft Foods turned hostile. Kraft took the proposal directly to the shareholders to start a hostile buyout battle that lasted three months. However, in January 2010, Kraft Foods increased its offer up to $21.8 billion, and Cadbury agreed. Eventually, the acquisition was realized. This is an example of a transaction that was hostile at the beginning but ended in mutual agreement.

Advantages and Disadvantages

Who benefits from a **buyout**, and how? By purchasing another firm, the acquirer can gain a significant market share, maximize sales, generate additional profit, achieve **economies of scale**, reduce competition, acquire valuable resources, or expand the business.

A backflip helps lesser-known firms as they now get a brand name. Whereas, in a reverse buyout, companies can get listed without the **IPO** hustle. Target firms also benefit from buyouts. In a sinking company, the investors, **board of directors**, and **shareholders** can recover losses. Employees also escape getting laid out.

Buyouts come with their own risks. When a quick deal is set up, the acquirer might run out of time. A rigorous valuation of the target's assets and resources is not possible. Thus, the acquirer may end up paying higher than required. Buyouts directly affect work culture. If the ethos of new and old management differs significantly, there could be clashes in objectives and policies.

The acquirer can be caught unaware of undisclosed liabilities of the target business; also, the new entity may end up with two sets of employees that perform the same role. As a result, many end up losing jobs.

Difference between Takeover and Acquisition

There is a slight difference between the two. Takeovers or buyouts may or may not be welcomed by target firms. In contrast, acquisitions are always friendly.

In a hostile takeover, the target firm's management may not cooperate with the acquirer. The old management does not guide the new owners in administration and internal affairs. In contrast, acquisitions are met with the complete support of the management and board.

Corporate social responsibility (CSR) is also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business form of corporate. Self regulation is integrated into a business model. CSR policy functions as a built-in, self regulating mechanism whereby business monitors ensure its active compliance with the spirit of the law, ethical standards, and international norms.

The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest (PI) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of PI into corporate decision-making that is the core business of the company or firm, and the honoring of a triple bottom line: people, planet, profit.

The term "corporate social responsibility" came in to common use in the late 1960s and early 1970s, after many multinational corporations were formed. The term stakeholder, meaning those on whom an organization's activities have an impact, was used to describe corporate owners beyond shareholders as a result of an influential book by R. Edward Freeman ,Strategic management: a stakeholder approach in 1984. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations. CSR is titled to aid an organization's mission as well as act as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognized international standard for CSR (currently a Draft International Standard). Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities. Corporate Social Responsibility (CSR) is becoming an increasingly important activity to businesses nationally and internationally.

As globalization accelerates and large corporations serve as global providers, these corporations have progressively recognized the benefits of providing CSR programmes in their various locations. CSR activities are now being undertaken throughout the globe.

CSR is a business practice that involves a company’s efforts to address social and environmental issues by taking responsibility for the effect of its operations on customers, employees, shareholders, communities, and the environment. CSR requires going beyond legal compliance to make a positive impact on society and contribute to sustainable development.

Many socially responsible corporations will develop environmental, social, and corporate governance (ESG) goals and a means for ESG reporting. The importance of CSR lies in the recognition that businesses have a responsibility beyond profit-making to address social and environmental issues. Because organizations have a significant impact on society and the environment, they need to consider their impact and take

Benefits of Corporate Social Responsibility

CSR can provide several benefits to businesses, including:

- **Enhanced reputation**: CSR improves a company's reputation, leading to increased brand loyalty, customer satisfaction, and ultimately higher revenues.
- **Attract and retain talent**: CSR initiatives help attract and retain employees who share the company's values and want to work for a socially responsible organization.
- **Improved relationships with stakeholders**: Companies that are committed to CSR can build stronger relationships with stakeholders, including customers, suppliers, investors, and the community.
- **Mitigate risks**: CSR helps companies identify and mitigate risks related to their business models, including environmental and social risks that could affect their business operations and bottom line.
- **Sustainable growth**: Promoting environmental and social sustainability benefits the company and society in the long run.
- Innovation: CSR drives innovation by encouraging companies to develop new products and services that are environmentally friendly or socially responsible.
- **Cost savings:** CSR initiatives, such as reducing waste, energy consumption, and water usage, can result in cost savings for companies.

Types of Corporate social Responsibility

Learn more about the 4 types of corporate social responsibility.

1. Environmental Responsibility

Environmental responsibility, one of the pillars of environmental, social, and corporate governance (ESG), focuses on minimizing the negative impact of a company's operations on the environment. This includes measures such as reducing carbon emissions, conserving natural resources, reducing waste, and using renewable energy sources. Environmental responsibility is becoming increasingly important as customers and stakeholders demand sustainable business practices. Some examples of environmental responsibility include:

- Reducing energy use by putting lights and HVAC systems on timers, swapping traditional light bulbs for LEDs, or even installing solar panels.
- Recycling and composting at your place of business.
- Limiting the amount of packaging on any products you produce or sell

.2. **Economic Responsibility**

Economic responsibility refers to a company's obligation to operate in a financially sustainable manner while also contributing to the economic well-being of the communities in which it operates.

Some examples of economic responsibility include:

- Investing in local communities by contributing to economic development initiatives.
- Supporting small and local businesses by sourcing products and services locally.
- Donating to charitable organizations.

3. Philanthropic Responsibility

Philanthropic responsibility refers to a company's obligation to give back to communities through charitable donations, volunteer work, and community involvement. Philanthropic initiatives can support a variety of causes, including education, health, and social welfare.

Some examples of philanthropic responsibility include:

- Supporting employee volunteer programs.
- Sponsoring community events and initiatives.
- Creating a foundation or corporate trust.

4. Ethical Responsibility

Ethical responsibility means operating with integrity, transparency, and values. This includes following laws and regulations and ensuring that business practices align with ethical standards.

Some examples of ethical responsibility include:

- Treating employees fairly and providing a safe working environment.
- Ensuring that suppliers and partners adhere to ethical standards.
- Engaging in transparent and honest business practices.