International Management
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Acquire or Merge?

Compete or Cooperate?

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OBJECTIVE

Q&A about Mergers and Strategic alliances

Recommended reading:

- **MERGERS AND ACQUISITIONS IN EUROPE**
  by Martina Martynova, Luc Renneboog, January 2006
- **MANAGING PORTFOLIO OF ALLIANCES**
  McKinsey Quarterly, 2002, No. 3

Why to think about it?

In the process of company's development the merge or aquisition or strategic alliance, which are described as external growth, are being recognized as startegic alternatives for diversitfication, horizontal or vertical concentration as forms of internal growth.

To use external or internal forms of development it depends on many factors, including:

1. Sector characteristcs
2. Availability of assets
3. ….

Why to do it?

- To enter new markets
- To increase market share
- To diversify
- To limit the competition
- To develop key competencies
- To develop product
- To get access to new technologies
- To get synergy effect
- To reach advantages of scale
- Etc.

How to do it?

1. **MERGER:** two companies decide to merge their assets:
   - egalitary, two companies of similar size on equal rights,
   - acquisition, the partners are different with regard to size – one becomes taken over – the second one is taking over.

2. **FUSION:** one company is being divided into two or more companies
   - split, the old company is clossed
   - assets in kind, the old company is still existsing, forwards part of its assets into new company in return owns its shares.

Why it might fail?

1. Lack of knowledge
2. Cultural incompatibility
3. Lack of internal communication
4. Conflict between CEOs
5. To high price
6. Others

How to make it successfull?

1. Assess your key competencies, competitive possition, etc.
2. Find right partner
3. Analyze not only money, buy also the corporate culture
4. Be sure that after merge the key people will be available
5. Are you sure this will be profitable business?
6. Do you have post intergation plan?

Table 1. Intra-industry takeovers as a percentage of total number of cross-border and domestic European M&As

This table shows the percentage of intra-industry M&As based on the total number of all European takeover announcements within each industry during 1993-2001. An acquisition is classified as an intra-industry takeover if both bidding and target firms operate in the same industry (bidder's and target's 2-digit SIC codes are the same). The sample is partitioned into domestic and cross-border acquisitions.

	Cross-border bids, %	Domestic bids, %
Media and Entertainment	79.4	78.9
Consumer Staples	76.6	76.5
High Technology	72.4	71.9
Real Estate	72.4	75.0
Industrials	70.6	68.2
Materials	69.3	63.2
Healthcare	67.7	70.2
Retail	66.3	71.4
Energy and Power	65.0	65.0
Consumer Products and Services	62.0	62.5
Telecommunications	48.0	41.3
Financials	45.9	27.7

Figure 1. European takeover activity, total value of deals (in US$ trillion).

Source: Thomson Financial Securities Data

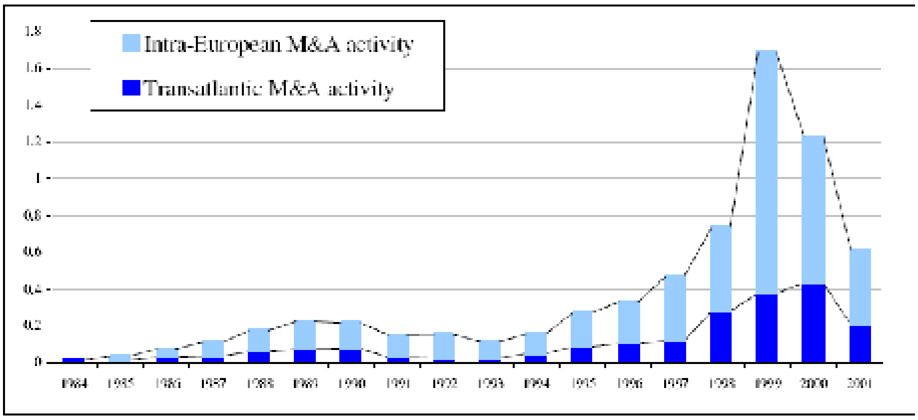
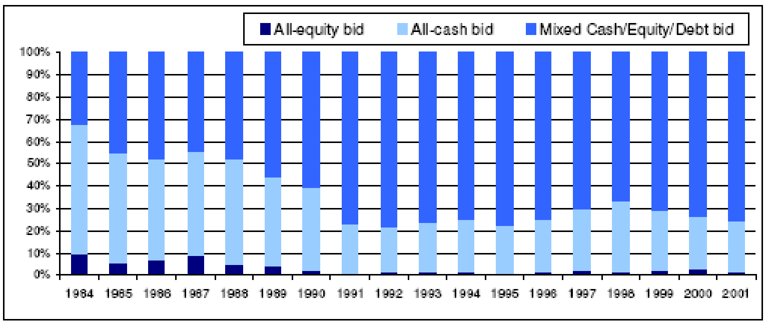


Figure 11. Percentage of all-cash, all-equity, and mixed bids (based on total number of European M&As).

Source: Thomson Financial Securities Data



Strategic Alliances

Strategic Alliances refer to co-operative agreements between companies, which may be competitors, to share or transfer skills and resources to meet mutually agreed goals. Such alliances may or may not involve shared equity stakes.

Alliances Cover a Wide Field

- Collaborative Advertising
- R&D Partnerships
- Technology Transferring
- Shared Distribution
- Co-operative Bidding
- Lease Service Agreements
- Cross Manufacturing
- Resource Venturing
- Shared Staff & Facilities
- Internal Spin-offs
- Cross Licensing
- Government and Industry Partnering

Types of Collaborative Relationships

		Closeness of Relationship	Nature of Relationship
		LOW	
Outsourcing	Outsourcing		Contractual purchase of goods and services
Partnership	Short-term Partnership		Short-term focus with co-ordinated activities and planning between partners
	Long-term Partnership		Long-term focus with integration of activities between partners
	Permanent Partnership		Permanent arrangements with partners with highly integrated systems
Alliance	Joint Venture		Shared ownership in an operation with a collaborator or partner(s)
Ownership	Vertical Integration	HIGH	Full ownership of the operation corporate parent

Primary Alliance Drivers

Individual Firm Capabilities

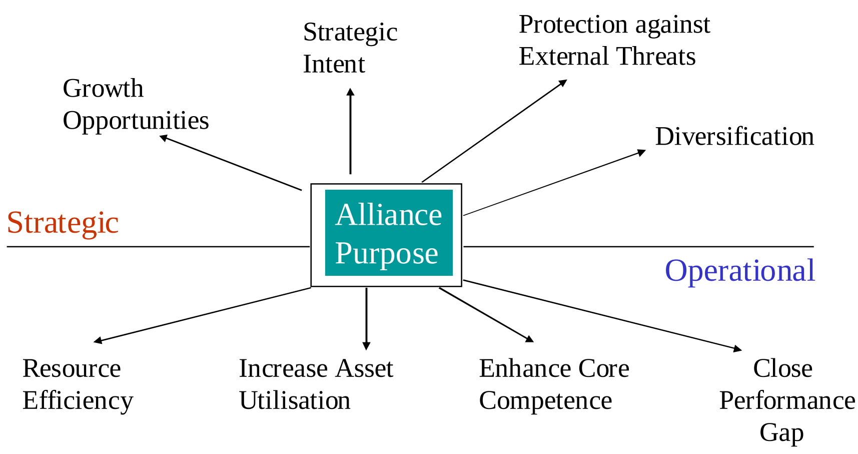
Globalisation Pressures	Low	High
High	**Channel Access Market Penetration** •Automotive •Chemicals & Energy •Consumer Products	**Global Industry Leadership** •Telecoms •Computers •Electronics
Low	**Pooled Resources** •Steel •Paper •Utilities	**Search for Critical Mass** •Healthcare •Environmental •Areospace/Defence

Typology of Business Alliances

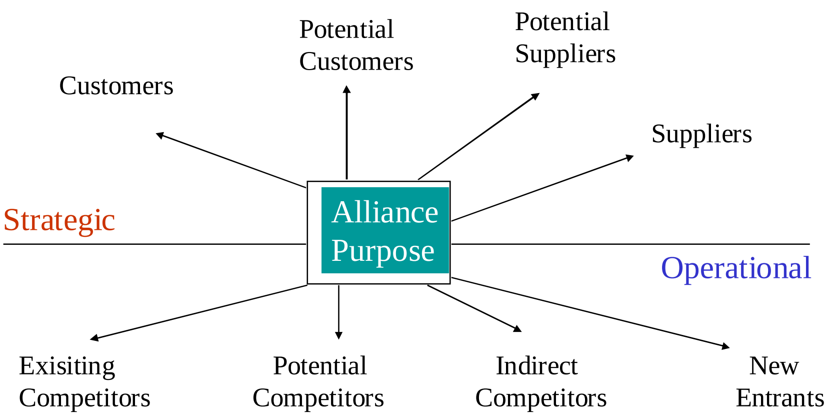
Parties

Orientation	Competitors	Non-competitors
Strategic	Competitive Alliances	Collaborative Ventures
Operational	Cartels	Co-operatives

Purposes of Alliances



Alliance Parties



Why Alliances

- Sharing fixed costs and associated risks of NPD and R&D and linked with opening and creating new markets

- Alliances can be seen as a method of bringing together complementary resources and skills that neither partner could easily adopt

Why Alliances

- Alliances can be seen as a way of creating critical mass to exploit economies of scale that individual partners do not enjoy
- Alliances can be seen as creating countervailing power in a market
- Alliances can be seen as an alternative method of market entry
- A form of market control by creating networks

The Dual Purpose of Strategic Alliances

Co-operative

- Upstream/downstream division of labour
- Fill out product line
- Limit investment risk of new market entry
- Create critical mass
- Develop new skills
- Assist s/t restructuring

Competitive

- Learn new skills
- Accelerate diffusion of new standards
- Deny technology and learning to partner
- Encircle competition
- Control market access
- Form clusters of learning

Starbucks alliances

Toshiba's "Circle of Friends"

TOSHIBA'S CIRCLE OF FRIENDS

United Technologies

Apple Computers

Asahi Chemical Industry

Time Warner

Ericsson

Thompson Consumer Electronics

GEC Altsholm

General Electric

Telic Alcatel

Sun Microsystems

LSI Logic of Canada

Siemens

Motorola

SGS-Thomson

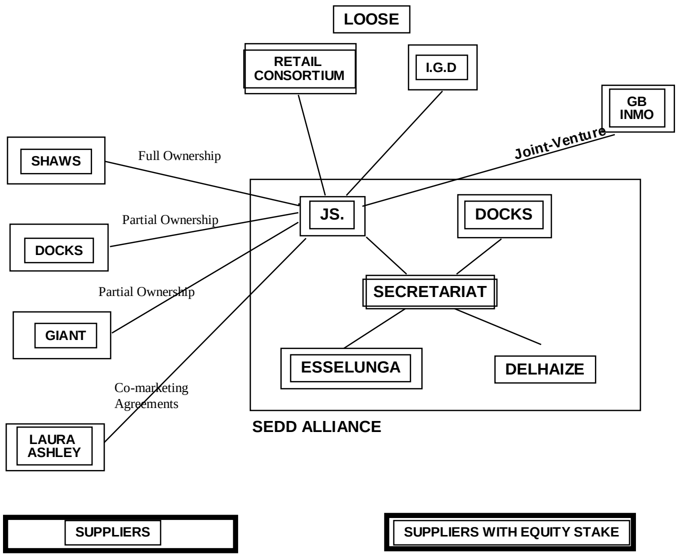
National Semiconductor

Samsung

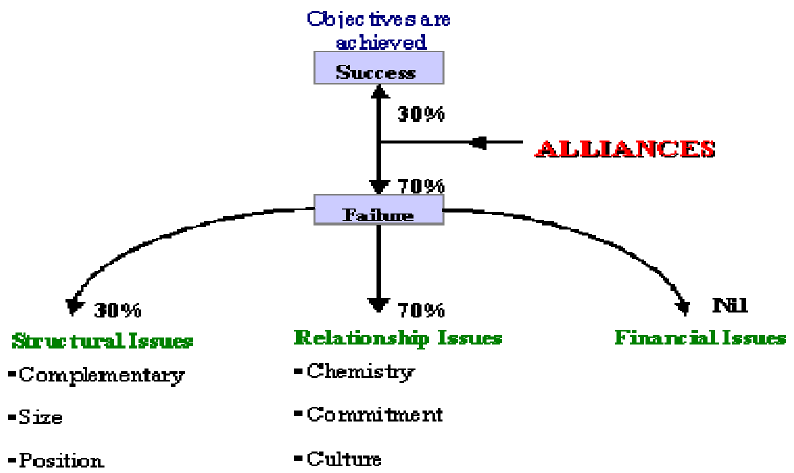
Rhone-Poulenc

Olivetti

J.SAINSBURY'S WEB OF ALLIANCE



Alliances failures



Source: Adapted from Wildeman, 1996

Alliance Failure Rates

- 66 percent of cross-border alliances ran into serious managerial problems within the first two years
- A further 19 percent reported mixed results
- On average over the first 4 years approximately 50 percent were deemed failures

Source: – McKinsey Quarterly, 2000, No. 4