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A case study on the major mergers and acquisitions on different sectors

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Abstract
A case study on the major mergers and acquisitions on different sectors have been chosen for the study. This study has been carried out for the time period of five years (2013 – 2018). The objective of the study was to examine the cases of the following companies: 1) H.J. Heinz versus Kraft foods, 2) Discovery Communications versus Scripps interactive networks, 3) Snapdeal versus Freecharge. The study explains about the risk factor in each sector and what they achieved before and after merger or acquisition. The ownership structure in the cases before and after merger or acquisition is also studied. The market place plays a very significant role for merger or acquisition to take place. Companies are acquiring more companies to expand their business in the market and the reasons are discussed here. Not all the mergers and acquisitions are a successful one since they have to make it possible with the involvement of both the employees and the management. When any company merges or acquires another company, they always aim at the growth and development of the company.

Keywords: merger & acquisition, case study, consideration

Introduction: Merger

A merger is a corporate strategy of combining different companies into a single company in order to enhance the financial and operational strengths of both organizations. A merger usually involves combining two companies into a single larger company. The combination of the two companies involves a transfer of ownership, either through a stock swap or a cash payment between the two companies. In practice, both companies surrender their stock and issue new stock as a new company.

A merger sometimes involves new branding or identity of the merged companies. Otherwise, a merger may lead to a combination of the names of the two companies, capitalizing on the brand identity of both companies. Mergers may result in a stronger company with combined assets, competencies, and markets. At the same time, mergers may result in a dilution of the financial strengths of one of the companies, particularly if the new company results in the issuance of more stock across the same asset base of the two merged companies. Finally, mergers often fail because of the clash of corporate cultures between the two companies, a reluctance to restructure redundant management and operations, incompatibilities of the technologies used by the companies, and disruptions in the workforce. Because mergers are difficult to implement, most ultimately take the form of an acquisition, that is, the purchase of a weaker company by a stronger company.

Acquisition

An acquisition is a situation whereby one company purchases most or all of another company's shares in order to take control. An acquisition occurs when a buying company obtain more than 50% ownership in a target company. As part of the exchange, the acquiring company often purchases the target company's stock and other assets, which allows the acquiring company to make decisions regarding the newly acquired assets without the approval of the target company's shareholders. When a target company is acquired by another company, the target company ceases to exist in a legal sense and becomes part of the purchasing company.

Companies acquire target companies as a growth strategy because it can create a bigger, more competitive, and more cost efficient entity. This synergy is the idea that the two companies together are valuable to the shareholders than they are apart. It is elusive, but it is the idea used to justify most acquisitions. Knowing how to analyse acquisitions can put individual investors in a great position to profit from stock price fluctuations that accompany them. Companies perform acquisitions for various reasons.

Acquisitions often become a part of a company's growth strategy when it is more beneficial to acquire an existing firm's operations than it is to expand its own. Sometimes expanding compromises efficiency. Whether because the company is becoming too bureaucratic or it runs into physical or logistical resource constraints, eventually its marginal productivity peaks. To find higher growth and new profits, the large firm may look for promising young companies to acquire and incorporate into its revenue stream. When an industry attracts too many competitor firms or when the supply from existing firm's ramps up too much, companies may look to acquisitions to reduce excess capacity, eliminate the competition or focus on the most productive providers. If a new technology emerges that could increase productivity, a company may decide that it is more cost-efficient to purchase a company that has successfully implemented the technology rather than spending on internal research and development, which can often be too costly and time-consuming.

Acquisitions are commonly made by using cash or debt to purchase outstanding stock, but companies can also use their own stock by exchanging it for the target firm's stock.

Objectives

- To gain knowledge about mergers and acquisitions.

- To find out the new products or services brought in out of merger or acquisition.
- To know about major merger and acquisition in the last 6 years.

Review of Literature

Akhil Bhan (2009) [1] has made an attempt to study the insight into the motives and benefits of the mergers in Indian banking sector. Through this paper and the sample taken for analysis it has been concluded that the mergers in the banking sector in the post reform period possessed considerable gains which was justified by the EVA of the banks in the post-merger period.

Egl Duksait and Rima Tamosiunien (2009) [2] described the most common motives for companies' decision to participate in mergers and acquisitions transactions. The reason is growth, synergy, access to intangible assets, diversification, horizontal and vertical integration and so on arises from the primary company's motive to grow. Most of the motivations for mergers and acquisitions feature serve as means of reshaping competitive advantage within their respective industries.

Cases studied

- H.J. Heinz versus Kraft foods – Merger
- Discovery Communications versus Scripps interactive networks-Acquisition
- Snapdeal versus Freecharge-Acquisition

Case study

The H.J. Heinz vs. Kraft foods Inc.

Nature: Merger.

Profile of H. J. Heinz Company

The H. J. Heinz Company, better known simply as Heinz, is an American food processing company based in Pittsburgh, Pennsylvania. Originally, the company was founded by Henry John Heinz in 1869. Heinz manufactures thousands of food products in plants on six continents, and markets these products in more than 200 countries and territories. The company claims to have 150 number-one or number-two brands worldwide. Heinz ranked first in ketchup in the US with a market share in excess of 50%; the Ore-Ida label held 46% of the frozen potato sector in 2003.

Since 1896, the company has used "57 Varieties" slogan; it was inspired by a sign advertising 21 styles of shoes, and Henry Heinz chose the number 57 even though the company manufactured more than 60 products at the time.

Profile of Kraft Foods Inc.

Kraft Foods Inc. was an American multinational confectionary, food and beverage conglomerate. It marketed many brands in more than 170 countries. 12 of its brands annually earned more than $1 billion worldwide. The company was head quartered in North field, Illinois a Chicago suburb. Its European headquarters was in Glattpark, Opfikon, Switzerland, near Zurich.

Kraft Foods traced its roots to the National Dairy Products Corporation, formed on December 10, 1923, by Thomas H. McInnerney. The firm was initially set up to execute on a rollup strategy in the fragmented United States ice cream industry. Through acquisitions it expanded into a full range of dairy products. By 1930 it was the largest dairy company in the United States and the world, exceeding Borden.

Year of Merger: July 2, 2015.

Merger details

Under the merger, which has been unanimously approved by both Heinz and Kraft's Boards of Directors, Kraft shareholders will own a 49% stake in the combined company, and current Heinz shareholders will own 51% on a fully diluted basis. Kraft shareholders will receive stock in the combined company and a special cash dividend of $16.50 per share. The aggregate special dividend payment of approximately $10 billion is being fully funded by an equity contribution by Berkshire Hathaway and 3G Capital.

Position of H. J. Heinz Company

Heinz was founded by and is named for Henry J. Heinz, who was born in the United States to German immigrants. He began packing foodstuffs on a small scale at Sharpsburg, Pennsylvania, in 1869. There he founded Heinz Noble & Company with a friend, L. Clarence Noble, and began marketing horseradish. The first product in Heinz and Noble's new Anchor Brand (a name selected for its biblical meaning of hope) was his mother Anna Heinz's recipe for horseradish. The young Heinz manufactured it in the basement of his father's former house.

The company went bankrupt in 1875. The following year Heinz founded another company, F & J Heinz, with his brother John Heinz and a cousin, Frederick Heinz. One of this company's first products was Heinz Tomato Ketchup. The company continued to grow.

Later in 20th, Heinz started to acquire many companies and started to enlarge its business worldwide. In 21st century, starting from 2001, the company did various acquisitions and mergers in order to expand its business. Now at present it has 20+ brands under its name.

Position of Kraft Foods Inc

Kraft Foods is a grocery conglomerate that manufactures and markets a range of food and beverage products. The company's product categories include baking and desserts, cheese and dairy, drinks, meats, sauces and condiments, snacks, and packaged meals. In August 2011, Kraft Foods Inc. announced plans to split into two publicly traded companies—a snack food company and a grocery company. On April 2, 2012, Kraft Foods Inc. announced that it had filed a Form 10 Registration Statement to the SEC to split the company into two companies to serve the "North American grocery business."

On October 1, 2012, Kraft Foods Inc. spun off its North American grocery business to a new company called Kraft Foods Group, Inc. The remainder of Kraft Foods Inc. was renamed Mondelez International, Inc. and was refocused as an international snack and confection company.

Kraft's principal brands and products include Maxwell House coffee, Kool-Aid drinks and MiO, Crystal Light, Kraft and Deli Deluxe processed cheese slice, Oscar Mayer cold cuts, Claussen pickles and Boca soy-based meat alternatives, JELL-O dry packaged desserts, Cool Whip whipped topping; Stove Top stuffing mix, Jet-Puffed marshmallows, Planters nuts, Bull's-Eye barbecue sauces; and Grey Poupon premium mustards, and more.

Operations after merging

Kraft Heinz Company become the fifth-largest food and Beverage Company in the world and the third-largest in North America. The company has a vast variety of products in the segments of condiments, sauces, cheese, dairy products, beverages, coffee, meals, and so on. Some of the key brands in its portfolio are Kraft, Heinz, Oscar Mayer, Lunchables, Classico, Plasmon, Benedicta, Capri Sun, Golden Circle, Wattie's, Glucon D, and Complan.

Symbol of Kraft Heinz after merger

Fig 1

The company distributes its products not only through its own independent sales force but also through a wide network of distributors, brokers, and agents to various retail outlets, hotels, restaurants, hospitals, pharmacies, bakeries, and so on across the globe.

Reasons for merger

The main reason behind this merger was the single motto of creating new giant in food industry. According to the company's own press release, the merger is expected to create "significant synergy opportunities with a strong platform for organic growth in North America, as well as global expansion, by combining Kraft's brands with Heinz's international platform." As you can see, Heinz plans to expand Kraft's international market penetration by riding the coat tails of Heinz's global reach.

Discovery Communications vs. Scripps Networks

Nature: Acquisition

Profile of Discovery Communications

Discovery is a global mass media and entertainment company. Discovery Communications was founded on June 17, 1985, and is headquartered in Silver Spring, Maryland. The company operates through U.S. networks; international networks; education; and other segments. It owns and operates television networks under many brand names, including Discovery, TLC, Animal Planet, Investigation Discovery, Science, Velocity, Discovery Family, American Heroes, Destination America, Discovery Life, Oprah Winfrey Network, Eurosport, DMAX, and Discovery Kids.

The company's content genres include survival, exploration, sports, lifestyle, general entertainment, heroes, adventure, crime and investigation, health, and kids. It distributes content across various platforms such as brand-aligned websites, web-native networks, online streaming, mobile devices, video on demand (VOD), and broadband channels; and operates radio stations and websites. It also operates production studios that develop television content for television service providers.

Profile of Scripps Networks

Scripps Networks Interactive develops lifestyle content for TV, internet satellite radio, books, magazines, and other media platforms. Scripps Networks Interactive is a developer of engaging lifestyle content in the home, food and travel categories for television, digital, mobile and publishing. Their lifestyle media portfolio comprises popular television and Internet brands HGTV, DIY Network, Food Network, Cooking Channel, Travel Channel and Great American Country, which collectively engage more than 190 million U.S. consumers each month.

Outside of the U.S., Scripps Networks Interactive owns TVN, Poland's premier multi-platform media company, and has an independent commercial joint venture, UKTV, with BBC Worldwide. In addition to those entities, they distribute seven entertainment brands- Asian Food Channel, Cooking Channel, DIY Network, Fine Living, Food Network, HGTV and Travel Channel — in 29 languages reaching nearly 165 million households in more than 175 countries and territories.

Year of Acquisition: March 6, 2018

Purchase Consideration: ₹ 10, 35,14,73,00,000 ($ 14.6 billion).

Position of Discovery Communications before acquisition

The company's namesake and flagship brand, Discovery Channel, first launched on June 17, 1985. In 1991, Discovery Channel's owners acquired The Learning Channel. In October 1996, Discovery launched several new spin-off networks, including Animal Planet, and the digital cable channels Discovery Kids, Discovery Travel & Living, Discovery Civilization, and Science Channel.

In 1997, Discovery purchased 70% stake of Travel channel and launched Discovery health channel. In 1998, it acquired struggling CBS-Eye on people channel, which eventually paved way for Discovery people. It acquired The Health channel and re-branded it as FitTv in 2001. It re-launched Discovery civilization in joint venture with The New York Times. It launched high Definition channel known as Discovery HD theatre.

On January 15, 2008, Discovery announced that it had entered into a joint venture with Oprah Winfrey's Harpo Productions to re-launch Discovery Health as a new service, OWN: The Oprah Winfrey Network, in 2009. In January 2014, Discovery launched Curiosity, a website that aggregates online education content. Later it was spun out as a venture-funded start up. In December 2015, Discovery launched Discovery Go, a TV Everywhere service offering access to live streaming and on-demand content from Discovery Communications' cable networks.

Position of Scripps Networks before acquisition

As on 2017, Scripps was a developer of lifestyle content and it has started many channels relating to cooking, travelling and life style. In 194, it launched HGTV. Later that year it acquired a stake in Food network and launched spin-off of HGTV called DIY Network. In mid-2008, Scripps spun out all its cable networks and online properties and created a new company called Scripps Networks Interactive. It acquired Fine living and rebranded it as Cooking Channel.

In 2011, it sold Shopzilla to Symphony Technology group. It bought 50% stake in UKTV which is under Virgin media in 2011. On 2012 March, Scripps Networks Interactive acquired Travel Channel International (TCI) which is an American broadcaster of travel-themed channels. Scripps Network Interactive has invested in various fields. It opened its Brazilian headquarters in Sao, Paulo in 2013.

Later in June 2103, the company launched Ulive, a digital-only lifestyle video brand. After two years, in 2015 it made a major acquisition of a Polish based television network TVN and later that year it bought all the remaining owners of TVN. Basically, SNI was a lifestyle, food, travel based broadcaster in many countries. Mostly all of these themed channels were under Scripps Networks Interactive until Discovery Communications acquired it.

Operations after acquisition

On March 6, 2018, the acquisition was completed; at the same time, the company was renamed Discovery Inc. SNI shareholders own 20% of Discovery's stock. Discovery will retain an operational hub in SNI's home city of Knoxville, but plans to move its corporate headquarters from Silver Spring, Maryland, where it has operated since 2003, to New York City in late 2019.

Symbol after acquisition

The earlier logo as Discovery Communications until acquisition of Scripps Networks in 2018. The logo has refined and dropped "Communications" word after the transaction.

Fig 2

After acquisition, Combined Company to produce nearly 8,000 hours of original programming annually, with library of 300,000 hours of content. Both has entered into different genre of shows that has been telecasted.

Fig 3

The above picture shows the channels of both companies and their genre.

Reason for Acquisition

As Discovery has long churned out unscripted fare-shows about animals, nature and survival. It wanted to expand its hand in all genres. It wanted to add brand that people loved and are passionate about. After acquisition, in an interview the CEO told that the main reason of this acquisition is to increase the cash flow of both the companies. Through this deal discovery can distribute its shows in the networks that are available throughout the world. It's the same in case for Scripps, it can also utilize the networks of Discovery.

This acquisition is one of the major acquisitions Discovery has done and this has great impacts in the future. With that insight Discovery has taken this step in order to expand its channels based on lifestyle, food, travel etc., on which Scripps has already had placed mileage. Discovery's long term vision is to expand themselves across the globe and provide the shows that people would watch and love.

Snapdeal vs. Freecharge

Nature: Acquisition

Profile of Snapdeal

Snapdeal is an Indian e-commerce company based in New Delhi. The company was commenced in February 2010. As of 2014, Snapdeal had 300,000 sellers, over 3 crore products across 800+ diverse categories from over 125,000 regional, national and International brands and retailers and a reach of 6.000 towns and cities across the country

It commenced as a member only website and become the largest online marketplace in India offering an assortment around 12 million and plus products from over 150,000 sellers to a user base of 25 Million members. It has a wide logistics network. Now it has become the second-largest e-tailing company after Flipkart in India.

Profile of Freecharge

Freecharge is an e-commerce website headquartered in Mumbai, Maharashtra that provides online facility to recharge any prepaid mobile phone, post-paid mobile, DTH & data card in India.

The website was started in August, 2010 by Kunal Shah of Accelyst Solutions Private Ltd. In November 2012, the company claimed to be doing online recharge of INR 6 million on a daily basis, translating to INR 2.19 billion a year. It provides online facility to recharge any prepaid mobile phone in India. The amount paid by the user for recharge is returned in form of shopping coupons of some of the top retailers in India, thereby making the recharge virtually free. The first two retailers for which coupons were available were McDonald's and Barista and were followed by other big retailers such as Café Coffee Day, Domino's Pizza, Cromā, Puma, Shoppers Stop and Jet Airways. In 2011, FreeCharge was named one of the most promising technology start-ups from India by Pluggd.in

Year of Acquisition: April, 2015.

Purchase Consideration: ₹28, 39, 40, 00,000 ($400 million).

Position of Snapdeal before acquisition

Snapdeal is an Indian e-commerce company based in New Delhi, India. The company was started by Kunal Bahl and Rohit Bansal in February 2010. As of 2014, Snapdeal had 300,000 sellers, over 3 crore products across 800+ diverse categories from over 125,000 regional, national, and international brands and retailers and a reach of 6,000 towns and cities across the country.

Snapdeal has acquired several business enterprises. In June 2010, Snapdeal owners Jasper InfoTech Pvt Ltd acquired Bengaluru-based group buying website Grabbon.com for an undisclosed amount. In April 2012, Delhi-based online sports goods retailer esportsbuy.com was acquired. This was followed in 2013 by the acquisition of Shopo.in, an online marketplace for Indian handicraft products. In 2014, Snapdeal acquired Doozton.com, a fashion product discovery technology platform, and Wishpicker.com, a tech platform that uses machine learning to deliver recommendations for gift purchases. Both deals were for undisclosed amounts.

Snapdeal made majority of its acquisitions in the year 2015. In January, it acquired a stake in product comparison website, Smartprix.com followed by the acquisition of luxury fashion products discovery site, Exclusively.in. In March, the firm acquired 20% stake in logistics service company Gojavas.com. Two more acquisitions in the same month were e-Commerce management software and fulfilment solution provider, Unicommerce.com and Rupee Power, a digital platform for financial transactions.

Position of Freecharge before acquisition

FreeCharge is an e-commerce and fintech company headquartered in Gurgaon. It provides online facility to recharge any prepaid mobile phone, post-paid mobile, DTH & Data Cards in India. In 2011, FreeCharge was named one of the most promising technology start-ups from India by Pluggd.in.

It provides online facility to recharge any prepaid mobile in India. The amount paid by the user for recharge is returned in form of shopping coupons of some of the top retailers in India, thereby making the recharge virtually free. The first two retailers for which coupons were available were McDonald's and Barista and were followed by other big retailers such as Café Coffee Day, Domino's Pizza, Cromā, Puma, Shoppers Stop and Jet Airways. By January 2012, the number of registered users of the website were 1.5 million which increased to 2.8 million by November 2012.

Operations after acquisition

After acquisition, it puts the company in direct competition with Flipkart, amazon and other similar online retailers in the industry. The deal also establishes a next level to Snapdeal's online transactions. This deal makes it one of the largest deals in internet space in India. As most of the Snapdeal users are of the age group 25-35, it wanted to expand its hand among youngsters. So, snapdeal with freecharge was the best idea.

Freecharge will continue to function as an independent platform and all aspects of FreeCharge's shopping experience will remain intact. The companies will collaborate to offer a seamless shopping experience to customers across both the platforms offering an even wider range of products and services.

Reason for Acquisition

First, FreeCharge's majority revenue comes from mobile and DTH recharge and the company is planning to expand its services in financial service and utility payments in a big way. With this acquisition, Snapdeal has the widest portfolio of mobile commerce range of products and services, including financial services, mobile recharge and utility payments with an exponentially growing user base of over 40 million.

Second, Snapdeal wants to replicate this model and club it along with their existing products thereby giving prospective buyers an edge vis-a-vis other e-commerce companies like Flipkart and Amazon. This will definitely help Snapdeal in the short run as its consumers will get a different experience.

Findings

H.J. Heinz vs. Kraft foods Inc.

- After the merger of the two companies, the companies merged their name and logo to create a new identity.
- Kraft Heinz Company became the fifth largest food and Beverage Company in the world and the third largest in North America after their merger.
- The main reason for their merger was to create a giant food industry.
- Their significant motto is to create a strong platform for organic growth in North America as well as to expand globally.

Discovery Communications vs. Scripps network

- The main reason for Discovery Communication acquiring Scripps Network was to increase the cash flow of both the companies.
- Discovery Communication had expanded its hand in all genres.
- Discovery communication's long-term vision is to expand its company across the globe and provide the shows that people would love to watch.
- The combined company had produced nearly eight thousand hours of original programme annually.

Snapdeal vs. Free charge

- Snapdeal acquired Freecharge to expand its wings on online transactions.
- Because of the acquisition, Snapdeal has the biggest portfolio for mobile commerce.
- Snapdeal is now in direct competition with Flipkart, Amazon, etc.,
- Even though it was a biggest acquisition, Snapdeal sold Freecharge to Axis bank.

Conclusion

From the above studied cases, we can say that most companies feel the best way to expand their market is through merger or acquisition. Mergers and acquisitions come in many shapes and sizes, so the investors need to consider the complex issues involved in it. It is also clear that a merger can happen when two companies decide to get together as one company and acquisition always involves one company purchasing another.

There are always two sides of the same coin. When we take in the case of mergers, it can fail for many reasons like lack of management, inability to overcome practical challenges, loss of job for employees, diseconomies of scale, reduction in choice for consumers, etc., But the advantages to it is that the struggling companies can benefit financially out of the bigger companies, duplication of products is reduced, more profits enable more research and development, etc., Next in the case of acquisition, the main disadvantage is that the culture and values of the other company might clash with the existing company, there are chances for employees to duplicate their work, the objectives of both companies might be conflicting, like in the case of merger even in acquisition the choice of products for consumers is reduced, etc., On the other hand, the advantages of acquisition is that it's the most time efficient growth strategy, they catch hold of the market power, the company gets many new resources, increase of production by reducing production costs, fresh ideas and perspectives, access to capital and more knowledge, etc.,

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