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Types of Merger and Acquisition: An Analysis

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ABSTRACT:

In this article, we are going to discuss What is Merger and Acquisitions? What are its major types? And its deep analysis and what are some big Mergers and Acquisitions held in India.

INTRODUCTION:

Merger and acquisition refer to 'consolidation of companies.'

Some merger and acquisition activities include:

- Purchasing and absorbing another company,
- Merger and its formation into a new company,
- Acquiring some or all of its major assets,
- Making the tender offer (a bid to find some or all of shareholders' stock in the company,
- Staging of a hostile take over etc.

Merger

it is the collaboration or unification of two or more companies to form a new company in an expanded form.¹

$$A+B= AB \text{ or } C$$

Acquisition

It is a process of acquiring or selling one company to another. In a simple acquisition, the acquiring company obtains the majority state in the acquired firm which does not change its name or alter its organized structure.

Acquisition is also known as 'takeover 'or we can say acquiring company takes over all the assets and liabilities of the target company.

It can be held in two ways:

¹ cleartax, <https://cleartax.in/s/mergers-and-acquisitions>, (last visited June. 28, 2023).

- Acquiring company pays cash to the target company,
- Acquiring company buys shares of the target company.

For example, if company A acquires company B both these entities exist but control of management goes in the hands of company A for both companies.

NOTE: Sometimes merger and acquisitions are used interchangeably but they are different:

we can say,

Merger- to combine

Acquisition- to acquire

In acquisition, one company buys another's outright, and in a merger two company comes together to subsequently form a new legal entity. Generally, mergers are voluntary and involve a company of the same size and scope.

And in the acquisition, a new entity does not form a new company but in lieu of that the smaller company absorbs into the larger company, and as a result, it ceases to exist.

Reasons for Merger and Acquisitions:-

- 1. To eliminate competition,**
- 2. Establish a bigger market share,**
- 3. Create a strong brand,**
- 4. Reduce tax liabilities,**
- 5. Set off losses of one entity against the profit of another etc.**

Types of Mergers and Acquisitions

1. Horizontal M & A

In this type of merger those companies which operate in the same industry and provide similar services come together they may or may not be in direct competition with each other. And when they merge they find greater bargaining power in raw material and can also buy raw material at cheaper rates. The idea behind this type of merger is to avoid competition

between the units. For example, the bank merger of the 1980s and the merger of HP and Compaq were two different companies of computers.²

Flipkart merged with Myntra, these are online shopping platform, Disney merged with Hotstar as Disney+ Hotstar, an online streaming platform, and the Integration of Facebook, WhatsApp, Messenger, and Instagram into one meta platform led by Mark Zuckerberg, are social media platforms.

Horizontal merger leads to:-

- More markets share,
- Less competition,
- Reduction in cost monopoly,
- Gaining of goods and services of another company,
- New distribution channels etc.

2. Vertical M & A

It represents a merger of firms involved or engaged at different stages of production of simpler products or services. For this two or more companies dealing in the same product but at different stages may join to carry out the whole process itself. Vertical M&A helps in getting better control over the entire production cycle which includes buying raw materials from suppliers and then increasing value to the process of producing intermediate products to sell it to the next buyer in the supply chain.³ It is considered into two types:-

- Backward integration: One company in making steel pipes and for that it needs steel from a steel supplier for this purpose company goes back into its supply chain and merges or acquires the supplier company.
- Forward integration:- After preparing steel pipe you need to sell it through a retailer to the customer then you come forward in your supply chain and merge with the customer.

For example,

² Mitchell Grant, Understanding Horizontal Merger vs. Vertical Merger, investopedia, (June. 27, 2023, 9:29 PM), <https://www.investopedia.com/terms/h/horizontalmerger.asp>

³ WILL KENTON, Vertical Merger: Definition, How It Works, Purpose, and Example, investopedia, (June. 27, 2023, 9:29 PM), <https://www.investopedia.com/terms/v/verticalmerger.asp>

- a railway company may join with a coal mining company for carrying coal to different industrial centers,
- A petroleum producing company may set up its own petrol pumps for its selling.
- Merger of online shopping sites and online payment companies.
- Walt Disney acquired Pixar animating studios in 2006 Walt Disney paid dollar 7.4 billion for it, where Pixar was an innovative animation studio and Walt Disney was a mass media and entertainment company. The merger has grown as a successful and strategic company.
- Google's acquisition of Android for dollar 50 million in 2005.
- Acquisition of EMC by Dell in 2016 for dollar 67 billion. Dell was a manufacturer of personal computers enterprise servers and mobile whereas EMC was a data storage company.

Vertical merger and acquisition leads to:-

- Guaranteed source of raw materials,
- No raw materials to competitors,
- Reduction in cost,
- Improve profitable margin,
- Reduce flexibility (which may result in new complexity in business management),
- Operational efficiencies and management control etc.

Vertical versus horizontal Merger:

- Vertical M&A happens in companies that are operating in the same industry but at different levels or stages of supplying chain. Whereas horizontal M&A occurs in companies that are producing simpler products and also at the same level or stages of the supply chain.
- Vertical M&A gains more control over certain parts of the supply chain and horizontal M&A gets bigger markets share or expansion of product offerings.

3. Conglomerate M & A

Those companies come together and are totally different from each other and come from a totally different industry. Neither they overlap nor compete with one another or the merging

companies are neither originally nor vertically related to each other. However, they see benefits in mergers.⁴ For example, a car manufacturing company merges with a telecom company, and a textile company may merge with a vegetable oil mill. There is nothing common between them.

They are further divided into two:-

1. Pure Conglomerate M&A

This consists of companies operating in totally different industries. W.R. Grace, a chemical business acquired many different companies including construction, gas, oil, agriculture, etc. It helps in entering a new market fast.

2. Mixed Conglomerate M&A

Where the goals of the companies are to expand their product line or market line. Walt Disney's acquisition of the American Broadcasting Company can be considered as this type of Merger and acquisition.

These are some real-life Merger and Acquisitions of this kind:-

1. Amazon and Whole food

Acquisition of Whole Foods Market by Amazon for dollar 13.7 billion which leads to the total value of two companies up to dollar 14.3 billion.

2. eBay and PayPal

Where eBay is a trading platform and PayPal is an online payment company after this merger buyers and sellers trade with ease and safety but PayPal was unhandled by eBay in 2018 and replaced with Adyen, a company from the Netherlands.

This type of M&A would be more challenging for businesses and for its success, we can consider some points like:

⁴ ADAM HAYES, VMergers and Acquisitions (M&A): Types, Structures, Valuations, investopedia, (June. 27, 2023, 9:29 PM), <https://www.investopedia.com/terms/m/mergersandacquisitions.asp>

1. Research

Research in the market that if there is a company merged through this type and is working efficiently and also look for the aspects they followed for making it efficient.

2. Be Clear

Be clear with the fact that what are your goals? Why do you want this type of M&A? What is its need?

3. Interaction

Keep interaction and organize important personalities of both the firms like executive, sales, and marketing teams.

4. Know the company culture

Know the company culture because a totally different management may result in employees' willingness to work.

5. Update and be Updated

Teams of the company should be updated with new strategies, opportunities, new making, etc. so that they can work efficiently.

6. Due diligence

Due diligence should be taken in the finances, legal policies, operation, etc. of both companies these things are to be done with more care and caution which will prevent from vanishing the merger.

7. Transparency

Essential processes and pieces of information except confidential ones should be maintained by employees.

Conglomerate M&A leads to:-

- Diversification,
- Spreading risk,

- New idea,
- More revenue,
- More efficiency,
- Expanded customer
- Cross-selling of their products which further leads to higher profits for new companies etc.

4. Concentric or Congeneric M & A

When two different companies operate in two different industries but their target audience is the same. This could be indirectly competing but their products are complementary. And often use similar technologies and other processes. For example, a car manufacturing company merges with a car insurance company and a TV manufacturer merges with a cable company.⁵ They are related to each other in terms of customer groups, functions, or technology. But it leads to limit further diversification.

This type of M&A leads to:-

- Larger market share,
- Diversification of products and services,
- New and bigger customers,
- Improved profits etc.

These are some real-life examples of Concentric M&A:-

Citi and Travellers Where Citicorp is a commercial bank and Travellers is a financial service company. Coke and Vitamin Water This merger was held in 2007.

Heinz and Kraft :

This merger was held in 2015 for a dollar hundred billion which is supposed to be the largest concentric merger in history. The merger resulted in Kraft Heinz which is a food industry.

5. Market Extension M & A

⁵ Will Kenton, Congeneric Merger: Overview, Types, Example, investopedia, (June. 27, 2023, 9:29 PM), <https://www.investopedia.com/terms/c/congeneric-merger.asp>

Two companies come together which make or sell the same kind of products but in different markets. For example, one company makes normal pizza and another company makes pizza with less fat and is healthy when they come together in its market extension M&A.⁶ Its main objective is to extend the size of the market to reach customers in a big number.

Market extension leads to:

- Bigger client base,
- Different other resources of the other company,
- New working professionals,
- Improved competitive status,
- Improvement of products,
- Reduction of external risks,
- More profit etc.

6. Product Extension M & A

In this type of M&A, two different companies make two different products but are related to each other and operate in the same market. After M&A both company allow to use each other's resources which results in cutting down on additional costs. For example, Merger of PepsiCo and Pizza Hut in 1977, though both the products are different customer wants to consume them together. The merger leads to an increase in sales by more than dollar 436 million.⁷

Product extension leads to:-

- Access to a bigger set of customers,
- Earn higher profits,
- Customer satisfaction,
- Cutting down on additional costs etc.

7. Reverse M & A

In this type of M&A

⁶ Bruce G.S. Hardie, Leonard M. Lodish, James V. Kilmer, David R. Beatty, Paul Farris, Alexander L. Biel, Laura S. Wicke, John B. Balson, and David Aaker, hbr, (June. 27, 2023, 9:29 PM), <https://hbr.org/1994/11/the-logic-of-product-line-extensions>

⁷ ADAM HAYES, *Supra* note 04, at 08.

- The private limited company merges with a public limited company so that the private limited company turns into a public limited company without any problems and complex processes and it reduces or ends expensive compliance and also saves from complicated processes or
- A weaker company merges with a stronger company or
- The smaller company merges with a bigger company or
- Loss seeking company merges with a profit-making company or
- The subsidiary company merges with the parent company etc.

The company which got the control is the accounting acquirer and who issues shares is the legal acquirer.

Reasons for this type of M&A:-

- For selling products at a bigger level,
- For saving taxes,
- To increase the marketing network
- For protecting trademark rights etc.

Examples in India

- Cairn India which is a subsidiary company acquired Vedanta India which is a parent company.
- Gujarat Godrej innovative chemicals limited which has a turnover of 60 crores (smaller company) acquired Godrej Soaps which has 473 crores of turnovers(bigger).

Which type will be right for you?

So, the right type for you depends upon the ultimate goal you want to achieve.

Let's say your goal is to get the followings:⁸

1.

- More market share,
- Less competition,

⁸ rochandigarh,

https://rochandigarh.kvs.gov.in/sites/default/files/Case_Studies_for_Class_XII_Business_Studies.pdf, (last visited June. 28, 2023).

- Reduction in cost,
- Monopoly etc.

Then the right type for you will be the Horizontal type.

2.

- Guaranteed source of raw materials,
- No raw materials to competitors,
- Reduction in cost etc.

then the right type for you would be vertical.⁹

3.

- Diversification,
- Spreading risk,
- New ideas etc.

then the right type for you will be Conglomerate.

4.

- Higher profits etc.
- Bigger client base,
- Different other resources of the other company,
- New working professionals,
- Improved competitive status,
- Improvement of products,
- Reduction of external risks,
- Access to a bigger set of customers,
- Earn higher profits,
- Customer satisfaction,
- Cutting down on additional costs etc.

Then the right type for you would be product and market extension.

5.

- Larger market share,
- Diversification of products and services,
- New and bigger customers,
- Improved profits etc.

The right type for you would be Concentric or Congeneric M&A.

⁹ *Id.* at 09.

TOP MERGER & ACQUISITION IN INDIA:

1. Vodafone and Idea

We can say that both companies came for a merger after 'Jio's 'arrival and ensured a price war. As the telecom business became highly competitive both companies faced struggles. Vodafone owns 45% of the combined firm with the Adidas Birla group owning 26% and Idea owning the rest. Vodafone idea launched its new identity Vi.

2. Walmart's Acquisition of Flipkart

Walmart purchased Flipkart which resulted in its entry into the Indian market. Walmart defeated Amazon in a meeting by paying dollar 16 billion for a 77% stake in Flipkart.

3. Zomato's acquisition of UberEats

Zomato, an online food delivery and restaurant discovery platform has purchased the Indian operation of UberEATS, Uber's food delivery service for roughly dollar 350 million.¹⁰

4. Zomato to acquire blink

Food delivery platform Zomato has agreed to acquire instant groceries startup blink it for dollar 569 million in a stock deal as it seeks to exploit a fast-growing market for quick grocery delivery.¹¹

5. Disney+Hotstar

Both are streaming platforms owned by Star Network in India. Disney Hotstar was launched in March 2020 and gave access to Disney shows and movies to Indian consumers.

¹⁰ Divi Dutta , Mohona Thakur and Indraneel Godsay, India: Mergers And Acquisitions In India – A Brief Overview, mondaq, (June. 27, 2023, 5:29 PM), <https://www.mondaq.com/india/corporate-and-company-law/1210798/mergers-and-acquisitions-in-india--a-brief-overview>.

¹¹ Joseph Rai, Zomato to acquire Blinkit for ₹4,447 crore in all-stock deal, (June. 27, 2023, 9:29 PM), (last visited June. 28, 2023), <https://www.livemint.com/companies/news/zomato-to-acquire-blinkit-for-4-447-crore-in-all-stock-deal-11656093457147.html>.

CONCLUSION:

In the above lines, we saw:-

What is the merger and acquisition? What are the major reasons for mergers and Acquisitions? What are the different types of M&A?

And some examples of Merger and Acquisitions.

And we can also see, through these different types of M&A one company supports another company in the following different ways:-

- To get out of losses incurred during the business,
- To increase its production and popularity,
- To increase its marketing network,
- And to make profit and recognition etc.

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