Post-merger Post-mortem: A Corporate CBA and Strategic Outlook

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Abstract:
Perhaps the business horizons are moving faster than forecasts leaving no alternative to the corporate heads to be passionate about merging or acquiring their counterparts than to get extinct. Financial wizards always believe that such a snoopy behavior encourages competitive environment in general and especially for high-tech ones having a premium on price and speed. Not surprisingly this hash makes most of the deals get closed quickly having a clear nod from the shareholders and the bureaucratic cauldron. Undeniably this riff-raff environment leaves some errors overlooked that may put the companies in soup later. Therefore, it would be wise to have good knowledge and equipped with sufficient tools to be an effective corporate advisor or a crusader. This paper attempts to throw light on some of the vital insights into the process of combining companies the right way to merge or acquire than getting stuck in the middle.

Keywords: *CBA, Corporate Strategy, Merger and Acquisition*

1. Merger or Acquisition as a Financial Strategy

The recent global corporate wars have proved once again that one of the most effective and sought after financial strategies to boost company's growth would be Mergers and Acquisitions. This impact is found witnessed in almost all sectors and more in high-tech industries that have grown at lightning speed because of these aggressive moves. The impact of technology and the towering exposure of Internet has further increased the pace and size of such conglomeration deals globally. Irrespective of the size, shape and composition, companies share some common objectives viz., to build long-term shareholder value and get benefit out of the synergistic impact on the conglomerate other than focusing on specific strategies to meet. Companies of high-tech oriented, always invest in R and D activities, search of new avenues, new products, well-trained knowledge workers, strategic relationships and enlarge markets, etc.. Industries such as pharmaceuticals, food and beverages often get driven by the economies of scale and thus put more volumes into the pipelines and derive benefits of combining research and development. Other industries belonging to power and energy sector, e-commerce and subsidiary services have begun to spawn deals to strike based on the potential ability to offer more diversified range of services.

Whether it be a merger or acquisition the outcome is often the same: two or more companies will be operating under the one-roof (single banner), that makes strategically and financially sensible and viable for both ends. The manner in which these transactions are dealt dictates the flow and impact of financial and cultural adaptability. For instance, in any of the stock-based transactions, the seller's shares may not be combined with that of buyer's existing company. They would be considered as a new subsidiary and treated as a separate operating division. In an asset-based transaction, the assets so bargained in consideration will be added to existing asset base in the balance sheet as it will increase the value of the total assets and also over a span, likely to get appreciated, thereby enhancing shareholder value as a result of the strategic or financial gain.

2. Rationale behind Merger-mania

The current renaissance of merger and acquisition furor is multipronged and its impact on the economy is complex and remains balanced yet certain themes and trends could be indicated as vital. Some of the vital torrent could be:

Strategy. Mergers and acquisitions are more strategically motivated today compared to 90's and the employment potential got boosted than discounted. Companies are being built up, consolidated and not become defunct.

Value. Only financially sound and healthy companies make such deals to improve their financials further and secure the value of their shareholders and customers. Acquiring company put their ready stocks in lieu of currency and bargain for a better price. This arrangement invariably gets gladly accepted by the selling company and found in a more comfortable zone.

Industry trends. "Trendsetting for a better future" makes every industry set its pace to change and move ahead by adapting the next generation portfolios. The new millennium impetus is more on the information technology, communications and banking, food and beverage, healthcare and aerospace and total security systems. Industries belonging to these segments have recorded a steeple growth through mergers and acquisitions over a short span world over.

Need to transform corporate identity. For example, the airline industry, Jet Airways, Kingfisher etc., are constantly vigilant for a merger partner to shape up a new model that could offset the negative imaged caused by a major crash and revelations about its financial crunch and safety records.

Spread risks and costs. While economies of scale help increase the revenue and reduce costs, risk factor gets increased simultaneously and that need to be offset through proper developmental planning and substantiating with appropriate gestation periods. Thus evolving a new technology (launching new satellites), aerospace and mobile communication technologies, identifying new medical discoveries (Cyber-knife for cancer cure), discovering new medicines to overcome age-old diseases or gaining access to new sources of energy (hydrogen for vehicles, solar energy and wind energy, other gas exploration and drilling) etc., could be some of the examples of recent deals of acquisition and mergers.

Develop an international presence and expand market share. Market-penetration strategy is often quite cost-effective and help increase the market share compared to establish branches or offices overseas from scratch. This could happen through franchising or collaboration with the existing distribution network and will pay rich dividends.

Remain competitive or offset seasonal or cyclical market trends. The retail, hospitality, food and beverage, entertainment and financial services industries carried out mergers and acquisitions in response to the consumer's demand for "one-stop shopping." Life-style, Pantaloon, Big-Bazaar, Wall-mart etc., stand good examples of this style of competitive takeovers.

Investment. The IPO boom of the late 1990s in the technology and Internet sectors contributed to the merger and acquisition frenzy. Proceeds from IPOs created large pools of cash earmarked for acquisitions, and sellers became more willing to take the buyer's stock as currency in the transaction.

3. Strategic Mergers and Acquisition: Think Beyond the Obvious

The domain of each company determines the means and ends and accordingly draws the strategic layout. Nevertheless, these long-term strategic decisions are distinct from one another and designed on the following steps:

3.1 Determine Strategic Business Plan Drivers

Merger and acquisition strategies are deduced from the strategic business plan of the organization. So, in merger and acquisition strategies, it is significant to identify the way to accelerate SBU through well-defined business plan through the. Clarity need to be established amongst the board regarding SBU vis-à-vis M&A by transforming the strategic business plan into a set of drivers, which are necessarily to be addressed during the process. While chalking out SBU strategies, the issues such as markets of the intended business, market share proposed to get covered, additional products and technology required to execute the plan, segments and locality to be covered, skills and resources needed to implement and the financial and sales volume targets etc., are essentially to be considered.

3.2 Determine Acquisition Financials

Financial aspects such as movement of funds for acquisitions through various means like cash, debt, public and private equities, minor investments, etc., have to be scrutinized. Ideally consider few untapped credit facilities, surplus cash, or untapped equity, the amount of new equity and new debt that your organization can raise etc. It is better to compare the returns on such sources and plan to replace those resources accordingly with the least ones.

3.3 Develop Acquisition List of Companies

Picking the right company of choice makes things simpler and closed the deal faster. It is advisable to line up with similar sectors to play safe and unless financially and technically sound to take the risk of overboard. Thus whether it is private or public gets determined by the size and composition and has to fall in the taste-buds of the strategists. In this direction, resources like market research, public stock research, referrals from board members, investment bankers, investors and attorneys, and even employee recommendations exercise lot of support.

3.4 Build Preliminary Valuation Models

It would be in the best interest of a merging company or an acquiring company to evaluate the pros and cons prior to arriving at such a decision. In this connection, all costs of mergers or acquisitions will be considered and matched with the expected returns of the post merger or acquisition. However there are a few standard prescribed templates to compute such costs, some of them could be customized depending on the scale of economies to be derived.

3.5 Rate or Rank Acquisition Companies

Once a preliminary understanding gets developed on the so determined business models, those options could be rated or ranked according the preference and availability, impact on the business overall, risk-return trade-off, etc. factors. This process will help in understanding the relative impacts of the acquisitions both in the short-run and long-run.

3.6 Review and Approve the Strategy

Finally the board members have to give a clearance on the strategies so designed on the issue of merger and acquisition after looking into the reviews and recommendations. The green signal will be given once the majority of the stakeholders such as Shareholders, Board members, Investors, Creditors, Suppliers etc., would agree on such strategic acquiring or merger.

4. Light at the end of the tunnel

The key premise of post-closing synergy is that the whole will be greater than the sum of its parts. But inadequate communication between buyer and seller, can lead to misunderstanding of what the buyer is really buying and the seller is really selling. Few take the time to develop a transactional team, work out a joint mission statement of the deal's objectives or solve post-closing operating or financial problems on a timely basis.

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