M&A Process
Strategic Alliance process
Comparison “Buy, Ally or DIY”

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M&A Process

Company decides to sell itself, or "consider strategic options" in corporate finance lingo

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the investment banker must advise on how the process should be conducted in terms of scope

the company and the investment bank must weigh the trade off

Discrete Sell-Side Process	Targeted or Controlled Auction
Criteria:	
Private process with clear strategic buyers (1-2)	Not such as confident as in discrete sell side process and more buyers
Advantages:	
Very flexible conditions	Multiple buyers that would realize tangible synergies - more chance to earn more
Specific:	
It is difficult to push the buyer to pay more or know what is true value	Game theory
Disadvantages:	
Negotiations can stop and start up again	Identifying a buyer is a process which is subjective and takes time

Dual-Track M&A/Initial Public Offering (IPO)

Criteria:

Public sell with a lot of buyers

Advantages:

The public market can sometimes offer a superior valuation multiple than private equity firms are willing to pay

Specific:

the markets can at best take on a quarter of the ownership of the company with the rest being divested by the seller later.

Disadvantages:

Selling the company through an IPO will not result in the entire ownership stake of the company being offloaded at once

Motivation

The primary reason for an M&A is to achieve synergy by integrating two or more business units in a combination with an increased competitive advantage (Porter, 1985)

The other twoM&A motives, according to Carpenter and Sanders (2007) and Seth, Song,and Pettit (2000), are managerial self-interest (or materialism).

Motivation

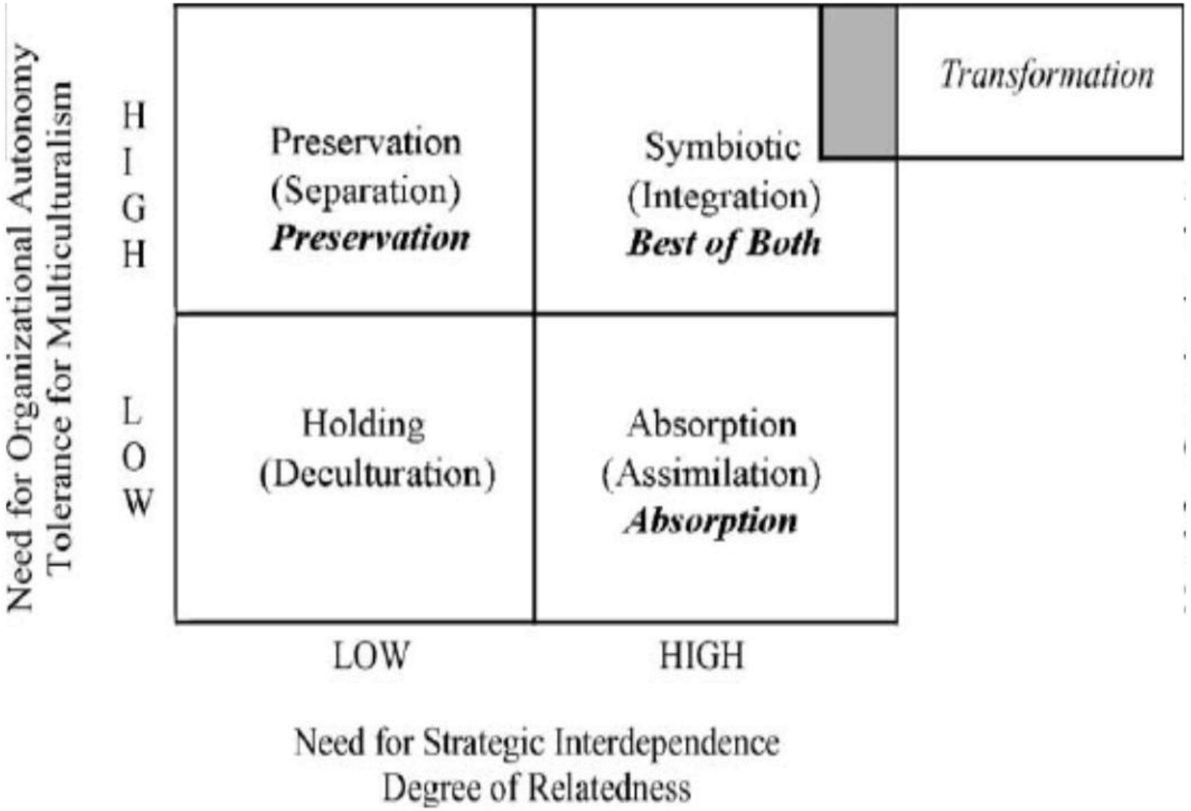
M&A is often linked to a business or competitive strategy such as entering a new product/market segment or changing the basis of competition. TheseM&A motives include

The Motive	References
Enlarge the product line or complement the products or services	Levinson (1970)
Growth in market power	Pennings et al. (1994), Trautwein (1990)
Globalization	Somekh (2001)
Increase market share	Gopinath (2003)
Spread the risk by investing	Pennings et al. (1994), Trautwein (1990)
Synergy	Campbell and Goold (1998), Carpenter and Sanders (2007), Porter (1985), Seth et al. (2000, 2002), Townsend (1968)

Integration approaches

- <u>Preservation Approach</u>:
- <u>Absorption Approach</u>:
- <u>Symbiotic Approach</u>:
- <u>Transformation Approach:</u>

	Preservation	Absorption	Symbiotic	Transformation
Procedural justice		*		*
Target firm involvement in decision making	*		*	*
Preliminary planning		*		*
Transition management structure		*	*	*
Timing of changes		*	*	



Strategic Alliance

Definition

agreement between two or more firms that unite to pursue the common set of goals but remain independent after the formation of the alliance

Why do companies need strategic alliances

1. Necessity
2. Asymmetry
3. Necessity of mutual principle
4. Efficiency
5. Stability
6. Legality

(Oliver, 1990)

Cases

In February 2001, The Coca-Cola Company and Procter & Gamble announced a $4.2-billion joint venture to use Coca-Cola's huge distribution system to increase reach and reduce time to market for the P&G products Pringles and Sunny Delight

EPOST was the world's first national, secure electronic mail-delivery system, an alliance between Bank of Montreal and Canada Post Corp. This partnership connects billers and users in an efficient and secure environment

Star Alliance is the largest partnership in the airline industry; its reach extends to 130 countries and more than 815 destinations, with collective revenue for the partnership at more than $63 billion

Process

1. Setting alliance strategy
2. Selecting a partner
3. Structuring the alliance
4. Managing the alliance
5. Re-evaluating the alliance

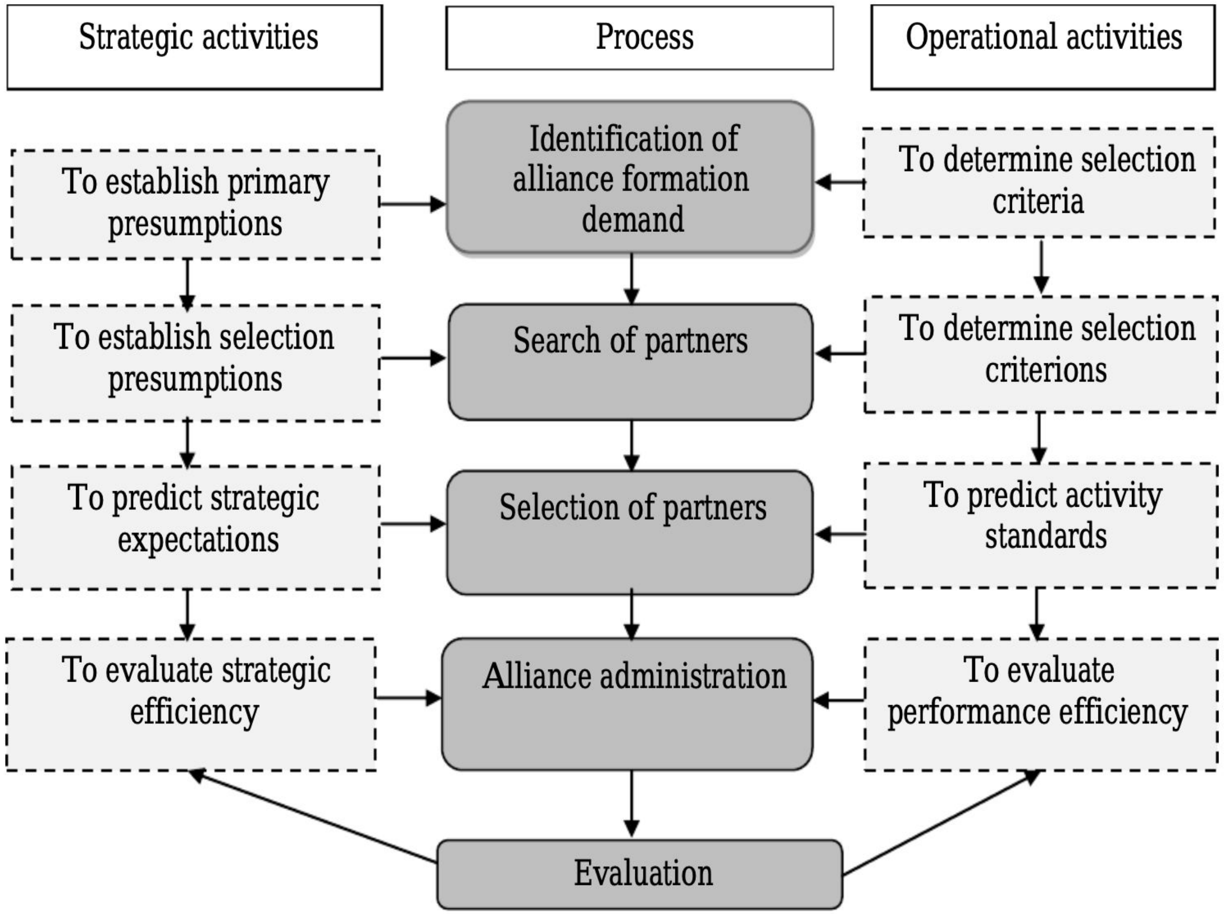


Fig. 2 Alliance formation model by Whipple and Frankel
(Whipple and Frankel (1998))

Types

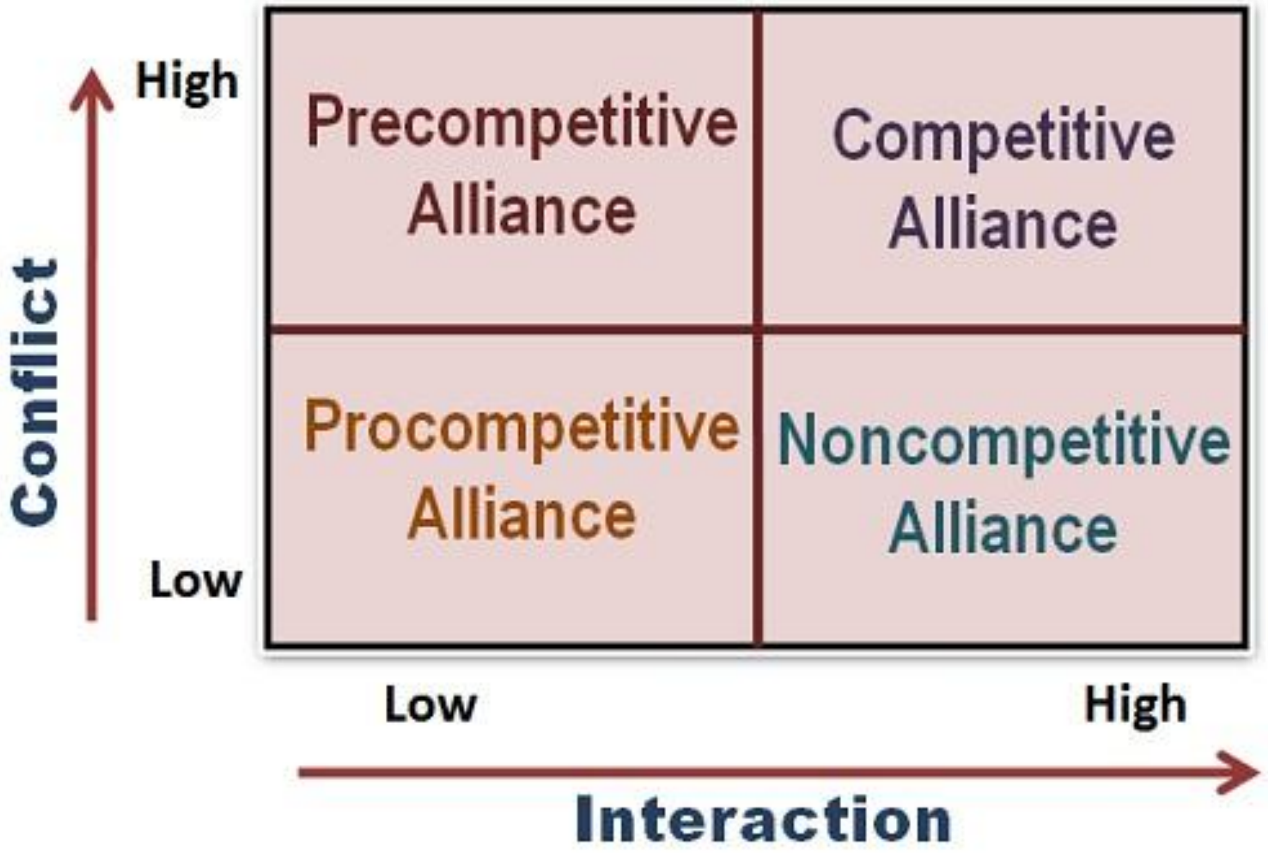
Alliances

Procompetitive

Noncompetitive

Competitive

Precompetitive



Disadvantages

Though, the strategic alliance brings lots of advantages for the partnered firms it has certain loopholes

- There could be a difficulty in coping with each other’s style of performing the business operations.
- There could be a mistrust among the parties when some competitive or proprietary information is required to be shared.
- Often, the firms become so much dependent on each other that they find difficult to operate distinctively and individually at times when they are required to perform as a separate entity.

Buy, Ally or DIY

The choice between acquisition, alliance and organic methods is influenced by four key factors: urgency, uncertainty, type of capabilities and modularity of capabilities

	Buy	Ally	DIY
High urgency	Fast	Fast	Slow
High uncertainty	Failures potentially saleable	Share losses and retain buy option	Failures likely unsaleable
Soft capabilities important	Culture and valuation problems	Culture and control problems	Cultural consistency
Highly modular capabilities	Avoid buying whole company	Ally just with relevant partner unit	Develop in new venture unit

Figure 11.6 Buy, ally or DIY matrix

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