SAMVAD

Mergers and Acquisitions

We Chat

Sameer Karulkar

Head - EquitAce Capital, Times Group

Featured Article

M&A in Startups

Must Read

Merge the Brands but Brand the Merger

August 2015

S.P MANDALI'S weschool Welingkar Education

OUR VISION

"To nurture thought leaders and practitioners through inventive education"

CORE VALUES

Breakthrough Thinking and Breakthrough Execution

Result Oriented, Process Driven Work Ethic

We Link and Care

Passion

"The illiterate of this century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn." - Alvin Toffler

At WeSchool, we are deeply inspired by these words of this great American writer and futurist. Undoubtedly, being convinced of the need for a radical change in management education, we decided to tread the path that leads to corporate revolution.

Emerging unarticulated needs and realities need a new approach both in terms of thought as well as action. Cross disciplinary learning, discovering, scrutinizing, prototyping, learning to create and destroy-the mind's eye needs to be nurtured and differently so.

WeSchool has chosen the 'design thinking' approach towards management education. All our efforts and manifestations as a result stem from the integration of design thinking into management education. We dream to create an environment conducive to experiential learning.

Message from the Group Director

Dear Readers,

Prof. Dr. Uday Salunkhe,
Group Director

It gives me great pride to introduce Samvad issues every month. Our Samvad team's efforts seem to be paying off and our readers seem to be hooked onto our magazine. At WeSchool we try to acquire as much knowledge as we can and we try and share it with everyone. I sincerely hope that Samvad will reach new heights with the unmatched enthusiasm and talent of the entire Samvad Team.

Here at WeSchool, we believe in the concept of AAA: Acquire Apply and Assimilate. The knowledge that you have acquired over the last couple of months will be applied somewhere down the line. When you carry out a process repeatedly it becomes ingrained in you and eventually tends to come out effortlessly. This is when you have really assimilated all the knowledge that you have gathered.

At WeSchool, we aspire to be the best and to be unique, and we expect nothing but the extraordinary from all those who join our college. From the point of view of our magazine, we look forward to having more readers and having more contributions from our new readers.

Samvad is a platform to share and acquire knowledge and develop ourselves into integrative managers. It is our earnest desire to disseminate our knowledge and experience with not only WeSchool students, but also the society at large.

Prof. Dr. Uday Salunkhe,
Group Director

OUR VISION

"To facilitate exchange of ideas that inspire innovative thought culture"

MISSION

To Dialogue

To Deliberate

To Develop

To Differentiate

As the student magazine of WeSchool, Samvad is greatly inspired by the words of Alvin Toffler backed by a strong vision of facilitating exchange of ideas that inspire innovative thought culture. Samvad is a platform for the next generation leaders to bring forth their perspective on management to the world and gives the readers an opportunity to learn, unlearn and relearn on a continuous basis.

The team of Samvad is driven by a set of strong WeSchool values which enable us to create a dialogue leading to knowledge gaining and sharing, to deliberate on the information, to develop a sense of creativity and differentiate our minds with innovative thoughts of tomorrow; today.

From the Editor's Desk

The year 2015 has seen a lot of high profile Merger and Acquisition activity in various sectors of business. Be it the acquisition of TaxiforSure by online cab aggregator Ola Cabs or Reliance Infrastructure acquiring Pipavav Defence, all the sectors and regions are experiencing increasing M&A activity. Various sectors like that of pharmaceuticals, telecom, finance, FMCG, online services and automotives have witnessed strategic M&A decisions being taken for expansion, diversification or market control.

Although M&A may be represented and discussed in the media in financial terms, in reality it is not only about getting the financial aspects of the deal right. Scores of M&A's have failed in the past due to a botched up integration process or a cultural mismatch. An M&A decision thus has far reaching implications on the kind of talent, work ethics and business you attract or practise and what your enterprise stands for and is identified with by the employees or by people at large.

With the M&A activity now gaining momentum in India, we decided to delve deeper into the various facets of this highly volatile domain. Read on to find out more about the growing trend of M&A in start-ups and how popular brands can retain their identities even after acquisition .In addition to a host of student articles on this theme, we also have a featured interview with Mr. Sameer Karulkar, Head at EquitAce Capital , Bennett, Coleman & Co. Ltd. Mr. Karulkar has graciously shared with us his seasoned insights and understanding on the evolving M&A landscape in India.

I hope you enjoy reading this issue just as much as we did developing it. Do remember to write back with your valuable feedback and suggestions. We would love to hear from you on what you thought of this issue, and inputs, if any, to make it a more interesting and engaging reading experience. Stay with us for our upcoming issue on the Digital Transformation.

Until then...

Read Better to Know Better!!!

Best Wishes,

Anuja Kadam

Editor

Acknowledgements

Team Samvad would like to extend its heartfelt thanks to certain key members of the WeSchool family for their special efforts towards the making of this magazine.

We deeply appreciate the constant motivation & encouragement that our beloved **Group Director Prof. Dr. Uday Salunkhe** has always given us. His vision & result orientation has been the driving force in creating brilliant leaders and making WeSchool a name to reckon with, not only in India but also globally. His focus on the core values of Passion, We Link & Care, Result Oriented Process Driven Work Ethic and Breakthrough Thinking has formed the foundation of all the activities that we undertake as students of this esteemed institute.

We deeply appreciate the help and support given to us by **Prof. Deepa Dixit**. Her insight and expertise is our driving force to ensure the sustainability of our magazine.

We appreciate **Prof. Indu Mehta** for her help in selecting the best Marketing articles. She is a part of our core Marketing faculty at WeSchool.

The Finance articles were scrutinized by **Prof. Sapna Mallya** and we thank her for choosing the most relevant and informative articles.

We appreciate the efforts of **Prof. Jyoti Kulkarni** for selecting the most interesting articles in General Management domain.

The Human Resources articles were scrutinized by **Prof. Rimmi Joneja.** We thank her for choosing the best articles.

We would like to thank **Ms. Yashodhara Katkar**, General Manager - Liaison, WeSchool and her PR team for helping us to reach out to our readers. Also, we thank **Ms. Prachi Shah** and her team for helping us out in the website updates of Samvad

We are indebted to **Prof. Jalpa Thakker** for all her help and guidance in the making of Samvad. Her insight and suggestions have been of tremendous benefit to us. The Samvad Team would truly be incomplete without her.

Contents

An Interview with Mr. Sameer Karulkar

By: Team Samvad

(Head at EQUITACE Capital , Bennett, Coleman & Co. Ltd)

1. **Please take us through your professional journey right from the start of your career?**

While I was working with the Mahindra group, I stumbled upon the M&A concept which I felt bridged two things, namely an engineering background which was very close to me and a financial gap which I had in my understanding in delivering service effectively. So when I signed up for the MMS course at Welingkar, it was clear to me that I wanted to be in M&A eventually and hence took finance. Somehow, that was the only thing that I was Passionate about and that potentially brought in to it a focus, a drive and a path. I happened to do well in the four semesters and then went about looking for a specific role which allowed me to do things rather than be a back office person, even if it meant getting paid less.

I took up a job, in an environment which was challenging for the finance MBAs, as the first non-CA in a then 5 decade old CA firm, Haribhakti Group, which was a really good exposure wherein I got to build their corporate finance business for them in an early stage. So in a corporate finance activity I got to do valuation, due diligence, funding, M&A, restructuring etc. I spent about five, six years with them before moving on to SBI Capital Markets where I got an opportunity to build the domestic private sector M&A business as well as the international business for them from scratch. I was lucky to have the support of the team and the company to help built a network in about 39 countries. Cross border M&A was a good addition to the suite of services offered by SBICAP and opened new doors for the SBI group to continue to serve its corporate clients. I look at these experiences as links in my journey as M&A happens to be what I have done for the better part of my career, which is what has driven me. I look at it as a business prism where the engineering knowledge comes into play and the thinking is used. Equally important is looking at it from the financial prism, as in how it works out economically for all the stakeholders.

Keeping the basics same, it has lead me to discover newer avenues in this ever expanding field. And I continue that journey or learning and exploring where I can continue to imagine and make a difference to the companies that I associate with in their own growth. At Times Group, the journey has just begun for me to manage their diverse USD two billion portfolio of companies and help them grow and derive value for all stakeholders while I also aid the spotting of the new early stage companies and mentoring them through their growth stages.

2. For our readers, could you clarify the basic difference between M&A?

In the simplest way possible if I have to put it, merger is when two financial entities come together and create a third entity. One of the initial two entities, ceases to exist. To give you an e.g. ING Vyasa Bank and Kotak. Since Kotak has taken over ING Vyasa, phase wise the latter will disappear. Another one is Axis bought out Enam Consultant. The process of buying out can be using shares or cash. The merger results in a new entity being formed.

Acquisition on the other hand is what you read in the papers, where one entity acquires a stake in another. The entity can remain independent as well. For e.g. Thomas Cook in India is no longer owned by its previous owner. So acquisition primarily does not let any of the prior companies get extinguished. After the acquisition however, the parent company can merge the subsidiary into itself.

Acquisition is simply a nomenclature for acquiring a stake in a company, be it 5% or 10% or more. Acquisition as a parlance would mean a change in control of a company. As per the Indian Companies Act that would occur if you have more than 51% of stake. Thereby acquiring a stake in a company is different from doing an acquisition there.

Only once you have acquired more than 51% of the stakes, a consolidation of financial statements of the subsidiary with the parent company is allowed as per Indian Companies Act and as per Income tax act.

All the shareholders of both the companies merging become shareholders of the new entity whereas in an acquisition this may not be the case. It's a buy-sell transaction.

3. Could you please highlight the regulatory challenges faced during an M&A in India?

M&A is defined by the sectors and each regulated sector has got its own regulator. On a broad base I don't think we have so many challenges. We have in place the Competition Commission of India which is a fairly new development, which helps in ensuring that we do not have a sort of monopoly situation being taken advantage of in critical supply segment like cement, steel etc. to avoid cartelisation.

The issue with regulations in India is that there are multiplicities of regulations that can impact you. It becomes much more sensitive as M&A is done confidentially. At some point of time it will be announced to the world which will have an impact and a cost. As an advisor or a planner you need to be aware of these for e.g. there are listing company regulations if it is a listed company with SEBI, RBI. I would say that regulations themselves are not a hindrance; however the time lag between the multiple approvals from each regulator is a challenge. While always there are two sides to an argument, to a large extent overthe past 15-17 years, regulations in general have greatly improved and made life much more simpler. Its important to budget and plan for such potential one-time and regular impacts to ensure the objectives of the M&A programme to all stakeholders actually pans out.

4. What are the issues an overseas company would face if it wishes to do an M&A with an Indian company?

To begin with, the Indian Companies Act itself has not changed for a long time until recently in 2013.. The predominant issue with most of the overseas investors is getting the various approvals, whether it is FDI, FII or any other regulations which are still getting streamlined.

It is a play of demand and supply where India has opened up only a certain percentage for foreign investments, which is a call of the Indian companies, government and regulators to safeguard the industry altogether.

M&A is an option of should I make something of my own or should I acquire an already existing company. It's time to make it happen if they have the bandwidth to go ahead with an M&A .Regulation is just one of the challenges and not necessarily a large one. For overseas companies, replicating overseas success is not a function of "copy paste" in India. Business happens in India, the "Indian way". Models have to be tweaked, changed and innovated to survive in a competitive market. Many overseas companies have been at the wrong end of the assumptions and thus have found the market challenging. Some of them have also exited India, not just once. ANZ in the Banking space was a large name in the 90s till it exited and is resurfacing back in the past few years.

Management team and ability to provide HQ support and develop local sustainable business model are other challenges. Training and integration also involves culture and expectations. Managing expectations (not just financially) are also elements that make a cross border M&A most challenging in their execution.

5. Sir, Are there particular companies which chose to grown inorganically rather than organically. If so which sectors see most inorganic growth?

To make it easier lets classify companies pre 2006 and post it. The objectives of an M&A could be access to new markets, access to new customers, access to new product range, access to talent, access to capital etc. Many of these cannot be done organically due to time or ability constraints. In each sector there will be companies that are content and others that are inspirational. The ones that are not content will do M&A. They will only happen if companies invite participants. The other reason for M&A could be to ensure either demand or supply. Third is just to kill competition. These are all well accepted in the new economy as they understand this as a crucial way to grow. Investors be it Private equity, Venture Capitalists, Angel funding are not expecting the company to get listed. Their own exits are through the process of acquisition. To put it simply, you dress the bride for the day! Everyone investing is aware that eventually there will be a sale of the company.

6. M&A's are not always successful. Sir, your comments on this?

Sometimes M&A's don't work due to mismanagement or clashes in the visions. M&A is not about finance acquiring finance. Both entities have to change to accommodate a shared goal. 45-50 %f the M&A's don't succeed in terms of the goals set out, which is a waste of economic value, capital, and opportunities. No two acquisitions are same even if the process has a resemblance.

You have to look at the human element, the business and the economic environment which has a major impact. Secondly, it could just be a miscalculation. Time from the planning of the deal and the actual execution of the deal can some time run in to years and apart from everything else the economics of a deal can also change. Pushing a deal in a "hope that things will work out" can in the hindsight be counter-productive, unless extra effort is directed towards make it happen

In India we lack integration planning, which is a huge business in itself in the west. It is very process particular abroad. Having a clear path of integration is very essential though it will have a cost involved. Look at the e.g. of a UB Group subsidiary Kingfisher acquiring Air Deccan and almost killing the parent while trying to make one of the diversification strategy work. This is a sheer economic waste affecting multiple industries. Thus it takes a great amount of risk taking ability and acceptance of prior traits to get the acquisition right. Sometimes if there is a bidding, a price that is not sustainable in the long run is quoted. This can eat away the return on capital and maybe leave you with very little return of capital as well.

7. Could you share an experience from your days at SBI Capital Market while you were handling their overseas projects?

One of the challenges was during a particular acquisition of a listed broking firm in India by a US based company. The acquiring company was operating in five different geographies and the company in India was listed. Dealing with multiple complexities (such different holding structures, cross holdings, tax implications, classification of entities as Persons acting in Concert in India, repatriation of proceeds and financing of the deal) and managing discussions across different time zones that too in complete secrecy so that it doesn't impact the sensitivity of the price in the market was challenging. It took us four months to deal with these issues before we could pass it through the six regulators and get the deal through in the wee hours of one morning in India. Not to mention that the liasoning with the target company and its representatives, legal and financial apart from business team, gave many unpleasant surprises in the period which needed to be addressed satisfactorily. The seamless process over a period of over a year and appreciated by both the involved principals only made the outcome a sweet memory .

8. What would be your suggestion to Management graduates who are looking forward to working in this field?

They should know that M&A is not flashy contrary to belief. On your first day of work you would be a part of the system or process of an M&A but you wouldn't get the full picture in a big company. I believe that corporate finance and valuation is an initiative driven business. There are opportunities for sure.; always. Today, the door opens if you have done your homework and have a value proposition to your prospective employer. Be prepared to invest efforts in working your reasoning, logically and also know when not to "sell yourself" beyond a situation. Take up a challenge/opportunity and deliver. Showcase as an outcome and then grow further.

In the investment banking space, be prepared to be thrust with a lot of unrelated things at the same time. Parallel processing only works in such enviroment. Be mobile and be prepared to forgo life outside of office. Expect uncertainty. Expect competition and a high burn out level. Thus the onus is on the candidate to deliver and perform. At the end of the day, every senior would like a good subordinate/team member. Someday everything will make perfect sense, So for now, laugh at the confusion, smile through the tears and keep reminding yourselves that everything happens for a reason. I believe that if you can imagine you can achieve. Opportunities are not something that are waiting to happen. You create them.

——-O——-

Mergers and Acquisitions in Startups

By: Tanvi Tawde, PGDM E-Biz (2014-16), WeSchool, Mumbai

Mergers and acquisitions play an important role strategically for the growth of business. There's an increase in the number of deals and this trend will continue to grow in the coming years. On most occasions in the technology sector, acquisitions take place to hire and acquire talent along with expanding the business. These deals bring about innovation of the product, development of the employees, efficiency in the organization and profit.

Today, there are may start ups which are coming up due to the favorable market conditions, adequate funding and audacious youth who are keen to implement their ideas in reality. This is definitely giving a boost to the entrepreneurial spirit and there's a wave of positivity all around. This gives an encouragement to out of the box thinking which leads to disruptive products.

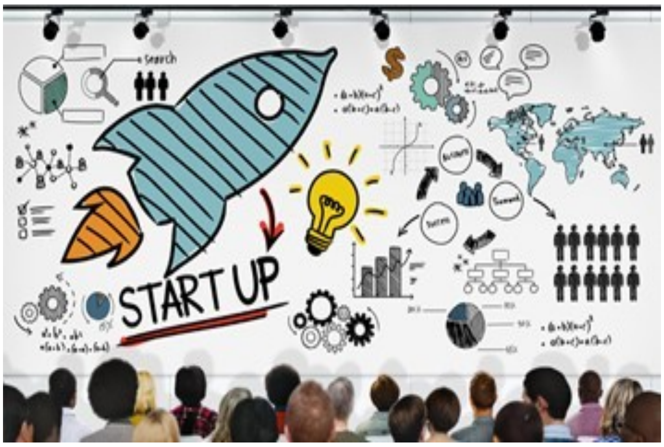

Image Source : www.moneycontrol.com

The large Startups are aggressive and are growing at a very rapid speed. They are looking out for inorganic growth opportunities which would help them in building and expanding further. The E-commerce sector is seeing an unprecedented growth which has led to the increase in the online consumers and customer engagement level. The other important vectors are last mile logistics infrastructure, payment and supply chain and penetration of mobile. These all factors have increased the interest of the investors. Thus, there are chances of growth in capital inflow and new investors coming in.

The M&A deals will grow prominently for the startups founders will seek to buy talent, market share and latest innovation in technology. They want to attain their top line goals of consolidating vertical segments, bring about an innovation and enrichment in their offerings and get an edge over competitors.

Many start ups have scaled up rapidly due to the large online consumer base which is very active. The growth rate of these companies is phenomenal. India had a company scaled to $1B in valuation in 5 years or less. Inorganic growth via M&A is one of the strategies to sustain fast growth. The current uptick in the well funded ecommerce companies acquiring smaller players is likely to experience growth in the next few years. Most of the funds are used for fostering internal growth whereas a share of 25% - 30 % will be used to acquire small complimentary players which would help them in providing better offering to the consumers.

There's a low attrition rate since the acquisition hires are structured in such a way that they are paid bulk of the money 18- 24 months in advance. The acquisition hires is great way to enhance and make your delivery capabilities efficient.

Mergers and acquisitions provide a real exit opportunity to founders and investors to realize their value of equity. Various studies have estimated a failure of 70% - 90% in mergers and acquisitions.

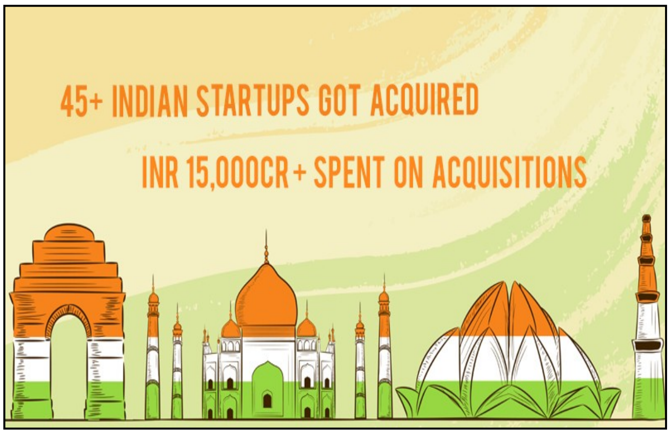

Image Source : yourstory.com

Major start up acquisitions that took place in India are as follows:

Freecharge got acquired by Snapdeal in April 2015 which is an excellent example of strategic Merger and acquisition. It has helped their overall business to reap bigger dividends and provide a value added service to the customer.

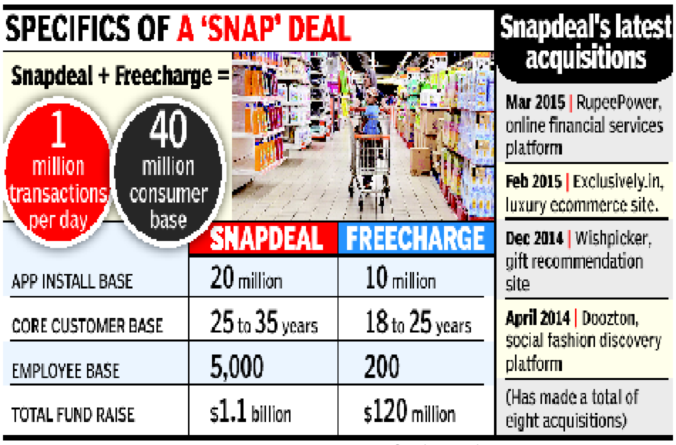

Image Source : timesofindia.indiatimes.com

Myntra, India's biggest online apparel store, got acquired by Flipkart in May 2014. This was done to increase their market share in India's online retail market and to provide an answer to the competition which it was receiving from Amazon.

A Bangalore based startup called 'Bookpad' was acquired by 'Yahoo' , an internet giant for a whooping $8.3 million . Bookpad invents and design technology to solve problems related to the digital content.

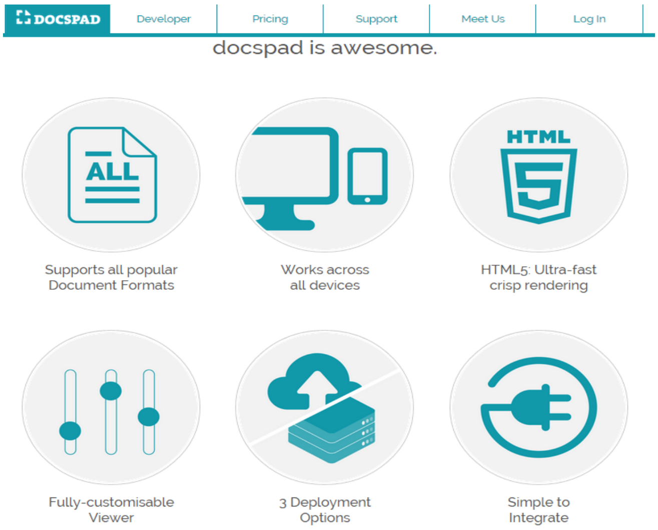

Image Source : www.iamwire.com

In the food segment, 'Tasty Khana' , an online food delivery service got acquired by 'Food Panda' in November 2014. Delivery Hero is the leading investor in Tasty Khana and it earned returns between $15 million- $25 million.

In the automobile segment, Gaadi.com, India's leading auto online portal got acquired by CarDekho.com. Both the companies continue to function independently even after the acquisition in order to drive a depth in focus.

Facebook acquired 'Little Eye Labs' which is a startup that analyses the data in January 2014. Little Eye Labs have built a software tool to analyze the app performance on Android software platform.

In the financial advisory segment, NewsCorp led by Rupert Murdoch acquired BigDecisions.com which is a startup that helps consumers in making smart decisions related to finances through decision making and interactive tools.

Pegasystems acquired a Bengaluru based text mining and analytics based software startup called 'MeshLabs'. Pegasystems will integrate MeshLabs's text analytics software to gather unstructured social media data and decode it into actionable business insights for its clients. Pegasystems has unified MeshLabs social listening, text analytics, and natural language processing to enhance existing capabilities in its market leading customer service, marketing and case management solutions.

Image Source : techcircle.vccircle.com

Kirusa, a US based leading mobile social media and value added service provider acquired Cooltok which is Bengaluru based startup. Cooltok is renowned for manufacturing a mobile phone messaging application that helps you in staying connected to your loved ones Kirusa has acquired all the technology, workforce and intellectual property of Cooltok.

Thus, through the various examples of M&A listed above it's clear that each M&A has its pros and cons. One of the biggest advantage would be to gain an edge in the market by sharing the technical knowledge and strengthen the product offerings. Whereas one of the key factors which we cannot afford to ignore is that the acquired company will have to blend in with the new culture of the company which acquired it post M&A.

——-O——-

Merge The Brands But Brand The Merger!

By: Neha Abrol, MMS (2014-16), WeSchool, Mumbai

What is the reason behind the huge voluminous growth in conglomerates such as Unilever, Proctor and Gamble and Nestle? Or if we look closer home the TATA group and the Reliance Industries. Apart from great strategy, Sound financial base, strong marketing teams and quality products another factor that contributes hugely to their success is a highly skilled Mergers and Acquisitions team which ensures that competition that grows too strong is acquired and in such a way so as to retain the core values of both the brands. But how do they manage to do that?

Despite the highest degree of strategy and planning and investments of hundreds of crores, the majority of the mergers and acquisitions cannot create a value and fail miserably. In 1987, the professor of Harvard, Michael Porter found that around 50% to 60% of the mergers and acquisitions ended in a failure. In 2004, McKinsey also found that only 23% acquisitions ended in a positive note on investment.

Image Source: http://www.widen.com/blog/how-to-use-digital-asset-management-as-a-change-management-tool-for-mergers-and-acquisitions

Key ways branding and design can help during the process:

1. Consider the value of soft factors such as brand from the start:

It's important to due diligence of hard factors such as legal, financial and tax savings is more fundamental. However this misses the issue of how the brand might be the source of potential revenue synergies. It is important to ask the question: "When we own this asset, what are all the ways we can create value with it?" A good example is what VW did when it merged with Rolls Royce, leveraging the high volume Continental GT brand to launch the new Bentley Continental GT.

2. Understanding and integrating two different corporate cultures:

Management also tends to assume that the other company is similar and dismisses the need for deeper cultural understanding, especially when in the same or similar business. But, it's one of the most common reasons for failed mergers. Certainly, it's much better to have a cultural understanding prior to a merger and keep two brands operating independently, until this situation changes. Ben & Jerry's is a great example that has stood the test of time when it was acquired by Unilever as all through the post-acquisition integration phase, Ben & Jerry's retained its culture and brand image along with becoming profitable.

3. Define a vision for the newly merged business:

Branding is one of the most crucial modes of communication supports and guides the overall acquisition process. Creating and then communicating aligned brand positioning and experience internally gives company strength from within. Externally, it also gives clients and customers its clear vision about the company. Without a clear definition of the new company's values and behavior, the newly merged company's employees are at risk of defecting and customers end up losing sight of what it stands for.

4. Using corporate identity to signal a change (or not):

Adopting one brand over another might be the right decision where one brand is definitely more dominant, as happened with Pfizer's acquisition of Warner Lambert. In the brands that are involved the vision for the newly merged company should be what drives the important decision of choosing the pre dominance of one brand over the other.

Image Source: http://www.widen.com/blog/how-to-use-digital-asset-management-as-a-change-management-tool-for-mergers-and-acquisitions

A fusion of two brands is rarely ever used but is the most effective choice when you wish to combine the best of both and this is where design can be of the utmost value. A merger's success relies in part on preserving positive feelings among customers and employees, it's a very smart move to pursue a branding strategy that explicitly seeks to transfer equity from both merging companies to the new one. For example the M&A of Flipkart and Myntra.

5. Ensure the day of the deal makes an impact that lasts:

The announcement of the deal is the ideal time for a new identity to be revealed – Air India and Indian Airlines did this when they merged to become Air India. It's the time it can make the greatest impact if you have taken branding into consideration correctly.

6. **Realizing Efficiencies:**

Maintaining two brands is a very expensive proposition. There are strategic reasons to keep two brands separate like in the case of TATA Motors and Jaguar but it is often more efficient in the long run to consolidate the complex brand architectures that can result from multiple mergers or acquisitions.

7. Market Integration:

If both brands target the same or similar markets and audiences there may be existing synergies and potential efficiencies in marketing and sales efforts through combining the two brands into one. For example, take Xerox's 2010 acquisition of Affiliated Computer Services (ACS). While the acquisition expanded Xerox's scope of services, the target audience and business category — "document and process management for businesses and governments" — was largely unchanged. So ACS was retired and Xerox rolled out a new campaign focused around the tagline, "Ready for Real Business", positioning it around the expanded value proposition.

8. Existing Equity:

How strong is each brand's existing equity? Is one brand stronger than the other? Do both brands' perceptions lag behind the intended future direction? If both brands have a demonstrable customer following or a persistent reputation, it may be advisable to keep both largely unchanged. As a word of caution, be sure that the brand equity you are examining is real, and not a construct of internal politics or preexisting assumptions. It is tempting to cave into political demands, especially in the sensitive situation where one brand is asked to take a strategic back seat. Make sure that brand strategy decisions are based on just that — strategy — and not personal sensitivities. One example of a very successful branded merger is Wells Fargo and Norwest Bank in 1998. Although Norwest was the larger of the two, Wells Fargo had stronger brand equity. Instead of swallowing and dissolving the stronger brand, Norwest graciously stepped aside and allowed Wells Fargo to become the dominant brand.

9. Operational Structures:

When two companies come together leadership must take a careful look at the operations of both organizations. In addition to the long-term strategies, there are simple questions that often get overlooked such as the billing system or maybe the sales team. If the two merging companies have widely different operational structures and plan to merge in name only, a single brand may be confusing and will not have the unifying effect among customers or employees.

10. Cultural Synergies:

This is an intangible factor but is of utmost importance .It is the inherent internal corporate culture of the two entities. It is the values and principles both the brands represent individually and how that can be in sync. Here, we live by Peter Drucker's famous quote, "Culture eats strategy for breakfast." If the cultures of the two organizations are not compatible, the merger may be doomed from the start as it happened in case of Chrysler and Daimler.

These are just guiding factors and each merger or acquisition must be treated as a unique scenario and handled accordingly.

Figure 3: The "virtuous circle of M&A repeatability" depends on an M&A capability at the center

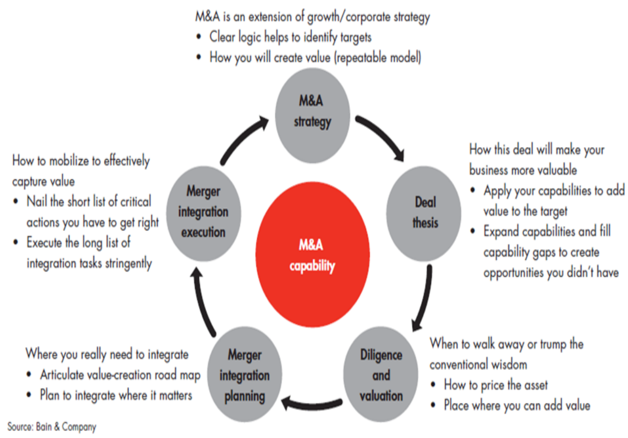

Image Source: http://www.bain.com/publications/articles/the-renaissance-in-mergers-and-acquisitions-how-to-make-your-deals-successful.aspx

Since M&A's are a wonderful strategic move to for any company to grow, but if not handled correctly it will end up in heavy losses financially and more importantly the loss of brand equity. Thus a merger or acquisition must be branded in the correct manner so as to keep the management, employees and most importantly the clients on the same page.

———O———-

Mergers & Acquisition

By: Megha Agarwal, MMS (2014-16) , SIMSREE, Mumbai

In today's time and the hullabaloo of the economy that is taking place, mergers and acquisitions have become an (old) but a new big thing in any industry. Although these two terms are mentioned together, they are quite different from one another in the literal sense.

Surviving antics are becoming very difficult and there has to be something in the form of a push to give your organization the much needed stability and continuity. The numbers are enough to prove the fact that M&A help in doing so, total number of M&A in the year 2014 are 1277 with a rough valuation of USD 92 billion.

Indian markets have proved to be big players in this game with some big names involved like Sun Pharma taking over Ranbaxy, Flipkart taking over Myntra etc.

Before getting into what M&A actually mean, there are some ground details about them that are essential to understand. M&A is an area of corporate finances which deals primarily in buying, selling or joining of companies. Secondly, contrary to the popular belief, money is not the only factor that drives a decision for an M&A but there are various other factors and the most popular and believed in factor is synergy. Synergy simply means the idea of combining two companies together for greater benefit of both of them and to get the benefits of lower cost. Mergers usually take place when the companies are of equal size or when both the companies are billed to remain equal.

In a layman's language, merger simply means a combination of two companies to form a new company where the identity of both the companies will be dissolved and a new company would be formed with a new name. There are a whole lot of structural changes that takes place once the merger is confirmed.

Acquisition on the other hand is a term little different from merger where it means taking over of one company by another company usually called the host company. In this scenario the name of the host or the acquiring company stays intact while the company taken over loses its identity.

There are various parameters of acquiring a company like taking over it in cash, or buying the stocks of the company. Acquisition usually takes place in the same lines of work like a pharma company taking over a pharma company but it can happen across diverse areas of business like a cigarette company taking over a hotel chain in order to diversify in the conglomerate sense.

Acquisitions are not always friendly and are sometimes hostile as well when the selling company does not actually want to sell off but the buying company forcefully buys the company by buying major shares of the company etc. and this is known as an incomplete acquisition where the buyer company controls the selling company even without fully acquiring it.

There is a very famous term used in the mergers and acquisition scenario and that is "one plus one equals to four", however, there are times when "one plus one actually equals to zero" and that is in the case of a blotched up case or a failed takeover! The most famous failure is the New York central and the Pennsylvania central case. It was a merger of two railroad services that had shocked the entire nation because of the size of the money involved and the fact that two competitors were merging. However, as much a shock was their merger much larger shock came in the form when they filed for bankruptcy years later. M&A fails when there are cultural differences between the organizations involved. Two companies are like two different individuals both having a different way of functioning. If the difference is not kept in mind then it will eventually result in the downfall. The secondary reason can be that of flawed intention! Companies usually get into the M&A scene for intimidating their competitors or making the most of the booming stock market.

However, this intention is flawed as there are a whole lot of structural changes that the companies themselves have to do and that become a hindrance.

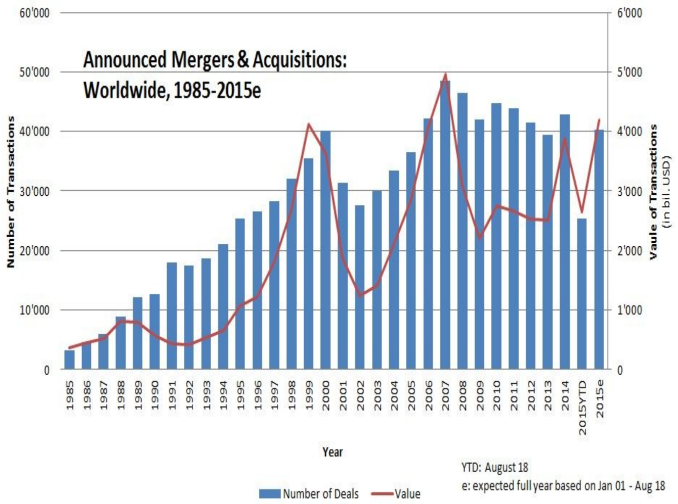

Image Source : imaa-institute.org

There are some very basic pointers that needs to be kept in mind for smooth functioning of business post the M&A as well. There should be continuous and religious communication across all the levels of staff while in the process and post it. It gets the much needed comfort and clarity in doing business.

During the process, higher level managers should be ready to greet and accept a new set of staff coming from a different culture where patience would be a key to success. Management should try and identify the talent in the organization and work to retain them. They are the key in getting the organization to work again in a smooth manner.

Maximum number of times a failed brand is taken over by a successful brand in order to take over the greater pie of the market. In this scenario the company that takes over usually does not like to continue with the name the company that is taken over for obvious reasons.

There is a sought of brand recognition and royalty attached with a brand and they would not like to share it with other brand even if it's the brand that's been taken over! Also, in terms of positioning, the parent brand many a times does not want to dilute its own perception by coming across as that 'Giant' which eats up the competition which can have serious repercussions especially during regime changes for instance from a capitalist economy inclined government vis-à-vis communist economy inclined government.

This also simply avoids confusion in the minds of the people and the whole process also goes unnoticed to the lesser informed audience as well. Many users still are clueless about Facebook's acquisition of WhatsApp, especially people from the interiors who form a good chunk of users for WhatsApp.

Acquisition simply takes place between two companies which are competitor in some sense because it's the same line of business that both work in and now that two of them are merged it's a win-win situation for them in the market. It's a combination of two organizations with different strategies, their vast market share, with their secrets of trade and that of the market and their personal competitors. This gives them the required edge over their competitors.

——-O——-

Role of HR in Mergers and Acquisition

By: Neha Singh & Purbasa Pattnaik, MHRM (2014-16), XIMB, Bhubaneswar

It is a fact of corporate life that firms across the world pursue growth strategies through mergers and acquisitions. At some point of time, every organization finds itself eyeing another organization to acquire the quality of talent, intellectual property; physical assets it needs to execute its business strategy. Mergers can be of various types depending on the objectives of the strategy; Horizontal mergers are pursued to increase market share by merging with a competing company. For example, the merger between Exxon and Mobil will allow both companies a larger share of the oil and gas market. Vertical mergers are often used as a way to gain a competitive advantage within the marketplace. For example, Merck, a large manufacturer of pharmaceuticals, merged with Medco, a large distributor of pharmaceuticals, in order to gain an advantage in distributing its products. Sometimes companies in mature industries with poor prospects for growth will seek to diversify their businesses through mergers and acquisitions. In all the cases and whatever the objectives maybe the process should remain the same; the pre-merger planning, the merger and the post-merger integration. In every stage HR plays a crucial role by taking a close look at myriad intricate factors, which are sure to be overlooked by financial, sales and marketing analysts. In fact the major reason for various M&A going wrong is that HR is kept out of loop; they are informed only after the decision is taken- at which point it is often too late to determine the cultural fit and provide strategic consulting.

It is quintessential to understand the extent to which the company will fit within the buyer organization, so it is required for the senior

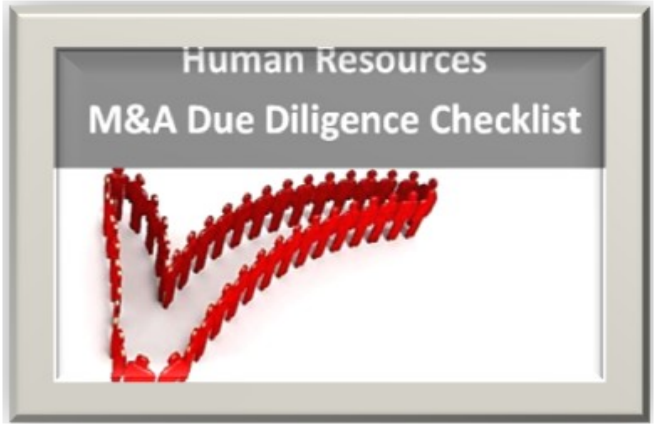

Image Source- www.mergerintegration.com

management to take a nod from the HR department before diving. Armed with checklist, HR department should study every details; will the company provide key people (is this an acqui-hire?), will the culture be compatible? benefits and compensation; notice and compensation in the event of retrenchment, performance management system, people policies and practice , planning who will handle what when the announcement is made, how long will the integration process take, and how much will it cost? It is not a simple task; it can involve long checklists, hard logic combined with intuition.

Assessment centers can and should be used before ushering in any change in the organization, it may be unwieldy time consuming and expensive. Nevertheless, a strategy as big as M&A demands expenditure to wane off the future risk as much as possible. The competencies of the present can be anticipated, the gap can be determined between the desired and essential competencies, and then the required talent can be searched and screened accordingly. This will help in establishing the baseline by serving the basic purpose of M&A i.e. acquiring key talent. Most mergers are seen as times of chaos, fear, uncertainty, distraction, limitation, and dehumanization. The process is painful, and the results costly. There is huge turnover because of eroded work practices, unfair treatment by the home team, which results in reduced motivation. Fortunately, it doesn't have to be this way because if managed holistically, a merger can be an opportunity for people to learn, share and develop. M&A are often between unequals, as there is always a dominant company and a subordinate company.

The two companies may condemn other's way of doing business; they might view the other organization as too bureaucratic or too flat. The way they interpret practices may differ, their leadership styles may differ. The reason for the demise of the famous Sprint/ Nextel merger (2005) was basically that the two cultures could not get along. Soon after the merger, Nextel executives and managers left the new company in droves. To avoid such massive failures culture compatibility check should be made mandatory; HR should meet with senior managements and representatives and understand the mindset of the organization, check whether the differences are reconcilable or not? The combined strength of different practices can be fully harnessed; the culture can be integrated into one so that the other party doesn't feel like a loser.

Image Source: huconsultancy.com

To capitalize on the transition and to promptly involve people from both the organizations it is important for the home team HR to make the key resources of the other organization under stand the systems, and processes of the new organization. The performance management system of both the organizations can be different, post merger it is the duty of HR to explain the new system, how the ratings are, how their previous rating (since promotion, incentive pay all depends on the previous rating) will be measured in this new organization. The method, the whole process should be explained in a brief and lucid manner.

Everything from employee-incentives plans to union grievances should be reviewed diligently. The benefits and compensation package of the two companies should be compared side by side and brought in sync. Releasing the employees in duplicate roles is a tough choice that needs to be made, while retrenching some is important it should be done in accordance with the company's retrenchment processes.

In addition to the above, and in order to aid the above, it is very important to form an integration team composed mainly of members of the HR department, and a representative from each area of the company's operations (from both the organization). This team will help in guiding the integration process by acting as a liaison and ensure employees are connected to the process, and adjust course as needed. The above also helps in ensuring ongoing measurement i.e. whether the process is in track or not? By empowering employees and considering their concerns during the merger, management can ensure that the merger has powerful, participating contributors. By focusing on aligning performance management, incentives, and other systems with the organization's carefully constructed vision and core values, the merger team can create a path of least resistance toward the desired results.

——-O——-

Mergers and Acquisitions

By: Ankit Kumar Baranwal & Pankaj Pandey, PGP (2014-16), T. A. Pai Management Institute, Manipal

We often see that the word 'merger' and 'acquisition' are used interchangeably, even though they mean something very different. Although both the word refers to the consolidation of companies, a merger is a combination of two companies on a relatively co-equal basis, while, 'acquisition' refers to a situation where one firm buys another firm. Hence, from the definition of two words it would now be clear that in case of a merger a new entity is formed, whereas, acquisition do not give rise to a new entity.

Mergers and Acquisitions (M&A) are both aspects of inorganic growth strategy that help a company to grow rapidly in its sector or location of origin, without creating any new subsidiary or other child entity or even using a joint venture.

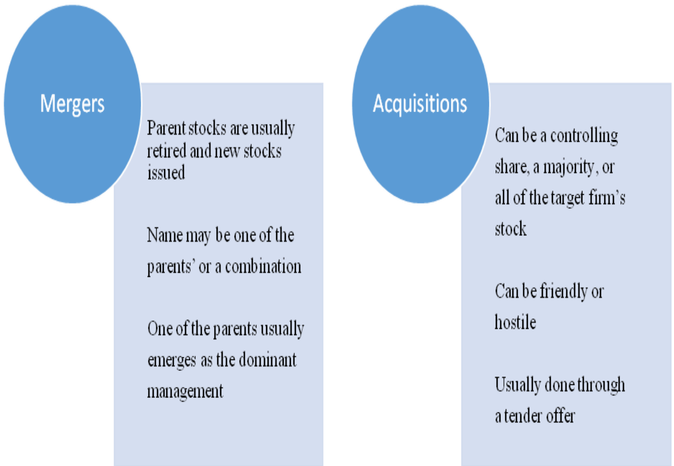

Image Source: Author

Having understood the meaning of M&A, let us now look at various strategies in which a company may use to acquire another company.

1. **Full Acquisition**: Here, the bidder acquires 100% stakes in the target firm, thereby getting right over the 100% assets of the target firm. Tata Steel's acquisition of Corus in the year 2007 is an example of full acquisition.
2. **Majority stake**: The bidder acquires more than 50% stakes in the target firm. In this situation no new stocks are created and the existing stock change hands from the existing shareholders to the acquirer. For instance, Daiichi acquiring 65% stakes in Ranbaxy.
3. **Controlling stake**: The bidder acquires enough voting stock (around 50%) shares in the target company. Mahindra acquiring 43% stakes in Satyam is seen as an acquisition of controlling interest in the company.
4. **Equity Investment**: This simply refers to buying and holding of shares of stock on a stock market by the company in anticipation of income from dividends and capital gains due to increase in the price of the shares. L&T buying 5% shares in Satyam is an equity investment.

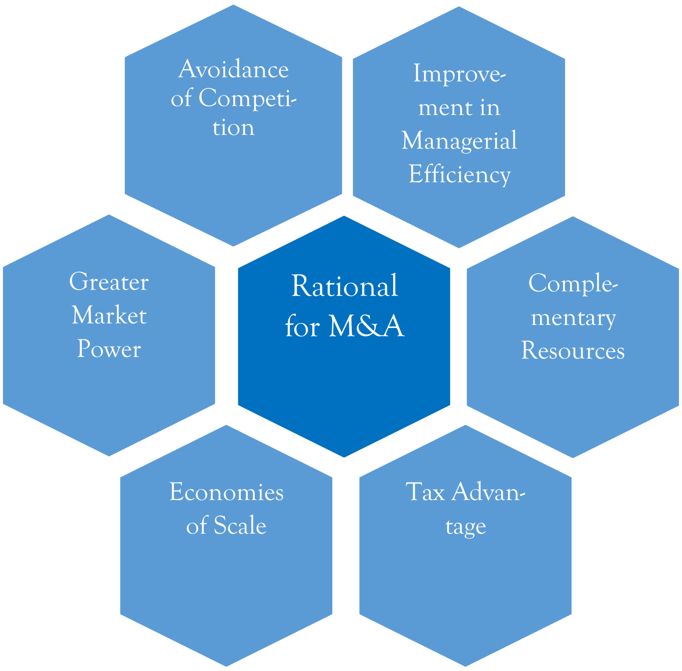

Image Source : Author

There are various types of M&A strategies that a company may adopt. A few of them are described below:

1. **Vertical M&A:** It occurs when two or more firms, operating at different levels within an industry's supply chain, merge their operation. For example EBay-Skype/PayPal merger.
2. **Horizontal M&A:** Unlike Vertical M&A, here the merger happens between two or more firms operating in the same space, often as a competitor offering the same good and services. For instance the M&A of Flipkart and Myntra.
3. **Product Extension M&A:** This type of merger takes place between businesses that deal in products that are related to each other and operate in the same market. This allows the merging company to gain access to a wider set of consumers. The acquisition of Microsoft and Nokia can be an apt example of this type of M&A.
4. **Market Extension M&A:** Unlike the Product Extension M&A, here in this case, two companies that deal in the same products but in different markets merge together. Here the objective of the merging company is to gain access to a bigger market, thereby, building a bigger client base. The acquisition of Corus by Tata is an example of this type of M&A.
5. **Conglomerate M&A:** The merger between two firms involved in totally unrelated business activities is termed as conglomerate M&A. Conglomerate merger can be Pure, meaning that the firms involved in the merger have nothing in common. It can also be mixed conglomerate in which case the firms involved look for either market extension or product extension. This type of M&A is highly risky.

However, at times we find that a company forcefully tries to acquire another company, which is also termed as Hostile takeover. In such cases, the target firm generally looks for strategies by which it can avoid itself from getting acquired by the bidder. The following are some of the anti-takeover strategies that a target firm adopt to make itself unattractive in the eyes of the bidder.

1. **Pacman Strategy**: In this case the target firm makes a counter offer to the bidder, signifying that it has been doing very well and has the capability to acquire the bidder also. This is widely used strategy to avoid takeover.
2. **White Knight and White Square**: In this type of strategy, the target company invites a friendly party to make a higher bid as compared to the raider. The White Knight will just control the target, while, the White Square will merely invest as a portfolio investment.
3. **Crown Jewels**: In this strategy, the target firm identifies its valuable division (also known as crown jewel) and sell it off to another investor in order to become less attractive in the eyes of the raider.
4. **Golden Parachute**: Here, the target firm gets into an agreement with its senior management, wherein, huge compensation package should be given to the management if they were to be removed from their office.
5. **Poison Put**: In this case, the target company issues debentures which are exercisable at a very high strike price by the holder of the debentures, in the event of a takeover.
6. **Macaroni Defence**: The Company issues large number of bonds that must be redeemed at higher rates once the takeover occurs.

In some of the situations the company appoints individuals or firms called as Killer Bees that are specialized in these strategies to fend off the takeover bidders. Any kind of takeover is always dangerous for both the acquirer and the acquired firm and hence the sole purpose of these strategies is to make the company less attractive to the acquiring firm.

M&A transactions, although bring a new perspective to the firm, should be done very deliberately after accessing all the possible outcomes that may arise after the transaction. The cultures clashes that may arise after acquisition should be thoroughly analysed and be well prepared for.

——-O——-

Call for Articles

We invite articles for the September 2015 Issue of Samvad.

The Theme for the next month: September 2015 - “**Digital Transformation**”

The articles can be from Finance, Marketing, Human Resources, Operations or General Management domains.

Submission Guidelines:

- Word limit: 1000 words or a maximum of 4 pages with relevant images.
- Cover page should include your name, institute name, course details & contact no.
- The references for the images used in the article should be mentioned clearly and explicitly below the images.
- Send in your article in .doc or .docx format, Font size: 12, Font: Constantia, Line spacing: 1.05’ to **samvad.we@gmail.com. Deadline for submission of articles : 29th September, 2015**
- Please name your file as: <YourName>_<title>_<section name e.g. Marketing/Finance>
- Subject line: <YourName>_<Course>_<Year>_<Institute Name>
- Ensure that there is no plagiarism and all references are clearly mentioned.
- Like our Fb pg: Samvad.WeSchool.Student.Magazine.

Samvad Blog

As said by Ann Morough Lindburg, “Good communication is as stimulating as black coffee and just as hard to sleep after.” Samvad, which means 'to converse' in Hindi, is exactly the motive of our team Samvad. Our readers and writers are of utmost importance to us at Samvad. We don't like to interact with you only once when the issue is released. So, we thought, what next? Then came the idea of a blog - the ideal platform for meaningful discussion on a more regular basis. Hence, we present to you 'The Samvad Blog'. The Samvad Blog, as the name suggests is a blog dedicated to sharing of information, insights and opinions that allow exchange of some valuable ideas by stimulating your intellectual senses. It will include some interesting reads on management gurus, book reviews, and relevant articles among many other varieties of food for thought.

http://samvadwe.blogspot.in/

Don’t forget to comment with your opinions. Always have a healthy debate we say! As progression lies not in agreement, but debate!

Team Samvad


Anuja Kadam, Editor


Aman Parakh, Co-Editor


Prajakta Ninale, Head, Finance Section


Vivek Nair, Head, Marketing Section


Abhinav Chakraborty, Joint Head,
Human Resource Section


Rama Kaushik, Joint Head,
Human Resource Section


Nakiya Garari, Head,
General Management Section


Tanvi Tawde, Joint Head,
Operations Section


Nikhil Kumar, Joint Head,
Operations Section


Shristi Rai, Joint Head, WeChat


Lopa Thakkar, Joint Head, WeChat


Vikas Vijayan, PR & Communications


Sussanna Puthooran,
PR & Communications


Shruti C, Website, Blog, Facebook, Quora,
Design - Cover Page


Azar Siddique, Facebook,
Online Content


Swapnil Chaudhari, Design - Cover Page


Jigar Padhiyar, Blog, Online Content


Nishigandha Joshi, Samvad Board/
Online - Offline creatives


Prakash Gadhe, Samvad Board/
Online - Offline creatives


Nilam Kshire, Online / Offline - Marketing,
Events, Branding


Vikrant Kulkarni, Online / Offline –
Marketing, Events, Branding


Kiran Kalpande, Online / Offline –
Marketing, Events, Branding


Sangapriya Kedar, Online / Offline –
Marketing, Events, Branding