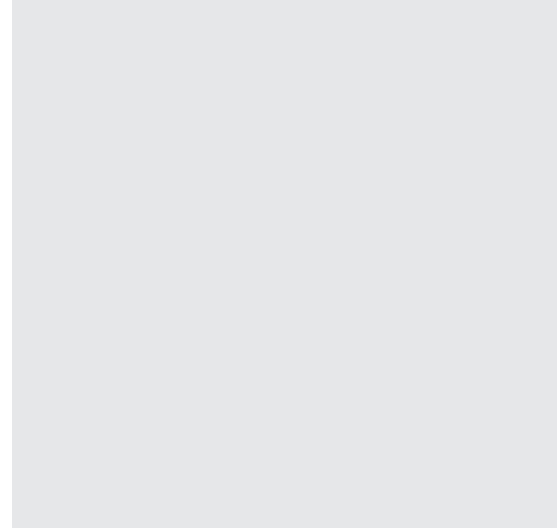


No Place To Stand Alone



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**Historical Mergers and Acquisitions
in Different Corporate Markets**

Ashraf Haggag

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One

Introduction

Hello, I am Ashraf Haggag. I am writing this book primarily for my two kids, Abdullah and Abdul Rahman. They have not progressed in their careers yet, and since they both wish to be in the business and management fields when they graduate, I thought of giving them the most valuable lesson in management: how to handle challenges that each day brings.

How, when you are on the top of an organization facing cutthroat competition, do you think out of the box and come up with ideas and create new market zones for your company that not only ensures stability in the market but also achieves a leap in your organization's performance?

I hadn't thought for one minute that I could write a book one day, but I am a top, senior executive with years of experience spent in diversified operational and managerial capacities among landmark, international, hospitality corporations. My previous experience has allowed me to be very close to the corporate market and to witness all major upturns and

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downturns of its different fields, such as pharmaceuticals, banking, oil and gas, and aviation.

This accumulated past experience has given me the courage to formulate and put forward business thoughts based on different case studies that took place within various international corporations. These are companies that have overcome challenges and created new market space when competition was at its peak.

I hope the accumulation of these business thoughts put together as a book can be not only a guideline to academic students but also as a road map for companies facing cut-throat competition, whether they are start-up companies or a well-established ones.

Enjoy the read.

Two

The Challenges of Competition in Various Market Sectors

Competition is rapidly growing in various market sectors, and a strong trend has developed of mergers and acquisitions among corporate companies creating huge organizations that add more pressure and competitive environments. Managers and top executives must understand their company's competitive advantage and build strategies that take into account the competitive landscape.

The following elements and factors should be taken into deep consideration and attention.

COMPETITIVE STRATEGIES

From a managerial perspective, competition generally falls into the external environment, although it can also take shape in internal environment, through rivalry between strategic-business units for managers. Understanding the external competitive landscape is a critical factor in assessing

company strategies and benchmarking appropriately to ensure competitiveness.

Businesses that fail to keep pace with their rivals will eventually be overpowered and often forced to develop an exit strategy.

Avoiding the risks of competitive factors requires a strong understanding of operational efficiency, quality production, differentiation, and competitive advantage.

LOW COSTS AND BRANDING

The simplest perspective in competition is in industries where products are homogeneous. In such situations, companies compete directly. For example, bottled-water producers are directly involved in such a framework and thus adopt two basic competitive strategies: low costs and branding.

Low-cost suppliers find ways to optimize their production and distribution to offer consumers the lowest-possible price on one bottle of water; low-cost suppliers often benefit largely from economies of scale. Branding, on the other hand, aims to convince the consumer that a higher price point is worth paying based upon the company's name, reputation, or other distinguishing characteristics.

DIFFERENTIATION

Most products and services are not homogeneous; however, they allow incumbents in an industry to compete with one another by means of various competitive strategies. Differentiation is a competitive tactic wherein companies approach certain niche needs within an industry to capture a segment of the market share.

QUALITY

There is the potential to compete externally based upon quality. For example, Toyota produces both the Corolla and Lexus, thereby targeting both ordinary automobile drivers and those in the luxury-car consumer bracket. Strategies related to branding provide a particular level of quality to capture a specific income or a specific level of clientele. The opportunity cost of efficiency is associated with quality, which generally sees higher price points. Quality is therefore a strong antithesis to the low-cost strategy.

INTERNAL COMPETITION

Businesses also compete internally. An intrinsically complex issue, on the surface, internal competition involves either direct product substitute or funding competition. For example, PepsiCo produces both colas and sport drinks, all of which sit on the shelf next to one another.

When a customer sees the sports drink and chooses it over the cola option, the cola has lost a sale to an internal competitor. The mother company (i.e. PepsiCo), however, did not lose a sale; it merely lost one segment of the business while gaining another.

With these points in mind, managers must thoroughly understand the products they are pitching and the strategy that will help them avoid going head-to-head with other businesses with which they cannot compete.

Three

Definition of Mergers and Acquisitions

The company that takes over runs the whole business with its own identity; stocks of the acquired company are not surrendered but bought by the public prior to the acquisition and continue to be traded on the stock market.

Although “mergers” and “acquisitions” are often used as synonymous terms, there are differences between the two concepts. These differences follow.

MERGERS

Two firms together form a new company; after they merge, the separately owned companies become jointly owned and obtain a new single identity. The stock of both companies is surrendered and new stocks in the name of the new company are issued.

Mergers usually take place between two companies of more or less the same size. In these cases, the process is called “mergers of equals.”

ACQUISITIONS

One company takes over another company and establishes its power as the single owner. The company that takes over is usually the bigger and stronger in terms of financial capability.

Four

Types of Mergers

Mergers and acquisitions can be categorized according to the nature of the merger. Hence, it is important to differentiate and understand the subtle differences as follows.

CONGLOMERATE MERGER

A conglomerate merger is a merger between firms that are involved in totally unrelated business activities. There are two types of conglomerate mergers. The first is a pure conglomerate merger, which involves firms with nothing in common. The second is a mixed conglomerate merger, which involves firms that are looking for product extensions or market extension.

EXAMPLE

A manufacturer of athletic shoes merges with a soft-drink firm. The resulting new company will be faced with the same competition in each of its two markets after the merger as the individual firms were before the merger. A clear case of conglomerate merger is the Walt Disney Company and the

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American Broadcasting Company, whereby both were working in totally different markets with different competition.

HORIZONTAL MERGER

A horizontal merger takes place between companies in the same industry and field; it is a sort of consolidation that occurs between firms operating in the same market facing the same competition and market conditions and offering same products or services. Horizontal mergers are common in industries with fewer firms, when competition tends to be tense and synergies and potential gains are much greater.

EXAMPLE

In a merger between Coca-Cola and PepsiCo's Pepsi beverage division, the goal would be to create a new, larger, and stronger organization with a greater market share.

MARKET-EXTENSION MERGER

A merger takes place between two companies that deal in the same products but in separate markets. The main purpose of such a merger is to make sure that merging companies can get access to a larger market and a bigger client base as well.

EXAMPLE

An example of a market extension merger is the acquisition of Eagle Bancshares, Inc. by RBC Centura. Eagle Bancshares, Inc. is headquartered at Atlanta, Georgia and has 283 workers. It has almost 90,000 accounts and looks after assets worth US \$1.1 billion. Eagle Bancshares also holds the Tucker

Federal Bank, which is one of the ten biggest banks in the metropolitan Atlanta region as far as deposit market share is concerned. One of the major benefits of this acquisition is that this acquisition enables the RBC to go ahead with its growth operations in the North American market. With the help of this acquisition RBC gained the chance to deal in the financial market of Atlanta, which was among the leading up-coming financial markets in the USA. This move allowed RBC to diversify its base of operations.

PRODUCT-EXTENSION MERGER

A product-extension merger takes place between two business organizations that deal in products related to each other and operate in the same field. It allows the merging companies to group their products together and get access to a bigger set of customers.

EXAMPLE

The acquisition of Mobilink Telecom Inc. by Broadcom is a proper example of the product extension merger. Broadcom deals in the manufacturing Bluetooth personal area network hardware systems and chips for IEEE 802.11b wireless LAN. While Mobilink Telecom Inc. deals in the manufacturing of product designs meant for handsets that are equipped with the Global System for Mobile Communications technology. Therefore the products of Mobilink Telecom Inc. perfectly complement the wireless products of Broadcom.

Five

Why Companies Merge with or Acquire Other Companies

Companies grow in mainly two ways, either they grow organically or merge with / acquire other companies. Nowadays, the trend of acquiring existing companies has never been greater to the extent that it has become the norm within the corporate world. This route is a fast way to reshape corporate strategy and get access to markets, products, technologies and managerial talents. Below, you will find and understand the reasons behind mergers and acquisitions.

SYNERGY

One of the major reasons for a merger or acquisition is synergy. Synergy is the combination of business activities in order to improve performance either financially (decrease and control operational costs) and or the quality of the final product.

DIVERSIFICATION AND SHARPENING OF BUSINESS FOCUS

These two conflicting goals have been used to describe thousands of mergers and acquisitions. A company that merges to diversify may acquire another company in a seemingly unrelated industry in order to reduce the impact of a particular industry's performance on its profitability.

Companies seeking to sharpen focus often merge with other companies that have deeper and stronger market penetration in a key area of operation.

GROWTH

Mergers can give the acquiring companies opportunity to grow a market share without having to really earn it by doing the work themselves. Instead they buy a competitor's business for a price.

For example, a pharmaceutical company may choose to buy out a smaller competing company in order to enable the smaller company to produce more and sell more due to its brand-loyal customers.

INCREASING SUPPLY-CHAIN PRICING POWER

When a company is buying out one of its suppliers, the company will be able to save on the margins that the supplier was previously adding to its cost. This will enable the acquiring company to be more aggressive and competitive in terms of pricing among its competitors.

ELIMINATING COMPETITION

Many merger or acquisition deals lead to the elimination of future competition and thus enable the company to gain a larger market share within the market of its products. The downside of this is that a large premium is usually required to convince the acquiring company's (company doing the buying) shareholders to accept the offer.