**Research report on mergers and acquisitions (2,000 words +/- 10%)**

“The impact of a merger announcement on the acquiring and target company.”

Mergers and acquisition means when companies unite themselves or their assets with each other. They do so to strengthen their positions in the market and occupy larger market share than before (González-Torres et al., 2020). This can be done through financial transactions between the companies. There can be various options for a company; a company may acquire another company completely, obtain assets of a company, buy the stocks of the company, or create a situation in which the other company is forced to give control of its business. Moreover, merger and acquisition is also used in explaining the proper division of financial institutions.

A popular example of successful merger and acquisition is of Salesforce and Slack in 2021. Salesforce is a renowned company in CRM and is operating globally. It has made a growth strategy of merging and acquiring companies. When acquiring Slack, they paid $27.2 billion. Salesforce knew that after the pandemic it had to change its strategy and had to deliver customer satisfaction globally. They wanted to connect with customers who live anywhere in the world globally. Having one of the best customer relationship managements can help them in occupying a higher market share and satisfying customers from wherever they want. The initial purpose is to deliver Customer 360 to all the customers around the world in order to give stakeholders of the company a single source for connecting. Eight months after the acquisition, Slack assists Salesforce in increasing its revenue $32 billion. The companies have continued to benefit financially and also increased their service level. Due to merging, Salesforce increased its revenue by more than 25% in a year. The impact on shareholders who purchased stocks of Slack is also observed. Slack stock holders when sell their stocks are going to receive $26.79 in cash and approximately 0.0776 shares of Salesforce stock for each share. It means the stock of Slack would be worth value of cash and some of the Salesforce stock.

There are many reasons that can result in the merging and acquisition of companies. Among them, the most common reasons for companies to merge or acquire are:

1. Economies of Scale:

Many companies think by merging with other company can make their combined organization bigger and there is no lie in it. The bigger the company is, the more costs will be saved and the more chances of there would be for getting competitive advantages.

1. Market Share:

The prime reason behind merging is the market share (Welch et al., 2020). Companies continuously monitor where they stand in terms of market share in the industry. They evaluate if they are ahead or behind their competitor. They look for solutions and one of the solutions is to merge. By merging, they may be able to get an advantage over their competitors.

1. Acquire new Technology:

Companies have to sustain in the changing environment of the industry. If they do not they may fail to survive. Many companies cannot afford latest technology and that is the reason they look for companies to acquire which provide them with new technology.

1. Higher Value:

Companies may not be providing enough value in their products or services by themselves only. If they merge with or acquire another company then they may be able to increase their value to the customers. Two or more companies may result in more value offering than a single company (Feldman and Hernandez, 2021).

1. Diversifying Geographically:

Some companies think that instead of building a company from scratch in another country they can acquire a company there and then take its services. The country already operating there would know how the system works and this can be used as advantage.

1. Vertical Integration:

It means to acquire various parts of a supply chain including distribution, logistics, and warehousing. It is all done to ensure that any third party is not need to be hired if two companies can work efficiently after merging.

1. Taxes:

One of the reasons that force company to merge or acquire is taxation. More taxes are to be paid by separate companies than combining the companies and paying taxes together with plausible distribution. Companies do admit that they are acquiring so that they can avoid taxes.

1. Opportunism:

Companies that are asked to merge does not necessarily want to but the other company says that it’s an opportunity to work together and achieve higher levels of success. They think it’s a lifetime deal and it can change the structure of the company and may result in benefits.

The gains for the acquiring company and the company being acquired are plenty. After the merger, companies would be able to have more resources and the operations they were previously conducting can now be increased (Moskovicz, 2018). Companies may be able to make their stakeholders happy by increasing value, salaries, and returns. They may be able to receive shares once the company merges. The most prominent gain from merging is that company gets an opportunity to enter new target markets or maybe increase their product or service line to gain more revenue. There are companies that target to acquire the assets of another company and because of this they may acquire them. The gain would be to develop themselves internally from the other company’s assets. More gains include merging with a company that already is carrying tax loss forward and it may result in lower tax liabilities. To defeat competition and to advertise at mass level, mergers and acquit ions work very well. By merging, the costs of products and services can also be saved and decreasing costs for customers may lead to their happiness and may also help in acquiring more customers. Moreover, mergers may be able to generate more from their resources and may do planning that is effective.

Although there are many benefits of mergers and acquisition but there are various costs associated with the process. These costs are pre transaction, during transaction, and post transaction costs (Kumar, 2019). The costs may include advisor costs; some companies deeply evaluate the benefits and impacts of merging and acquisition. For this, they either hire or give work to someone form the company to evaluate it. Next is cost of deal; this may include travelling expenses, hiring industry experts, filing valuation for intellectual property etc. Legal cost includes the money spent on paperwork considering the time spent on the process. Breakage fee and integration fee may also add up for some companies. Moreover, IT and other technology-related costs also play a vital role. With new company, the company who is acquiring may need to update its IT system. The update may include software licenses, installations, connections and networks etc. HR costs can also be high. For example, people who were already working are now supposed to work more and given more duties then their salaries and wages will also be increased. More people who would be hired must go through various processes and the recruitment, selection, and training costs are to be incurred. Lastly, rebranding costs; the company may have to rebrand by increasing its portfolio, market, or anything that may require more money.

Apart from costs, there are more reasons that would discourage companies to merge or get acquired. Firstly, overpaying and not doing enough planning may discourage company to merge. Companies think that everything is for sale but they are wrong. If a company is attaching its name with another company it may be sharing its brand identity which will cost a lot of amount. The company may charge premium over a normal market worth of the company. Next is insufficient information (Renneboog and Vansteenkiste, 2019); many times companies depend on their mergers’ partner for the information that they do not necessarily possess. This creates problem for both companies as the expectations from each other fall. When merging, the processes are more likely to become more complex and requires a lot of information. Another reason is misunderstanding the acquired company. Before merging, one has to conduct full research on the other company because there may be some rules, policies, and practices that may be acceptable by one company but may not be acceptable by the other. The two companies might be entirely serving different customer base so an extensive research is required. The fourth reason is cultural fit; two companies might be completely different in terms of culture. One may be very sensitive to cultural differences and the other may not pay much attention to them so this should also be discussed (Zhang et al., 2018). Next reason is exceeding the capacity of resources. One company may not have much resources to give anything to the other company and the other may be investing a lot of resources in order to acquire that company. One solution for this is to take debts but this is not a good start for any merger and acquisition process. Another reason could be the external factors hindering the merging and acquisition. These factors include things that are not in the control of a company and can be of greater risk. For instance, if two companies are going to sign a merger and acquisition document tomorrow. There is a natural disaster and one of the companies get destroyed to the core in terms of stocks, market value, and infrastructure then this may stop the transaction. This is an example of an external factor. Lastly, lack of senior management and decision- makers involved in the merging and acquisition process. Senior management evaluates the decision of merging from different perspectives and measure what benefits could be yielded. If enough experienced senior management is not involved then the merger and acquisition agreement may result in the failure.

There could be many methods that companies use to change or transfer the ownership. Among them, the most common ones include selling the business entirely, distributing the ownership among several owners, leasing the business, and transfer of ownership through gifts. In the merging and acquisition process, transfer via gifts and selling the business entirely are not the options. The first one is distributing the ownership among several owners. Both companies may have stake in each other or the other shareholders who previously had stake in one company can now have stake in both the companies (Arnold, 2019). An agreement is made that is required to tell the parties that they have to follow the terms and all the legal steps that could be taken if any of the company violates the merging and acquisition process. If the owner of one of the companies changes then he/she must abide by the merging and acquisition contract that was signed by the previous owner. Lease purchases are also not used enough as it requires one company to run the business and the other party does not necessarily perform any important function.

To sum up, merging and acquisition process has its own advantages and disadvantages. There are many reasons that may lead to the failure of merging and acquisition process. Also, there have been many reasons for merging and among them the most common reasons included increasing market share, expanding a business, and diversifying a product or service line. There were various costs associated with the procedure of acquisition and merging such as legal advisor, rebranding, HR COSTS, IT costs etc.

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