Research on the Criteria of Successful M&A

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Abstract. With the rapid development of economic globalization and the gradual improvement of the world market economy, M&A activities among enterprises are becoming more and more frequent in order to compete for market shares. As the main path to expand the scale of enterprises, M&A can effectively achieve the goals of expanding business scope, simplifying industrial structure and reducing operating costs for enterprises, which has become the first choice of many enterprises for expansion and development. Nevertheless, due to the unpredictable market environment and internal management uncertainties, the success rate of M&A in the global market has been relatively low so far. Using iterature research and case study method, this paper analyzes three classic M&A cases of LVMH, DIDI and Daimler Benz. From shallow to deep, elaborated the main criteria of successful corporate M&A from three aspects: industrial upgrading, financial integration and human resource management, taking into account the actual situation of globalized economic market development.

Keywords: M&A; M&A Criteria; Integration.

1. Introduction

Since the 1990s, a wave of corporate mergers and acquisitions (M&A) has been taking place worldwide as the scale of industries in the market continues to escalate and the global economy becomes more integrated. The huge amount and amazing scale of corporate mergers and acquisitions have led to record-breaking M&A transactions and a global corporate merger boom that has reached new heights. Among them, M&A involves a wide range of fields, not only in the industrial sector, but also in the financial sector, media sector, business sector and IT sector, where mergers and acquisitions have become the norm [1]. Under the influence of the global large market and economies of scale, some companies merged after the giant even once directly forced the economic strength of small and medium-sized countries. According to the data, the capital used in the first 10 mergers and acquisitions in 1999 exceeded $50 billion, which is equivalent to the annual gross national income of middle-income countries such as Chile, Egypt, Hungary, the Philippines and Colombia.

M&A is a high-risk and high-profit business practice. Generally speaking, many companies hope to use M&A to shift industrial crises, avoid investment risks, resolve corporate debt, reduce labor costs, and expand their businesses. Fortunately, among the many cases of mergers and acquisitions, many companies have achieved super speedy development and impressive performance in this. For example, the acquisition of Porsche by Volkswagen, the merger of Microwave Communications Corporation by WorldCom, and the acquisition of Mobil Oil Corporation by Exxon Grand Oil Company are all successful M&A cases.

These multinational companies and international consortia to cooperate in the acquisition, merger can not only in the enterprise operating funds to help the dying enterprises back to life, but also by providing technology, talent and other resources to help enterprises to improve market competitiveness. On the whole, the mergers and acquisitions of enterprises can do better than harm to the enterprises themselves and to the economic development of the country. However, mergers and acquisitions are often complex, and involve a variety of economic, legal, and policy influences [2]. The real criterion for judging the success of an M&A is not only the completion of the financial procedures of the merger, which is only a starting point for a successful M&A. The most difficult work involved in acquiring a company is not before the M&A contract is signed, but after it is signed. It takes a great deal of long-term operational adjustment to ensure that the acquired business is successfully integrated and profitable after the acquisition is completed [3].

Scholars from around the world have tracked M&A events around the world. Gaughan (2005) argues that M&A failures are common [4]. These researches concluded that about 70% of M&As fail or have little effect, and only about 30% are successful [5]. With the unpredictable global economic situation and the rising tide of M&A, people have to face this research result and take a prudent and scientific approach to M&A restructuring. This paper will analyze the three criteria for successful M&A in detail through case studies and in-depth studies of several classic cases.

2. Corporate Industry Integration

2.1 LVMH and Tiffany & Co.

LVMH is the world's largest multinational luxury goods group, headquartered in Paris, France, has established five mature luxury business lines in fashion, wine, perfume and cosmetics, watches and jewelry, and boutique retail, and a sales network of more than 5,000 stores, with 75 well-known quality brands. Due to the impact of the New Crown epidemic, LVMH's net profit had plunged 84% to €522 million in the first half of 2020, operating profit plunged 68% to €1,671 million and sales volume fell 28% to €18,793 million [6]. In order to its simplify the business structure and reorganize the company's industrial sales, on January 7, 2021, LVMH officially completed the acquisition of Tiffany at a price of $131.5 per share per share, with a total transaction value of $15.8 billion. The biggest merger in the history of luxury goods was a huge success.

As of September 30, 2021, LVMH reported sales of €44.2 billion for the first nine months of 2021, an increase of 46% compared to 2020 and organic growth of 40% year-on-year, according to the Group's financial results [7]. The highest rise was recorded in the Watches and Jewelry business. In the nine months since LVMH completed its acquisition, the Jewelry & Watches division saw a strong rebound in sales, which doubled 2.7 times year-on-year to €6.16 billion, an increase of €3.894 billion compared to the same period in 2020, while Tiffany's sales in the first nine months of 2020 were only $2.3 billion. Secondly, the acquisition of Tiffany more than tripled the size of the LVMH Watches & Jewelry division, which recorded sales of €6.16 billion in the first nine months of 2021, compared to €2.26 billion in the same period of 2020. Excluding Tiffany, the division's sales in the third quarter increased by just 1% compared to the same period in 2019 [7].

In recent years, LVMH has developed a remarkable worldwide presence through its global business expansion. As the world's largest luxury goods group with more than 70 world-renowned brands, its strategy of continuous acquisitions and strong industrial integration are key to its success. The acquisition of Tiffany & Co. has been a perfect match for the Group's weakness in jewelry. It strengthens LVMH's brand portfolio on a reasonably valued and value-added basis, reduces the risk of investment dilution in ROI, and simplifies the Group's business structure while maintaining its core competencies.

2.2 M&A Elements

Throughout the history of LVMH's acquisitions, the company's development has been a history of mergers and acquisitions. Its successful acquisitions have benefited from the company's ability to integrate the acquired companies internally, helping the company to diversify its operations and reduce the risk of relying on a single main business. Peter Drucker claims that a successful M&A can only be a successful one if the integration is successful, otherwise it is only a financial manipulation, which will lead to both business and financial failure [8]. Industrial business integration, as an important part of corporate M&A, is a directional adjustment of a company's development and the orientation of its future development direction.

In the business activity of M&A, the enterprise, as the main part, is also a living organism with its own personality and characteristics. Simply put, M&A is more like two living organisms merging together to become a new living organism, which will inevitably produce rejection reactions. Differences in industrial operations of the merged companies must be eliminated [9]. Industrial integration is the key to the ultimate success or failure of M&A. The analysis of industrial integration requires the reconfiguration of the enterprise's resources from the perspective of industrial restructuring, etc., and requires in-depth adjustment of the enterprise's industrial development strategy.

After the completion of the M&A, in order to ensure the benign development of the merged enterprise, the management needs to optimize the bilateral industrial structure according to the characteristics of the enterprise, vacate the industrial space layout, and carry out industrial integration according to the regional development characteristics of the industry, reorganize the pattern of the regional industry, effectively play the advantages of industrial development, show the regional characteristics of the industry, in order to constitute the core competitiveness of the regional industry, so as to achieve industrial aggregation and The goal of concentrating enterprise development resources. On the contrary, if the industrial development strategy of the acquired enterprise cannot be integrated with the mutual integration of the acquired enterprise, then it is difficult to play the synergistic effect of the strategy between the two.

3. Corporate Financial Integration

3.1 DiDi and KuaiDi

Both DiDi and KuaiDi are taxi-hailing software serving China, with various businesses including taxi-hailing and car-hailing. In February 2015, DiDi and KuaiDitrack successfully merged. Before the merger, the market share of the two sides is comparable, the battle for share of the online taxi market is about to start. According to statistics, in order to seize the market of the Internet taxi industry, only in the first half of 2014, DiDi and KuaiDi have invested over RMB 2.4 billion in capital. However, with the continuous development of the Internet taxi market, under the influence of various competitive pressures and policy conditions, the two sides had to give up the long war of attrition, and reached a merger agreement under the impetus of Tencent and Alibaba, the major shareholders behind the two companies, and the new combined company DIDI is currently valued at about $16.5 billion in the market, belonging to the Tencent and Ali systems [10].

Before the completion of the DiDi and Express merger, both companies raised four rounds of financing to ensure their competitiveness in the online car market. Among them, DiDi raised more than US$800 million and KuaiDi raised more than US$900 million [10]. Sufficient capital is the most powerful guarantee in M&A, which laid a solid foundation for both parties' M&A and effectively reduced the financial risk of M&A. Secondly, since the fierce competition between the two parties before the merger was almost achieved by huge subsidies, such a consumption pattern also demonstrates the adequacy of the company's capital.

After the merger, the new company has raised two rounds of financing, with a cumulative amount of more than $3 billion, successfully completing the effective integration of the two companies in terms of financial development strategies, and successfully occupying more than 70% of the market share of China's Internet taxi industry, achieving a dominant position in the field of online taxi. In the case of the DiDi and KuaiDi ride-hailing platform M&A, however, there was an unfavorable situation due to miscalculation of financial information and thus lopsidedness. In the case of the DIDI merger, the two parties initially agreed to maintain their brand and business independence in order to develop in parallel, but due to a miscalculation of the financial situation and market share development of DIDI by FTI, the initiative of the new company became lopsided and the influence of FTI gradually weakened in the new company.

3.2 M&A Elements

From the case of DIDI completing the M&A and eventually dominating the company, it is clear that financial integration is the most important part of the merger and integration process, more critical than the integration of personnel, business and big data. Thorough financial analysis required prior to acquisition [11]. Once the financial integration problem occurs, the financial risk caused by the shortage of capital chain and other reasons will appear. Hitt (2001) argues that the high cost of debt can lead to the bankruptcy of a company [12]. The correlation and uncontrollable nature of financial issues and business development will make it difficult for companies to cope with them, and the entire merger may end in the dissolution and failure of the business.

Financial management is the core of an enterprise's management system, and good financial management is the foundation of a profitable business [13]. Finance not only affects the implementation of the objectives set for the M&A activities, but also has a great impact on the relationship between the two parties and the ability to exercise effective control over the new company. If a merged company does not build an efficient internal financial system as soon as possible, its future development will be in a state of confusion. When a company's financial system is damaged, its industrial development will fall into a certain amount of chaos. At that time, the bankruptcy of the enterprise or the failure of mergers and acquisitions is inevitable. Inter-company economic synergies are more conducive to creating shared value [14]. Therefore, the effectiveness of financial management is the central nervous system of the daily production and operation activities of the enterprise, and because of this, the successful financial integration of the enterprise after the M&A becomes the guarantee and foundation of the effective operation of the M&A enterprise.

4. Corporate Compatibility Management

4.1 Daimler-Benz and Chrysler

Established in 1926, Daimler-Benz was formed by the merger of two German companies, Daimler and Benz, and was the largest industrial conglomerate in Europe at the end of the twentieth century, with operations in aerospace, heavy-duty trucks, and consumer and industrial motor companies throughout the world. On May 6, 1998, Daimler-Benz and Chrysler, one of the Big Three U.S. auto companies, jointly announced that they had reached a merger agreement totaling $38 billion and that the two companies would merge in a share swap and be named DaimlerChrysler Corporation. In November of the same year, the two companies officially completed their merger, making it the largest merger ever in the automotive industry.

The merger between Daimler-Benz and Chrysler had a major impact on the subsequent development of the world automotive landscape. As a very representative cross-border merger, just shortly after the announcement of the merger, the stocks of the two companies soared, with Daimler-Benz's stock price increasing by 8% and Chrysler's stock price rising by 17.8% in the same period. And, at the beginning of the merger, the new company grew spectacularly, with its global workforce once exceeding 44,000 employees and annual revenue exceeding $140 billion, a 12 percent increase over the previous year [15]. However, the merger ended in failure due to the company's operational mistakes and the failure of corporate management integration.

As early as the beginning of the merger, Mercedes-Benz made a considerable adjustment to Chrysler's management. Mercedes-Benz replaced most of Chrysler's senior managers and strengthened its control over important decisions within Chrysler. However, this iron-fisted action was resisted by Chrysler's management, which became the trigger for the massive loss of its senior managers. The main reason for this loss also came from the huge cultural differences between the management of the two different countries, which was one of the biggest challenges in the integration process after the merger. In terms of corporate marketing philosophy and development planning, Chrysler from the U.S. preferred to sacrifice product quality to launch cheap and practical new products more quickly. While Mercedes-Benz from Germany attaches great importance to product quality, even extending the release time of new products. Badrtalei (2007) claims that cultural barriers can make companies less productive [15]. The two sides have not been able to reach a consensus on the development model planning, and the different marketing concepts and management styles have greatly affected the communication and cooperation between the two sides, and destroyed the synergy effect between the two sides after the merger, which eventually led to the dissolution of the enterprise.

4.2 M&A Elements

Post-merger compatibility management is the most fundamental and critical part of a newly merged company, which mainly includes the integration of the different management models and corporate cultures of the merging parties. Peter Drucker pointed out the appointment and dismissal of top management is the key to the success of a merger or acquisition [8]. Managers should constantly communicate and act accordingly [16]. In the above case, the merger between Mercedes-Benz and Chrysler led to the departure of a large number of former Chrysler senior management and consultants mainly because of the serious conflict between the corporate cultures of the two parties.

Companies should adopt reasonable and effective communication to gain employee recognition after M&A [17]. The management system of a company has an important impact on its future operation and development, and the integration of a series of organizational structures of the post-merger companies is in essence a preparation for the deployment of human resources. The establishment of the management system is the first step in determining the organizational structure of the company, and the reconstruction and implantation of functional departments and management within the company. Post-merger companies should give organizational autonomy and maintain recognition of multiculturalism [18]. Before the new system is implanted in the target company, the M&A company must fully understand the management system of the acquired party and adopt a gradual implantation strategy to give the employees of the new company a process of familiarity and recognition.

Secondly, there will be different cultures between enterprises, and if a hard collision occurs, it will have an incalculable impact on the development of the enterprise. In acquisitions, the integration of corporate culture can have a coordination and control tool effect [19]. Especially in cross-border and cross-regional M&A, the successful integration of corporate cultures will have an extremely profound impact on the success or failure of the M&A. Therefore, the primary goal after the merger is to seek commonalities while reserving differences, and to form a new corporate culture within the company by dealing with the cultures of both companies in the form of merging, splitting, enhancing or weakening. Enhanced human resource management can effectively mediate employee relations [20]. Only the acquirer and the target company achieve cultural integration, so that the new culture and management model penetrate into the acquired company, achieve synergistic integration, and achieve true control over the acquired company, can it mean that the merged company has reached true integration.

5. Discussion

In general, successful M&A can bring great benefits to companies. LVMH is a good example, leaping from a single-brand operation to become the world's largest luxury goods group. Datta (1991) argues that the company will become more efficient after the successful completion of the acquisition [21]. Successful mergers and acquisitions can help companies cross over into new industries through acquisitions, implement diversification strategies and diversify investment risks. Secondly, the two parties of the merger can optimize the allocation of resources to the maximum extent and achieve resource sharing, thus achieving a strong combination. More often, when the business operation is in crisis or encounters a bottleneck, M&A is an optimal choice to expand the scale of the enterprise to help it achieve economies of scale. It can supplement and adjust the existing industry through M&A restructuring, so that the unit cost of products and services can gradually decline to minimize operating costs and achieve deeper production within the product. At the same time, it can also improve the business efficiency of enterprises. M&A activities not only help companies to gain capital expansion, but also the various resources of the acquired companies can be pocketed. All of these contribute to the overall competitiveness of the company and help the implementation of the company's future growth strategy.

Nevertheless, the history of M&A around the world has shown that many acquisitions have not been as successful as they could have been, and many companies that have joined forces have ended up going their separate ways. Mergers and acquisitions often require large sums of money, which can have a significant impact on the already cumbersome business activities of a company. At the same time, in order to realize the potential value of transactions, companies need to integrate deeply [22]. This always takes a long time. During the integration period, the productivity of companies will be greatly dispersed and may not be able to face the vagaries of the market.

In the stock market, once the acquisition and restructuring of a listed company fails, the finances of both parties will certainly be greatly affected and the acquired party may even be forced to be delisted. Market investors' doubts about the company's operations can lead to a major drop in stock prices, which can bring irreparable losses to both sides of the merger. After identifying the M&A target, a detailed analysis of the target company should be conducted, which can provide security for M&A [23, 24]. A due diligence investigation includes comprehensive information on all aspects of the company [25]. As a double-edged sword, it is necessary to do sufficient research and preparation before M&A.

6. Conclusion

To sum up, this paper discusses the criteria for judging the success of M&A as a business activity and the related necessary conditions through extensive literature review. Its conclusions are based on relevant professional theoretical knowledge and the study of three classic M&A cases. The case study method is used to analyze the motives and development of the M&A cases of three industry giants, LVMH, DiDi and Mercedes-Benz, and three key criteria for successful corporate M&A are summarized corporate industry integration, corporate financial integration and corporate compatibility management.

As the global economic situation continues to evolve, companies still need to pay attention to the following factors when conducting M&A. First, before M&A, enterprises should clarify their own M&A motives, formulate the right M&A strategy, and combine their own development strategy and actual situation to develop a set of M&A strategies that meet the long-term development of enterprises. Secondly, enterprises should have a comprehensive understanding of the M&A target, evaluate the future development prospects after the merger, and clarify the financing structure and financing methods of the enterprise to avoid the failure of the M&A due to financial problems. Finally, the merging companies should quickly carry out effective integration, make comprehensive integration plans from various fields, make regular scientific and effective evaluations, and make continuous improvements in order to ensure the success of M&A.

This paper is mainly based on literature research and case studies, and the actual analysis of the cases to draw the above conclusions, which are still insufficient and incomplete. The research on the success criteria of M&A has always been an important subject in the field of finance, which can be strengthened by mathematical modeling and expansion of objects, etc. The systematicity and completeness of this issue will be further studied in the future.

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