Research on the Key Factors for a Successful Merger and Acquisition

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Abstract. M&A is an important activity of corporates in today's competitive business environment. Previous researches on the influencing factors of M&A were mainly based on the theory of synergy effect, market power theory, economies of scale theory and so on. Moreover, there are no unified conclusions. Starting from HSBC's M&A of AXA Singapore, this paper studies the influencing factors of M&A through literature research and case analysis. In the end, three main influencing factors were derived. One is synergy, represented by Haier Group merging Red Star Electric Appliance Company and Citibank merging Travelers Group. The second is technology, the representative cases are Cisco acquisition of IMImobile and Salesforce acquisition of Slack Technologies. The third is market share, and corresponding cases are J&R Express' acquisition of Best Express and LVMH's acquisition of Tiffany. Enterprises can obtain synergies, innovate with technology, expand market share through M&A. Therefore, they can obtain more profits, and support the healthy development of enterprises. Finally, this paper suggests that enterprises start from various factors such as the market environment and their own conditions to make M&A decisions and promote the benign development of enterprises.

Keywords: Merger and acquisition; synergy; technology; market share.

1. Introduction

There are two ways to grow a business. One is to grow slowly through self-accumulation, the other is to expand rapidly through mergers and acquisitions. Nowadays, financial markets are booming. Mergers and acquisitions are becoming more diverse and more sophisticated, and have become an increasingly important means of expansion for companies. The relevant research on the motivation of corporate mergers and acquisitions started earlier. However, due to the diversified and dynamic characteristics of M&A motivation, scholars have not formed a completely consistent understanding of it yet. At present, a series of complicated but relatively classic enterprise M&A motivation theory system has been formed in the academic circle.

In terms of synergy theory, Ansoff (1965) was the first scholar who applied the concept of synergy to economic management. He suggested that "synergy" refers to a situation in which a merger or acquisition results in a new firm that performs better than the combined performance of the original two companies, or in which the whole is more effective than the sum of its parts [1]. Jensen (1983) believed that the main motivation for enterprises to carry out M&A is to obtain management synergies, thereby improving the operating efficiency of enterprises [2]. According to Shaver (2006), obtaining synergies is the key goal of mergers and acquisitions. The quick scale-up that follows mergers and acquisitions, however, may increase operational risks and lessen the strategic sensitivity of businesses [3]. Florio (2018) believes that M&A can be used as a strategic development method for enterprises, and synergies can be obtained when M&A is carried out with appropriate motives [4]. In terms of theory of market power, Rahman (2015) holds that there are two common M&A motivations for enterprises through empirical research: first, to expand market power and increase market share. The second is to expand the scale of enterprises through M&A to achieve economies of scale effect, so as to improve the operating efficiency of enterprises [5]. About theory of economies of scale, Toumi

(2018) studied 60 cases of bank M&A in European countries between 2005 and 2013.He argued that improving their own operating efficiency was the motivation for most banks to implement M&A [6].

Through the above review on M&A, it is not difficult to find that the research on the motivation of M&A started earlier and The theoretical research results of it are relatively abundant. Mainly formed the theory of synergy effect, market power theory, economies of scale theory and so on. However, scholars have not reached a unified conclusion on the factors that influence M&A. Therefore, this paper takes HSBC's M&A of AxA Singapore as an example in Section 2 and Section 3-5 explores the main factors influencing corporate merger and acquisition with relevant cases.

2. Case: HSBC & AXA Singapore

With operations in 64 nations and territories in Africa, Asia, Oceania, Europe, North America, and South America, HSBC Holdings PLC is a British multinational investment banking and financial services holding firm that serves about 40 million customers. The third-biggest international asset management group, AXA was founded in France in 1816 and is the largest insurance group in the world. AXA Life Insurance began conducting business in Singapore in 1995. The People Developer Award was given to AXA Life Insurance Singapore in November 2000 in honor of their exceptional dedication to employee development. AXA disclosed the $529 million sale of its Singapore operations to HSBC. Via the purchase of all of AXA Singapore's issued shares, 100%, HSBC Insurance (Asia Pacific) Holdings Limited, an indirect fully owned subsidiary of HSBC Holdings, concluded the transaction. The sale was first announced in August 2021. HSBC said expanding its insurance and wealth franchises in Singapore was a key step towards becoming a leading wealth manager in Asia. Singapore is a strategically important market of scale for HSBC and a major hub for its wealth business in ASEAN.

From a strategic point of view, HSBC's choice to acquire AXA Singapore is an important step in its implementation of its Asian insurance and wealth strategy plan. This will not only enrich the diversity of HSBC's insurance business in Singapore, but also enhance the status of HSBC Life in the insurance industry in Singapore after the acquisition HSBC already said last year that it wanted to accelerate regional investments in Asia, but the implementation of the strategy has delayed because of political turmoil in Hong Kong and risks from the COVID-19 outbreak [7]. While the economic impact of the pandemic continues in 2021, HSBC's strategic continues. As an Asia-centric bank with a global reach, HSBC has the advantage that they have the highest growth and highest return opportunities in the wealth sector. HSBC's Asian insurance and wealth strategy includes seizing opportunities to target the fast-growing wealth in Asia, and striving to become customers' preferred partner in wealth management. HSBC believes that the continued growth of wealth in Asia shows great resilience, as Figure 1 shown [8]. From 2006 to 2022, total financial wealth in Asia, including products such as bank deposits and securities, has nearly triple, with China accounting for the largest share. Other fast-growing economies in Asia are also rapidly accumulating wealth, which means that the demand for products such as wealth management and pension savings is increasing in the entire Asian society, and the demand for insurance products is also growing accordingly.

AXA Singapore was the eighth largest life insurance company in Singapore before the acquisition, and has accumulated a solid customer base and diversified distribution channels in the Singapore market. This is also the market driving factor for HSBC to choose to acquire AXA Singapore, that is, this acquisition can bring HSBC the ideal insurance market and users in Singapore, and achieve the effect of market development. Prior to the acquisition, AXA Singapore had net assets of $474 million, while HSBC plc. generated pre-tax profits of $18.9 billion in fiscal 2021, an increase of 115% compared to fiscal 2020. HSBC Singapore Insurance generated pre-tax profits of $341 million in the financial year ending December 2020 and $253 million in the year ending December 2021. The decline in net foreign exchange losses incurred in 2021 is due to the generation of nearly twice as much acquisition expenses [9]. However, this does not detract from the importance of the Asian markets in HSBC's development, as the region that contributes more than half of the HSBC Group's wealth generation. After the merging of the former HSBC Insurance and AXA Singapore, HSBC Life Singapore is anticipated to grow to become Singapore's seventh-largest life insurer and fourth-largest retail GI health insurer. The increased status will open up more growth opportunities and possibilities for HSBC Life Singapore and is an important step towards the HSBC Group's goal of becoming a leading provider of insurance and wealth in Asia.

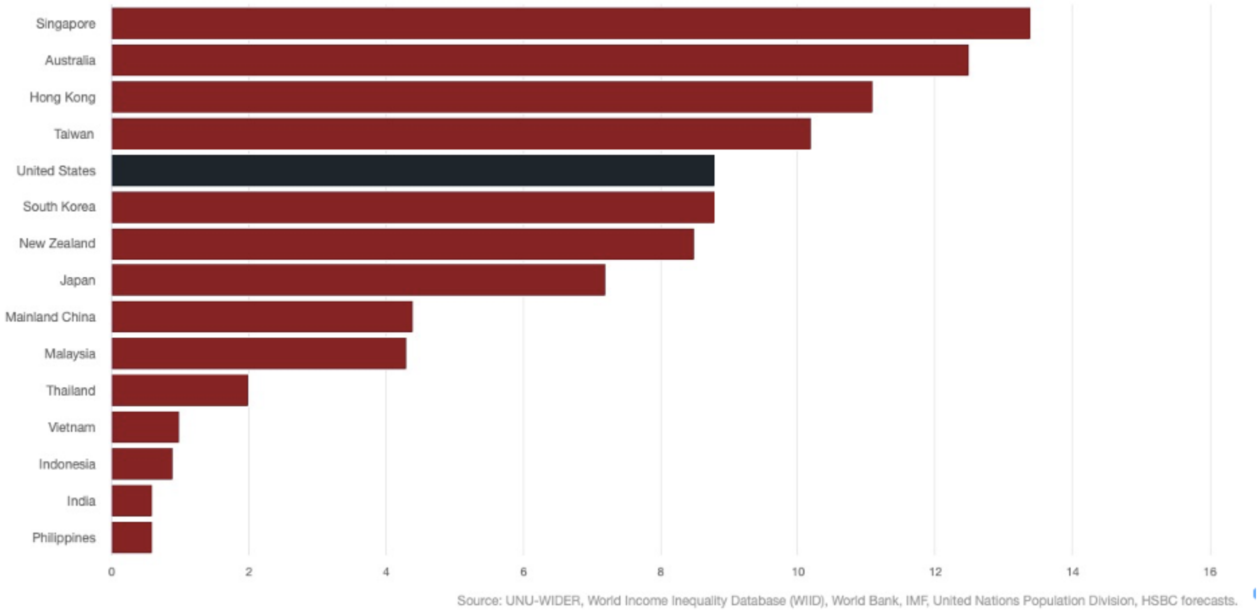

Fig 1. Projected share (%) of millionaires in the adult population by 2030 [8]

From the perspective of AXA Singapore, although there is not much information disclosed to the outside, there are still people familiar with the matter who have revealed that the reason why AXA Group considers selling business in Singapore is to reduce marginal businesses in order to raise funds and focus on developing core businesses, such as health and protection etc., will strive to provide higher quality services to their customers. Thus, it is not difficult to understand that in the bidding, both parties believed that the ideal transaction price contributed to the acquisition.

3. Synergies

Synergy effect is one of the important reasons for corporate mergers and acquisitions. It occurs when the merged business outperforms what may have been predicted had the two businesses operated independently. Synergies can be categorized into managerial synergies, operating synergies, and financial synergies, according to various sources. Management synergies come mainly from two aspects. One is to save overhead through mergers and acquisitions. The second is caused by differences in efficiency. Operational synergies are primarily defined as changes in efficiency brought about by an organization's production and operation activities after it has realized the synergies and advantages associated with the increase in efficiency. Financial synergy is the term used to describe the financial benefits that a merger or acquisition will have for the business. Specifically include financial resources complementary and financial cost reduction. In this section, it will analyze the classic case of two companies merging. One of them realizes management synergies and the other realizes operational synergies.

3.1 Haier Group & Red Star Electric Appliance Company

Haier Group is a household appliance enterprise developed on the basis of Qingdao Refrigerator General Factory. The group is a comprehensive enterprise integrating scientific research, production and finance. On the development road of Haier Company, M&A is an important feature. Haier has given full play to its own management advantages and achieved great success in enterprise merger. One of the three main washing machine producers has been Qingdao Red Star Electric Appliance Corporation. However, from the first half of 1995, its business went from bad to worse, and there was a big decline that had not occurred in many years. With a debt-to-asset ratio of 143.65%, the outlook is grim. On July 4th, 1995, the Qingdao Municipal government made the decision to transfer Red Star Electric Appliance Company to Haier Group as a whole in order to rejuvenate the state-owned assets and the lives of more than 3,500 employees. It was a dramatic government-brokered property deal designed to revive state assets, and its success was gripping. Haier's president believes that international mergers are divided into three stages. The large fish devour the tiny fish, or rather, the big corporations buy the small ones, when capital stock dominates but technology does not. The swift fish consume the sluggish fish once the status of technological content has surpassed the function of capital. The phrase "shock fish" describes a business with good hardware but subpar management. These businesses' bad management has caused them to lag behind the market. It can swiftly stand up again once there is an efficient management system to seize the market. Management is exactly what Haier excels at, and this is where the combination may be found.

Red Star should have had fairly advanced tools, technology, and workforce proficiency at that time given that it was a maker of vintage washing machines. Its primary deficiencies are in scientific management and a market-oriented operating style. The combination of Haier and its well-known managerial and business acumen makes a lot of sense. In addition to the investment of funds, a notable feature of Haier is to transplant its corporate culture and OEC management system into the merged enterprise, creating a dynamic new mechanism and enabling the enterprise to quickly enter the stage of sound development. The enterprise thus obtained extraordinary development: three months to turn a loss and five months to earn 1.5 million yuan. By the end of 1996, its domestic market share in the country's 100 big shopping malls has risen to 22%. This is what is called "management synergy".

3.2 Citibank & Travelers Group Company

Before the merger, Citibank was the world's most profitable financial services group with the highest global chain and the most complete business categories. Citibank was one of the biggest banks in the world and the biggest bank in the United States for a long time. In 1998, Euromoney magazine named Citibank the Best Bank in the world, in recognition of its outstanding financial service performance around the world. Originally a life and property insurer, Travelers bought Smith Barney, an American investment bank, and Rohm Brothers, the fifth-largest investment bank, in 1997 to become America's second-biggest. The business scope has also been expanded to investment banking, insurance, financing services and other fields. Citibank was relegated to second place after the merger of Chemical Bank of New York and Chase Manhattan in 1996. Citibank has the largest overseas branch network. Travelers owned Travelers Insurance and Salomon Smith Barney, then the second-largest investment bank.

Citibank and Travelers combined with the expectation that synergies would emerge over the next two years through cross-selling and cost savings within the group. Since Citibank and Travelers' financial products and distribution networks are complementary , Citibank's branch network could be used to sell Travelers' products, such as insurance and broking. At the same time, Travelers sales agents can be used to sell Citibank products, such as funds, credit cards, consumer credit, etc. This is what is called "operational synergy".

4. Technology

Technology is one of the most common factors leading to acquisition. Many companies in the 21st century have received high valuations due to their technology patents, especially for smaller companies, where being acquired by technology is an ideal result that meeting their expectations [10]. The choice of technology acquisition is usually based on long-term benefits, the following two cases of acquisitions are presented to complement the intention and role of technology acquisitions.

4.1 Cisco & IMImobile

IMImobile is a UK-based provider of cloud communications services with the ability to manage connected platform solutions at scale. Both it and Cisco believe that customer experience can be a key advantage in competing in the cloud communications platform space. Cisco's acquisition of IMImobile brings Cisco key cloud communications platform services technology that will enable to achieve the best experience of customer interactions through integration and collaboration with contact centers and Cisco's existing products. The final consideration for Cisco's acquisition of IMImobile was $730m. It is a significant figure that reflects the value of leading-edge technology, and there is a wide range of development and application prospects of acquired technology. The acquired IMImobile will complement Cisco's contact center business unit with the goal of creating and refining a comprehensive and integrated service offering, which can optimize every interaction with customers [11].

In the second year after the completion of the acquisition, webex conducted a survey, and the question was aimed at the reasons for users to become repeat customers. The results show that 75% of customers believe that good customer experience is an important factor for them to continue to choose the same company, and 76% of customers believe that price is a key factor [12]. It can be seen that user experience can be roughly considered as important as price. Therefore, it will be meaningful and necessary for firms to focus on user experience upgrades, which also verifies that Cisco's technology acquisition of IMImobile is forward-looking.

4.2 Salesforce & Slack Technologies

Salesforce was established in San Francisco in 1999, and the four founders created a customer relationship management (CRM) system. Salesforce acquired Slack with the intention of realizing the combination of the CRM platform and the digital innovation operating system to achieve further success in the CRM field. They look forward to the combined new work operating system to provide enterprises, that is, their customers, another revolution in work efficiency. The acquisition further leverages Slack's advantages in human resources integration, which can be reflected by replacing the original interface with Slack and becoming the new interface of Salesforce Customer 360. From the perspective of user, this in-depth cooperation will enable customers to improve a more efficient collaborative work experience as innovation reduces the complexity and enhances practicability of page operations.

One year after the acquisition, around January 2021, Saleforce said it would work together with Domino’s and Intuit to run the digital work headquarters, and at the same time announced the launch of new features that enable collaboration across organizational boundaries, none of which can be supported without Slack’s innovative technology [13]. It has to be admitted that the outbreak and large-scale spread of the epidemic in 2020 and 2021 caused companies to suddenly switch to remote cloud office. This sudden change caught companies by surprise, but it undoubtedly provided an opportunity for the strong emergence of digital collaborative work systems. Judging from today's situation, even if the epidemic is approximately over and people's lives return to their original state, the workplace will not completely return to its original state, and the hybrid office model will be widely adopted. With the blessing of this trend of the times, Salesforce and Slack accurately grasp the needs of target customer groups, use innovative technologies to bring customers a more comfortable experience. It is thought to be able to mutually provide value in the ongoing development of consumer trust in Saleforce.

5. Market Share

At present, one of the factors influencing a company's M&A is market share. Through mergers and acquisitions, enterprises can quickly integrate and utilize resources to improve their competitiveness within the industry, thereby expanding their market share and obtaining more profits.

5.1 J&T Express & Best Express

An integrated logistics service provider with a dominant presence in China and Southeast Asia is J&T Express. The 2015-founded express network serves 13 nations, including Mexico, Brazil, Egypt, Saudi Arabia, Vietnam, Malaysia, the Philippines, Thailand, Cambodia, Singapore, China, and Mexico. The company adheres to the tenet of "customer-oriented, efficiency as the root". With business areas such express shipping, supply chain management, and international logistics, Best Group is a prominent provider of smart supply chain solutions and logistics services in China and Southeast Asia. It has also built a "door-to-door" B2B2C one-stop service. The business was established in 2007. Best now conducts business in 7 other nations, including the United States, Thailand, Vietnam, and Malaysia, and has built up a national logistics and distribution network.

In October 2021, J&T Express acquired Best Express for ¥ 6.8 billion, and completed the merger in December. In April 2021, due to the low-price dumping of J&T Express, the Obligatory Postal Administration warned it, and then ordered some of the company's Yiwu distribution centers to stop operation. Later, the central government successively issued regulatory measures on the price war in the express delivery industry. As a result, J&T Express was unable to expand the market share through its low-price strategy. And Best Express has a certain number of users, infrastructure, the information system and so on. J&R Express's acquisition of Best Express is conducive to J&R Express expanding its market share. First of all, J&T Express itself lacks a larger scale of the Chinese market, transshipment centers, equipment and other infrastructure, information system technology and so on. And the acquisition of Best Express can help J&R Express make up for its shortcomings. Secondly, J&T does not have more platform cooperation, and most of the orders come from Pinduoduo. The acquisition of Best Express will enable it to expand its platform and thus expand its market share. In short, the acquisition of Best Express by J&T Express has increased the number of daily orders of J&T Express to 45 million votes, and its market share has expanded to 14%, entering the forefront of China's express delivery industry [14].

5.2 LVMH & Tiffany

Since its founding in 1987, the LVMH Group has grown to include more than 75 distinctive Maisons that each create high-quality items. It is the only company that is present in all five major areas of the luxury market, including wines and spirits, clothing and leather products, fragrances and cosmetics, watches and jewelry, and selective retailing. LVMH employs more than 196,000 people worldwide, and in 2022, it posted sales of 79.2 billion euros [15]. As the second-largest jewelry brand in the world, Tiffany & Co. was established in New York, USA, in 1837 and is a well-known jewelry watch brand in the country. Among its offerings are jewelry, watches, and accessories. The company's service concept is "the unremitting pursuit of beauty and character". And the design concept is to design original works with amazing beauty.

In January 2021, LVMH acquired Tiffany for $15.8 billion. The global jewelry market grew by 7% in 2018 to reach €18 billion. In the same year, the jewelry and watch business also generated a profit of up to 700 million for LV, an increase of 37%. As the world's second largest luxury group, Richemont occupies most of the jewelry and watch brands. LVMH's jewelry brands, including Bulgari, the world's third-largest jewelry brand, were able to expand its share of the global jewelry market and make more profits through the acquisition of Tiffany. As of December 31, 2021, LVMH watches and jewelry has become LVMH's third largest business unit, with sales soaring 1.67 times year-on-year to €8,964 million, contributed by the performance of the luxury jewelry brand Tiffany, in the United States. Following being acquired by LVMH, Tiffany's posture was further enhanced, with some collections' prices rising by 7% to 13% in comparison to 2020 and a decline in the percentage of silver jewelry items with an average price of less than $530 [16].

6. Conclusion

Starting from HSBC's M&A of AXA Singapore, the study found that the main influencing factors of M&A are synergies, and market share. By reviewing literatures and analyzing existing cases, this paper divides the influencing factors of M&A into three main points to form a unified conclusion, which makes up for the gaps in previous research and provides references for more researchers. Therefore, from the perspective of enterprises, it is recommended to deeply analyze the advantages and disadvantages of their own enterprises and target enterprises, and the market environment of industry when making M&A decisions to ensure that the decisions are conducive to the development of enterprises. The current study is based on the main factors of M&A in the available literature and case studies. So the influencing factors are not comprehensive. In the future, more cases can be analyzed to study the influencing factors of M&A more comprehensively.

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