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Masterstudium Wirtschaftspädagogik

Englisch als Arbeitssprache im ökonomischen Unterricht LV 2372

**Unterrichtskonzept
zum Thema
Mergers and Acquisitions**

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1. Information for teacher

1.1 Subject matter

The concept deals with the topic of mergers and acquisitions and is designed for Englisch als Arbeitssprache in the 4th or 5th form of HAK. The choice of this issue is strongly linked to the recent developments in world markets. The choice can be legitimated by considering that dealing with current matters in business world enriches pupils' general knowledge and enables them to take part in serious economic discussions.

1.2 Lesson Plan

	Activity	Media	Class arrangement	Time
Lesson 1				
	Introduction Interpretation pupils work in groups and get a worksheet	Worksheet	Pairs/group	10-15 minutes
	Worksheet I each pupil gets a worksheet pupils work in pairs comparison in class	Worksheet	Pairs/class	10-15 minutes
	Worksheet II each pupil gets a worksheet pupils work in pairs comparison in class	Worksheet	Pairs/class	15-20 minutes
	Homework: Market structures – Group exercise/ Presentation	Instruction sheets	group	
Lesson 2				
	Role play	Instruction sheets, observation forms, whiteboard, design guides, sheets of paper, plane model	Group/class	60 minutes

	Activity	Media	Class arrangement	Time
Lesson 3				
	Finishing Role play			
	Teacher shows pupils short movie http://de.youtube.com/watch?v=spTJzMlZSFU	Laptop, Beamer	Class	5 min
	Worksheet III Each pupil gets a worksheet Pupil answer questions Comparison in class Teacher adds details	Worksheet	Single/Class	15-20 minutes
	Lecture Teacher explains „due diligence“ and the merger between AOL and Time Warner	Laptop, Beamer	Class	15-20 minutes
Lesson 4				
	Worksheet IV pupils have to read an article pupils work in pairs pupils compare the results with another group comparison in class	Worksheet	Pairs/group/ Class	20-25 minutes
	Handouts: Teacher summarizes the examples for mergers	Handouts I	Class	20-25 minutes
Lesson 5				
	Presentations: Market structures – Group exercise Discussion in class	Laptop, Beamer, Handouts	Group/class	depends on number of pupils
Lesson 6				
	Finish Presentations: Market structures – Group exercise Discussion in class	Laptop, Beamer, Handouts	Group/class	depends on number of pupils
	Handout Information about mergers and acquisitions	Handout II	Class	10-15 minutes

2. Working materials

Introduction

The New York Times

Nokia Hungry for More Deals

SEPTEMBER 9, 2008, 7:08 AM

Takeover of Hungarian MOL by Vienna OMV fails
Central Europe's largest energy supplier, Vienna-based OMV, has dropped its plans for a takeover of the Hungarian oil concern MOL. The reason: too many EU stipulations. MOL regards this as confirmation of its strategy. OMV will continue to prosper economically even without MOL.

INTERNATIONAL

Herald Tribune

Deutsche Bank set to acquire Postbank



Mars to Buy Wrigley's for \$23 Billion

HEWLETT-PACKARD AND COMPAQ AGREE TO MERGE, CREATING \$87 BILLION GLOBAL TECHNOLOGY LEADER

Orascom talks with Telekom Austria about merger - report

Tuesday 9 September 2008 | 09:03 AM CET

Have you recently heard of any companies planning to join their resources?

What are possible advantages of a combination of two companies?

What are possible disadvantages of a combination of two companies?

Discussion questions in class:

Have you recently heard of any companies planning to join their resources?

Google and doubleclick

Aua

OMV and MOL

...

What are possible advantages of a combination of two companies?

Stronger market position

Restructuring and strengthening the balance sheet

Investment of surplus cash

Enhancement of market share

Reduction of competition

Growth with the amalgamation of the competitive advantage of both the firms

What are possible disadvantages of a combination of two companies?

if business becomes too large -> higher unit costs

Clashes of culture

redundancies

May be a conflict of objectives between different businesses

Worksheet I

Mergers & Acquisitions – useful words

The following terms are related to the topic of mergers & acquisitions (M&A). Match each word with the right definition.

to merge	to diversify	acquisition	joint venture
hostile takeover	takeover bid	alliance	synergies

- _____ An agreement of two or more organisations to work together.
- _____ If a company or economy, it expands into new fields and/or increases the range of goods or services offered. The term also refers to the process of putting money into different types of investment, in order to minimize default risk.
- _____ A business activity in which two or more companies have invested together. This type of cooperation is one of the most common ways companies use to enter the Chinese market.
- _____ Is an act of trying to get control of a company, whose shareholders do not want to sell.
- _____ Two or more companies joining together to form a larger company.
- _____ The act of one company buying another or a part of another company. In this case the company that is bought is referred to as, too.
- _____ A public offer to a company's shareholders to buy their shares, at a particular price during a particular period, with the intention to acquire the enterprise.
- _____ Additional advantages or profits that are produced by two people or organisations combining their ideas and resources.

Worksheet I - Solution

Mergers & Acquisitions – useful words (Solution)

The following terms are related to the topic of mergers & acquisitions (M&A). Match each word with the right definition.

to merge	to diversify	acquisition	joint venture
hostile takeover	takeover bid	alliance	synergies

- alliance _____ An agreement of two or more organisations to work together.
- to diversify _____ If a company or economy, it expands into new fields and/or increases the range of goods or services offered. The term also refers to the process of putting money into different types of investment, in order to minimize default risk.
- joint venture _____ A business activity in which two or more companies have invested together. This type of cooperation is one of the most common ways companies use to enter the Chinese market.
- hostile takeover _____ Is an act of trying to get control of a company, whose shareholders do not want to sell.
- to merge _____ Two or more companies joining together to form a larger company.
- acquisition _____ The act of one company buying another or a part of another company. In this case the company that is bought is referred to as, too.
- takeover bid _____ A public offer to a company's shareholders to buy their shares, at a particular price during a particular period, with the intention to acquire the enterprise.
- synergies _____ Additional advantages or profits that are produced by two people or organisations combining their ideas and resources.

Worksheet II

Mergers & Acquisitions – Blessing or Curse?

Companies' plans to merge with or take over other enterprises are often regarded with disapproval. Read the statements below and decide with your partner next to you whether the arguments are in favour of mergers or takeovers (A) or against them (B).

1) A large group of companies may become unmanageable and fail to achieve synergies.



2) A larger company will have a stronger position in the market.

3) Takeovers are the best way for a company to reduce competition.

4) Traditionally, the best companies have always beaten their competitors rather than buying them.



5) It may allow the rationalization and optimization of the use of product facilities and enable economies of scale.



6) Diversification dilutes a company's shared values (such as quality, service, innovation, etc.).

to dilute... verdünnen, schwächen

7) Innovation is expensive and risky, and sometimes more expensive than acquiring or merging with other successful innovative firms.

Worksheet II - Solution

Mergers & Acquisitions – Blessing or Curse? (Solution)

Companies' plans to merge with or take over other enterprises are often regarded with disapproval. Read the statements below and decide with your partner next to you whether the arguments are in favour of mergers or takeovers (A) or against them (B).

1) A large group of companies may become unmanageable and fail to achieve synergies. **B**



2) A larger company will have a stronger position in the market. **A**

3) Takeovers are the best way for a company to reduce competition. **A**

4) Traditionally, the best companies have always beaten their competitors rather than buying them. **B**



5) It may allow the rationalization and optimization of the use of product facilities and enable economies of scale. **A**



6) Diversification dilutes a company's shared values (such as quality, service, innovation, etc.). **B**

to dilute... verdünnen, schwächen

7) Innovation is expensive and risky, and sometimes more expensive than acquiring or merging with other successful innovative firms. **A**

Discussion questions in class:

Which of the arguments either in favour of or against mergers and takeovers do you find the most persuasive/the least persuasive? Why?

To summarize: What are the most popular reasons in favour of mergers and acquisitions?

Competitive advantages (stronger market position, use of synergies)

Financial adv. (economies of scale, rationalization, use of synergies, higher revenue, reduced costs)

Corporate adv. (knowledge transfer, entering new markets/diversification, access to new resources)

Managerial reasons (higher reputation of the management board)

When Adidas and Reebok merged in 2005 they were No. 2 and 3 in the global sportswear market, behind Nike that reigned supreme. What arguments can be mentioned in favour of this deal? What could have been the reason for merging?

Stronger market position (attack against market leader Nike), Adidas' intention to conquer the US market, achieving synergies by sharing ideas and resources, rationalization and optimization of production facilities...

In 2004 the US car giant Ford sold its Jaguar formula one cars to Red Bull. What could be the reason why Red Bull was interested in this deal?

Advertisement/creating alertness and interest, reputation improvement, access to a bigger target group, financial reasons...

Role-play – Instructions for the teacher

Aim of the role play

The role play deals with the topic of “mergers and acquisitions” and focuses on the problem of cultural integration. The role play helps to understand how difficult a successful integration of two cultures is and which aspects should be considered.

Roles

The role play provides three different types of roles:

- Employee of ASTRA
- KALEIDO management
- Monitors

The process should be monitored by 2-4 pupils related to the total number of pupils. It is suggested that the remaining pupils are divided in the following way: 2/3 ASTRA, 1/3 KALEIDO.

Example: Class 24 pupils, 3 monitors, 14 ASTRA, 7 KALEIDO

What does the teacher do?

The teacher is responsible for

- forming the groups
- monitoring the production and intervention process
- handing out the sheets for plane constructing ordered by ASTRA
- answering pupils’ questions
- recording the production results on the whiteboard
- moderating the debriefing (discuss experiences, observations, perceptions...)

Proposed time schedule

Time in min.	ASTRA	KALEIDO
10	Preparation	
5	Production	Monitoring
10	Reflexion	Draw up intervention plan
10	Discuss intervention plan	
5	Production	Monitoring/Production
	Debriefing	

Materials required

- x) whiteboard+markers
- x) instructions for ASTRA and KALEIDO
- x) observation forms for monitors
- x) one design guide for every ASTRA employee and one model to present
- x) sheets of paper



Role play – Instructions ASTRA

You work for ASTRA, a well-established company in the aviation industry. ASTRA's success is based on the key factors quality and safety. The company's goal is to maximize profit.

Planes can only be sold, if they fulfil all quality standards. Special focus has to be laid on the following components:

- Pinion (Flügelspitzen)
- Cockpit
- Wings (both at the same level)

Purchase price is accounted for 5 Mio. € for each plane that fulfils the quality standards. Material costs are listed below. Construction sets once ordered cannot be returned. In terms of simplification there are no further costs. Therefore, the company's profit equals the purchase price of all planes successfully sold minus material costs for all ordered construction sets.

No. of construction sets ordered	Price/construction set in Mio. €
0-4	4,5
5-9	4,4
10-14	4,3
14-19	4,2
20-24	4,1
25-29	4,0
30-34	3,9
35-39	3,8
40-44	3,75
45-49	3,7
50-100	3,65
>100	3,6

You have 10 minutes time to decide how many sets you want to order and how production should be organized. During the preparation period, each employee gets one construction set for free. The planes produced in this time cannot be sold. They only help to simulate production, which lasts 5 minutes.

Your production process is going to be watched carefully by KALEIDO, a competitor of yours that is going to take your company over.

When you finally agreed on how many planes you want to order, tell your teacher.

Vocabularies

aviation industry	Flugzeugindustrie
wing	Tragfläche
construction set	Bausatz



Role play – Instructions KALEIDO

You work for KALEIDO, a leading company in the aviation industry. After months of seeking for a promising enterprise to take over, KALEIDO decided to acquire its competitor ASTRA.

You want to get insight into the production process of ASTRA. For this reason you first watch the production process and take notes. Based on your notes you have to come up with ideas on how to push production, in order to maximize profits.

Planes can only be sold, if they fulfil all quality standards. Special focus has to be laid on the following components:

- Pinion (Flügelspitzen)
- Cockpit
- Wings (both at the same level)

Purchase price is accounted for 5 Mio. € for each plane that fulfils the quality standards. Material costs are listed below. Construction sets once ordered cannot be returned. In terms of simplification there are no further costs. Therefore, the company's profit equals the purchase price of all planes successfully sold minus material costs for all ordered construction sets.

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35-39	3,8
40-44	3,75
45-49	3,7
50-100	3,65
>100	3,6

You have 10 minutes time to decide how the monitoring process should be organized. After the production period which lasts 5 minutes, you have 10 minutes time to discuss how to intervene and additional 10 minutes to introduce ASTRA employees into your plans and put them into practice. Another production period of 5 minutes will show how successful your intervention was.

Vocabularies

aviation industry	Flugzeugindustrie
wing	Tragfläche
construction set	Bausatz

Role play – Observation form

ASTRA	++	+	~	-	--	comments
All members were involved into the decision process						
Proposals of everyone were respected and discussed						
The group had a clear production concept (communication, coordination, organisation)						
Everyone knew what to do during the production process						
KALEIDO's ideas were promptly put into practice						
The workforce was interested in KALEIDO's change plans						
The changes in the production process were accepted by the majority of employees						
KALEIDO's ideas were opposed by the majority of employees						
KALEIDO						
All members were involved into the decision process						
Proposals of everyone were respected and discussed						
The group had a clear concept of intervention						
The management tried to understand ASTRA's working culture and respected it						
KALEIDO tried to involve ASTRA's workforce into the change process						
Strengths of the production process were discussed and communicated too						
KALEIDO was willing to compromise						
Intervention plans were communicated clearly						

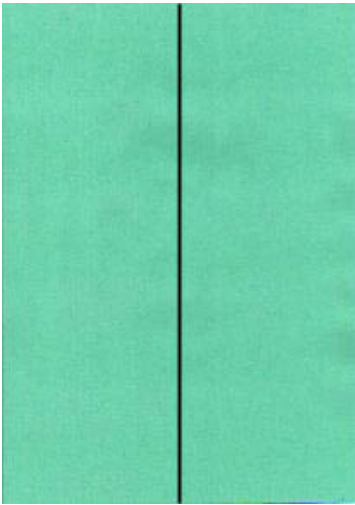
Additional questions:

What was your impression of KALEIDO's intervention?

How did ASTRA's workforce respond to the change plans of KALEIDO?

What could have been done for a better integration of the two companies?

Role play – Plane Design Guide



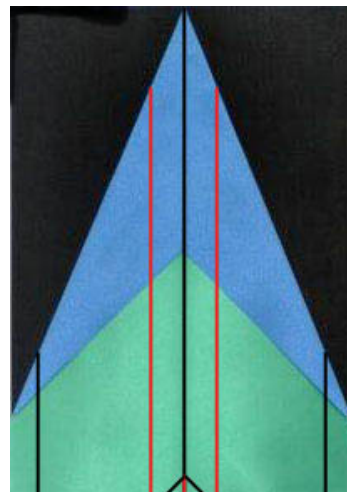
1) Ein Blatt der Größe A4 wird zunächst der Länge nach gefaltet und wieder aufgefaltet.



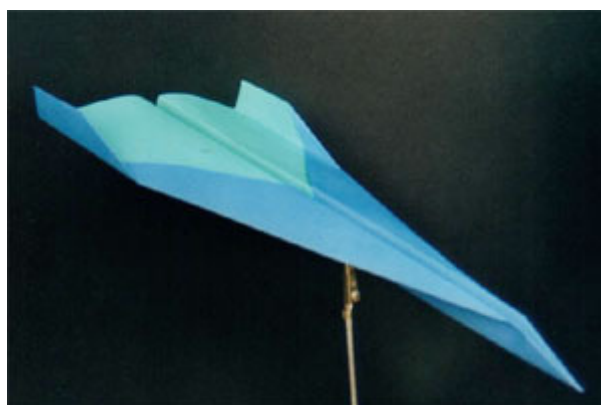
3) Der so entstandene Spitz wird nochmals zur Mitte hin gefaltet.



2) Die oberen Ecken zur Mittellinie falten, die Kanten sauber nachziehen.



4) Jetzt entlang der Mittellinie wieder zusammenfalten und einen geraden Steg falten. Der Steg sollte etwa 1 - 1,5 cm hoch sein. Schließlich noch die Flügelspitzen ca. 1 cm hoch falten.



Worksheet III

Watch the video (<http://de.youtube.com/watch?v=spTJzMizSFU>) and then answer these questions.

- Choose the answer

1. YouTube is a video sharing website where users can

- a) upload, view and share video clips.
- b) add friends, send them messages, and update their personal profile to notify friends about themselves.

2. YouTube co-founders Chad Hurley and Steve Chen jokingly referred to the deal as

- a) two kings getting together.
- b) killing two birds with one stone.

3. From all videos online are viewed

- a) nearly the half
- b) nearly one third on YouTube.

- What did Rob Enderle say about the competitive advantage of YouTube?

- Look at this picture, Should we be worried about the power of Google? Discuss this question in class.



Worksheet III - Solution

Watch the video (<http://de.youtube.com/watch?v=spTJzMizSFU>) and then answer these questions.

- Choose the answer

1. YouTube is a video sharing website where users can.

- a) [upload, view and share video clips.](#)
- b) add friends, send them messages, and update their personal profile to notify friends about themselves.

2. YouTube co-founders Chad Hurley and Steve Chen jokingly referred to the deal as

- a) [two kings getting together.](#)
- b) killing two birds with one stone,

3. From all videos online are viewed

- a) [nearly the half](#)
- b) nearly one third on YouTube.

- What did Rob Enderle say about the competitive advantage of YouTube?

[He said that it is not clear if YouTube is really successful in the future. This industry is incalculable. As a result no one knows how long YouTube will be successful. So this could be a problem for Google, because YouTube is \(with a price of 1.65 billion dollar\) really expensive.](#)

- Look at this picture, Should we be worried about the power of Google? Discuss this question in class.



Lecture



- „M&A failure can be attributed to poor synergy, bad timing, incompatible cultures, off-strategy decision-making, hubris, and greed. But one universal lesson has become obvious: making a "deal" work is one of the hardest tasks in business.“

<http://www.atkearney.com/main.taf?p=5,4,1,97>

Due Dilligence



- Due diligence is the process of identifying and confirming or disconfirming the business reasons for the proposed capital transaction.
- Due diligence is the process of investigation and evaluation, performed by investors, into the details of a potential investment, such as an examination of operations and management and the verification of material facts.



- A successful due diligence is the key to an eventual investment.
- Due diligence is the way to discover everything before buying a company.

Categories for the due diligence process:



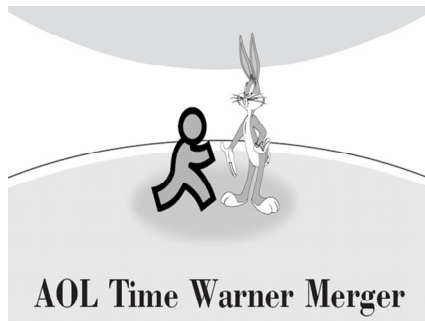
- General Corporate Matters
- Financial, Accounting, and Taxes
- Technology and Intellectual Property
- Product / Service Offerings
- Operations
- Sales and Marketing
- Human Resources and Personnel
- Legal and Regulatory

Example for a due diligence checklist:



1. 3-5 Years of Past Complete Tax Returns
2. 3-5 Years of Past Complete Financial Statements - Profit & Loss Statements, Balance Sheets
3. Current Interim Financials
4. Current Inventory Report
5. List of Assets Being Sold With The Business
6. Current Accounts Receivable Report
7. Current Accounts Payable Report
8. Checkbook Register for Last 3-5 Years
9. Client List - Look For Account Concentration Issues
10. List Of Employees - Current & Past Payroll Records
11. Schedule Time To Chat With Key Employees & Manager(s)
12. Get A Current Copy of all Licenses Utilized by the Business
13. Current Copy of the Lease
14. Run Lien Report Through Escrow
15. Ask For Any Past Environmental, Appraisal, Legal Reports & Information
16. Have The Seller Complete & Sign A Seller Disclosure Form
17. Get a Current, Complete Vendor List - Review Contracts & Relationships
18. Copy of All Contracts, Leases - Equipment, Advertising, Suppliers, etc.

When mergers fail ...



AOL Time Warner Merger

Purpose of the merger



- Mix of companies from an old and a new economy
- To link television with Internet
- To cover all stages of the digital value chain

Method by which the merger was achieved



- Stock-for-stock exchange
- Former stockholders of America Online -> 55% interest in AOL Time Warner
- Former stockholders of Time Warner -> 45% interest in AOL Time Warner.

Result



- Value of the company 2001 **\$106 billion**
- 2002: net loss of \$98.7 billion
- Value of the company 2005 **\$ 82 billion**
- **Internal conflicts and personel disputes**
- **2 chairmen stepped down**
- **falsified financial statements** from AOL (even before the merger took place)

Worksheet IV

Read the following article. Then answer the questions.

January 13, 2003

THE TIMES

Q&A: the rise and fall of AOL Time Warner

Steve Case, chairman of AOL Time Warner, will step down later this year, marking the end of a dream for the former Pizza Hut executive. Dan Sabbagh, left, Telecoms Correspondent, charts the rise and fall of a super-merger.

Why is Steve Case stepping down?

AOL has under-performed for nearly two years amid a contraction in the online advertising market. This year, for example, online advertising is down nearly 50 per cent. That has hurt the group's stock price, which has steadily declined from the post-merger high of over \$240 to \$15 today. Mr Case, as AOL's long-time leader, was personally associated with both trends and as a result drew heavy criticism from investors. He admitted last night that his presence had become a "distraction" given that "some shareholders continue to focus their disappointment with the company's post-merger performance with me personally".

What did the merged AOL-Time Warner want to achieve?

Expectations were so high when AOL acquired Time Warner at the beginning of 2001, that anything appeared possible. Simply, the hope generated was that AOL would act as a global distribution arm for Time Warner content: news (Time, CNN), films (*Harry Potter*, *The Lord of the Rings*), and music (Madonna, R.E.M). A more realistic expectation was that AOL was a perfect marketing tool for cross-promoting Time Warner products. And at the very least, AOL was supposed to grow sales and profits and so keep Wall Street happy for years to come.

Is there still a fight between the two sides of the company?

No. The fight's over and Time Warner has won. Time Warner management, led by chief executive Dick Parsons, now dominate the business even though the company was actually acquired by AOL. Mr Case's departure is essentially a full stop in a process that began when AOL came under new management in the summer. Although there are some good examples of working across the company's divisions, expectations are now limited. In other words, AOL Time Warner is becoming just like any other large media company: a collection of relatively autonomous units who occasionally co-operate, but mostly just ignore each other. AOL is such a small part of the group that it might now be renamed simply Time Warner.

Adapted: http://www.timesonline.co.uk/tol/tools_and_services/specials/article812021.ece

chairman= Aufsichtsratsvorsitzende, step-down = zurücktreten, amid = inmitten, contraction = Abschwung, distraction = Ablenkung, to hamper = erschweren, declining = rückläufig, to assume something = etwas annehmen

1. According to the article, what happened to AOL in the last years?

2. How have the roles of AOL and Time Warner changed since the merger?

3. You have heard about due diligence. Do you think it would have prevent the two companies from these failed merger?
Give some examples for categories from the due diligence process which would be very important for AOL and Time Warner.

Worksheet IV – Solution

1. According to the article, what happened to AOL in the last years?

- AOL has under-performed for nearly two years
- stock price has declined from the post-merger high of over \$240 to \$15
- online advertising went down nearly 50 per cent

2. How have the roles of AOL and Time Warner changed since the merger?


Before the merger AOL was a successful and powerful company. Actually AOL acquired Time Warner, but now AOL is just a collection of relatively autonomous units who occasionally co-operate with Time Warner. It is just a small part of the group. Time Warner is the leading company.

3. You have heard about due diligence. Do you think it would have prevent the two companies from these failed merger?
Give some examples for categories from the due diligence process which would be important for AOL and Time Warner.


Yes, Due diligence is a way to get to know a company in detail before buying it. Time Warner would perhaps have discovered the falsified financial statements. In general all categories are important in the due diligence process.

- General Corporate Matters
- Financial, Accounting, and Taxes
- Technology and Intellectual Property
- Product / Service Offerings
- Operations
- Sales and Marketing
- Human Resources and Personnel
- Legal and Regulatory

Handout I - Two examples for mergers

	AOL Time Warner	
The merger took place 2001		
Purpose of the M/A	It was the first merger of companies from the old and the new economy. The target was to link television with Internet, and to force possibilities like surfing in the Internet and watching television at the same time. The dream of Time Warner and AOL was to provide customers the possibility of using all offers from Time Warner without leaving the AOL net.	
The method by which the M/A was achieved	Stock-for-stock exchange Former stockholders of America Online -> 55% interest in AOL Time Warner Former stockholders of Time Warner -> 45% interest in AOL Time Warner.	
Result	In 2002 AOL was less successful than before. There was no need for modem dial-in for Internet anymore. People found other possibilities to be connected to the Internet. The clash between companies from an old and a new economy failed because it enhanced internal conflicts and personal disputes. The two chairmen who engineered the merger, America Online's Steve Case and Time Warner's Gerald Levin, stepped down. Most of the top America Online executives who had dominated the company after the merger were driven out. Another reason for the failure of the merger were falsified financial statements of AOL. Even before the merger took place, AOL started to prettify their financial statements. 2003 the company decided to delete the AOL moniker from the name AOL Time Warner.	

Stock-for-stock exchange	In the context of mergers and acquisitions, the exchange of an acquiring company's stock for the stock of the acquired company at a predetermined (=vorgegeben) rate.
to engineer	einfädeln
clash	Konflikt
to enhance something	etwas fördern
to step down	zurücktreten
financial statement	Jahresabschluss
to prettify	verschönern
moniker	Name

	<p>Google and YouTube</p> 
The merger took place 2006	
Purpose of the M/A	<p>The Google-YouTube merger is expected to bolster Google's position in the emerging domains of social networking and online advertising.</p> <p>The combined companies will focus on providing a better experience for users interested in uploading, watching and sharing videos, and will offer new opportunities for professional content owners to distribute their work to reach new audience.</p> <p>The merger is also likely to open up new avenues for Google in the form of online advertising.</p>
The method by which the M/A was achieved	<p>YouTube was sold for \$1.65 billion in a stock-for-stock transaction.</p> <p>The final price included \$15 million in cash,</p> <p>An analyst report from 2007 showed that YouTube had revenue of \$15 million in 2006, which means Google paid more than 100 times the video site's annual revenue.</p>
Result	<p>Acquisitions take time, years usually, before they show if they were successful or not.</p> <p>Google's backing has opened doors for YouTube and made it an even stronger contender in the world of media content than it was before.</p> <p>Google beat out a number of other YouTube suitors, including Microsoft, Viacom, Yahoo and the News Corporation.</p> <p>By successfully negotiating the deal, Google has once again proved that it is the Internet's dominant player. The acquisition of the privately held YouTube enabled Google to thrive in one area of the Internet where it has so far failed to gain footing.</p>

to bolster	verstärken
emerging	entstehend
to foray	überfallen
avenues	Möglichkeit
suitors	Bewerber
contender	Mitbewerber
to enable something	etwas ermöglichen
backing	Unterstützung
to gain footing	Fuß zu fassen

Market structures – Group exercise/Presentation

There are markets where hundreds of competitors try to attract the customers' favour. In other markets only a few market participants compete. Some industries which are dominated by three or four players result from merging or takeover battles.

In a group of four prepare a presentation about the industry of your choice. The presentation should last approximately 10 minutes and should cover the following points:

- Who are the **market leaders**? (Companies' names, brands and services, USP, market share...) – short portrait about the most important market participants
- Have there been **mergers or takeovers** during the last 10 years? If, were they successful or not?
- Is there severe **competition** or any suspicion of illegal cooperation? (Price performance?)
- What do you think: How will the **industry** probably look like **in five years time**? Are there any rumours of mergers or acquisitions? Who will be the market leader?

The presentation should be visualized by PowerPoint or an overhead transparency. Do not forget to prepare a handout for your classmates (not more than one page).

Suggested Industries:

- Automotive industry
- Sportswear industry
- Brewery industry
- Austrian mobile telecommunications market
- Austrian food trade
- Austrian insurance industry
- Austrian banking sector

Discussion questions in class:

What do all presented industries have in common as far as market power is concerned?

- There are only a few players that share the majority of market volume. Together they have a market share of more than 50% except for the automotive industry.
- There has been at least one occasion of merger or takeover in the last years which resulted in a higher market concentration

Why is high market concentration typically regarded with disapproval among population?

Often it is claimed that high market concentration leads to price increases. Price fixing is assumed to be more likely in markets with high market concentration than in markets with a huge number of competitors.

Considering the presentations we heard, can this assumption be affirmed in all mentioned industries? Why not?

One example that does not affirm the assumption is the Austrian mobile telecommunications market. Although there are only three major competitors, prices have decreased over the last years. This is especially amazing considering high inflation. The Austrian mobile telecommunications market is a highly competitive market, also in comparison to the European telecommunication sector as a whole.

What is or can be done to avoid high market concentration resulting from mergers and takeovers?

Each merger or takeover in the European market has to be confirmed by the European commission. This action is done in order to avoid high market concentration and price fixing. If the European commission thinks that a merger of two companies would violate the rules of competition or limit competition in an alarming extent the deal is not accepted.

Handout II



Mergers and acquisitions (M&A) and corporate restructuring are a big part of the corporate finance world.

A merger is the combination of two or more companies. Acquisition can be explained as one company is taking over controlling interest in another company. Investors are always looking out for companies that are likely to be acquired, because those who want to acquire such companies are often willing to pay more than the market price for the shares they need to complete the acquisition.

Businesses may wish to expand for the following reasons:

- Competitive advantages (stronger market position, use of synergies)
- Financial advantages (economies of scale, rationalization, use of synergies, higher revenue, reduced costs)
- Corporate advantages (knowledge transfer, entering new markets/diversification, access to new resources)
- Managerial reasons (higher reputation of the management board)

It is preferable to identify any major potential barriers before a merger or a acquisition take place. Due diligence is the way to discover everything before buying a company.

Due diligence

Due diligence is the process of identifying and confirming or disconfirming the business reasons for the proposed capital transaction.

Categories for the due diligence process:

- General Corporate Matters
- Financial, Accounting, and Taxes
- Technology and Intellectual Property
- Product / Service Offerings
- Operations
- Sales and Marketing
- Human Resources and Personnel
- Legal and Regulatory

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