Twenty Questions for Every M&A: Improving Postmerger Integration Performance

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Corporate Strategy
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Strategy Alliances

Mergers

Acquisition

In which ways can firms execute corporate strategy?
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Vertical Integration

Horizontal Integration

The built, borrow or buy framework

Built

Borrow

Buy
In which ways can firms execute corporate strategy?

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The decision that managers make and the goal-directed actions they take to gain and sustain competitive advantage in several industries and market simultaneously.

Where? What?
Mergers

describes the joining of two independent companies to form a combined entity.

Acquisition

describes the purchase or takeover of one company by another.

Hostile takeover: whenever target firm does not want to be acquired.

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Why do firms make acquisitions?

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- To gain access to new markets and distribution channels
- To gain access to a new capability or competency
- To preempt rivals
Vertical integration

number of activities a firm participates in up and down the value chain

Horizontal integration

is the process of merging with competitors at the same stage of the industry value chain

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Horizontal and Vertical Integration

1. Production of raw materials (oil is pumped out of the ground)
2. Transportation of raw materials (crude oil moves to refineries)
3. Processing (refineries transform crude oil into kerosene, lubricating oil and paraffin)
4. Transportation (finished products go to retail stores)
5. Sale to consumer

Steps in petroleum production/distribution
M&A and competitive advantage

In most cases mergers do not create competitive advantage because they destroy shareholder value

Why do mergers occur?

• Principle-agent problem

• The desire to overcome competitive disadvantage

• Superior acquisition and integration capability