Mergers & Acquisitions

Reading & Writing Test

Question: Mergers and Acquisitions are not always a beneficial strategy. To what extent do you agree with this statement? Write a two-sided argument essay, making reference to the arguments in Text 1 and Text 2. Include correct in-text referencing and suitable paraphrasing. Write between 400-600 words.

Reading & Writing Text – Essay Writing

Time: 1:30 – 2:00 hours
Level: ****[C1]

Lesson Plan

Aim: *to develop the students' ability to read two academic texts and highlight key points connected to arguments for & against. Then to write a 400-600 word argument essay around those key arguments using paraphrasing and referencing skills.*

1. **Lead in**

- What are Mergers and Acquisitions?
- Do you know of any famous mergers?

2. Essay Revision

- Remind students about how to write an argument essay.
- Go here: https://www.academic-englishuk.com/essay-structure

3. **Question:**
   Mergers and Acquisitions are not always a beneficial strategy. To what extent do you agree with this statement? Write a two-sided argument essay, making reference to the arguments in Text 1 and Text 2. Include correct in-text referencing and suitable paraphrasing. Write between 400-600 words.

4. **Time**
   Depends on the level of students (high-level students – 1:30 hours / lower level 2:00 hours) or as an exam 2:00 hours

5. **Outline:**
   Students can use the for/against sheet to take notes around the text's arguments and then use outline (point-to-point / block) to plan the essay.

6. **Feedback**
   Give students the modal answer and/or take in and mark.
   Use error correction code: https://www.academic-englishuk.com/error-correction

*Please note - references & reference list are fictitious

Text 1: Economic Mergers by Mark Toma (2016)

Toma, P. (2016, July 24) Mergers and economic growth. *The Financial Times*. Retrieved from http://www.Financialtimes.co.uk/merger-economic-growth

In 2015, Mergers and Acquisitions (M&A) globally involved more than $4 trillion of assets, and new research by Economic Foundation (2016,) suggests these deals have large, negative effects on consumers: Price increases of 15 percent to 50 percent with no corresponding increase in the quality of the goods being sold.

In theory, M&A can have positive effects on the economy. In the past, many economists justified M&A by arguing that the newly formed, larger firms will be more efficient and increase productivity. That is, they'll be able to deliver goods of the same quality at lower prices than before or will offer new and better products to consumers.

But M&A also increase the size of firms, giving them a more dominant position in markets. This enhanced market power results in higher rather than lower prices for goods of the same quality as before. The question is: Which effect dominates, the desirable productivity effect or the undesirable market power effect?

In the past, the answer to this question has been less than clear due to the difficulty of distinguishing between these two opposing effects. However, Blonigen and Pierce (2016, p.23) have found that M&A significantly increase markups on average, but have no statistically significant average effect on productivity. The magnitude of the markup ranges from 15 percent to over 50 percent of the average markup in the sample.

Thus, on average, the harmful market power effect appears to overwhelm the beneficial productivity effect. One implication of these results is that regulators should be more careful than they have been in the past in approving these transactions.

What regulators need is some way of determining the characteristics of firms and markets in which the beneficial effects are likely to dominate after a deal is completed. This is becoming policy with the US government's controversial blocking of the AT&T-Time Warner deal worth $84million, and also creating regulation to reduce Amazon's (AMZN) market dominance.

Peterson (2013, p.35) states the main issue is that for consumers to follow not ignoring corporate M&A and to be more aware of the dominant market holders.

Reference List

Blonigen, A. & Pierce, C. (2010) The economics of mergers. *Journal of Organizational Management, 22*(1), 20-48. doi: 10.1108/09534810910933898

Economic Foundation (2016) Business implications within mergers. Retrieved May 7, 2018 from http://www.businessimplicationLSE.com/Global/en/topics/cloud- computing/Pages/default.aspx

Peterson, J. (2013). The consumer markets of mergers. *Journal of Business, 5*(1), 1-40. doi: 10.11228/09534816578494908

Text 2: Mergers and Collaborations by John Saloman (2015)

Saloman, D.M. (2015) *Mergers and acquisitions* (3rd Ed.). Cambridge: Cambridge University Press.

Mergers typically involve two relatively equal companies making the mutually beneficial decision to become a single legal entity. They are different from acquisitions, which usually involve a larger company absorbing a smaller company, sometimes against the will of the smaller company's management. Mergers are undertaken to improve long-term shareholder value and overall company performance.

Successful mergers, Litchfield (2013, p.2) claims, "help organisations to reinvent and strengthen themselves". Litchfield believes organisations can be more efficient, reduce service duplication and give more value to customers, funders and beneficiaries. Litchfield regards mergers and collaboration as an essential management tool in these times of change. By merging, the new company is theoretically provided with access to more customers, knowledge and diversification of product. This is true if the individual companies had been demonstrably successful in separate markets, as opposed to roughly equally competing in the same one. For example, according to the BBC News (2015), the merger of the German automaker Daimler Benz with the American automaker Chrysler Corp. allowed the new company, Daimler Benz, to access markets in both Europe and North America.

Merged companies can offer a greater range of products and services. Because these may be complimentary, the merged company may be able to capture more consumers than they would as individual entities. For example, the result of merging two travel companies (Thomas Cook and Co-op) allowed a greater range of options to be presented to the consumer at the point of sale (BBC News, 2015).

However, Peterson (2013, p.24) warns that one of the most significant problems that occurs in relation to a corporate merger is the post-merger integration that must take place. Companies that combine their efforts and resources must learn to do so by bringing all of the constituent elements of their organizations together. Many mergers fail at this stage because of the amount of planning and negotiating required to bring this about. The three key areas are legality, cultural and diversification issues. In fact a recent study by Forbes (2014) discovered that 83% of all attempted mergers fail because of one the three main areas.

Reference List

BBC News (2015, October 30). Are big mergers bad for consumers? Retrieved from http://www.bbc.co.uk/news/business-34666150

Forbes (2014). Non-disclosure agreements for mergers. Retrieved May 8, 2018 from https://www.forbes.com/sites/allbusiness/2017/10/28/non-disclosure-agreements-for-mergers-and-acquisitions/

Lichfield, C. (2013) Acquisitions in the 21st century. *Business and Economic On- Line, 10*, 1-56. Retrieved May 8, 2018 from http://www.thebhc.org/publications/BEHonline/201 2/madsen.pdf

Peterson, J. (2013). The consumer markets of mergers. *Journal of Business, 5*(1), 1-40. doi: 10.11228/09534816578494908

Arguments for / against

Read the texts and make notes on the key arguments for and against.

For	Against

Basic Essay Plan (point-to-point)

General	
Specific	
Thesis	
Outline	

Topic	
Development	
Example / evidence	
Counter argument	
Development	
Example / evidence	
Summary / evaluation	

Topic	
Development	
Example / evidence	
Counter argument	
Development	
Example / evidence	
Summary / evaluation	

Summary	
Restate Thesis	
Recommendation	

Basic Essay Plan (block)

General	
Specific	
Thesis	
Outline	

Topic (against)	
Development	
Example / evidence	
Second point / topic	
Development	
Example / evidence	
Summary / evaluation	

Topic (for)	
Development	
Example / evidence	
Second point / topic	
Development	
Example / evidence	
Summary / evaluation	

Summary	
Restate Thesis	
Recommendation	

Model Answer (point-to-point)

Question: Mergers and Acquisitions are not always a beneficial strategy.

Businesses must evolve to grow and strengthen their global position in the market. One way to do this is through the process of Mergers and Acquisitions (M&A). Saloman (2015) identifies mergers as equal-sized companies combining assets and acquisitions as larger companies integrating a smaller one. Although there are many positive aspects to M&A, to a large extent they are not always a beneficial strategy due to the increase in product prices, the harmful effect of market dominance on consumer confidence and a high integration failure rate. This essay will discuss both sides of the argument and conclude that Government regulation is necessary.

The most important point of M&A is that they should in theory be a successful management tool and the joint collaboration will provide more value for customers. As the company increases in size, Toma (2016) declares that this generates a more dominant market position, which in turn leads to more efficient productivity and drives down product price. However, this is all highly questionable. Blonigen and Pierce (as cited in Toma, 2018) argue that M&As have no significant effect on enhancing productivity and more interestingly product price can rise by 35% providing evidence that possibly improved market dominance inflates rather than deflates prices. It is also important to highlight that the Economic Foundation (as cited in Toma, 2016) propose that big corporate M&A deals are having negative effect on customer confidence from increase price and less company choice. An example of this is the recent Warner Merger Deal that has been blocked on the grounds of unfair market dominance and customer concerns (Toma, 2016). Overall, it seems that the key benefits of M&A expansion can result in having an opposite effect, particularly on the customers they serve.

Collaborating companies together can have a beneficial effect to access knowledge, future markets and services. Lichfield (as cited in Saloman, 2015) emphasises that organisations can 'reinvent themselves' through increased access to customers and diversification. Saloman (2016) exemplifies this through two key BBC News (2015) examples; the Damiler Benz merger of an US and European market providing access to two international markets and two top U.K. travel agencies providing access to different customer markets and services. Both mergers have utilised key areas of expertise and markets to increase long-term shareholder value and company performance. Nevertheless, these processes have a number of serious limitations and problems. Salomon (2015) claims that corporations are mutually beneficial decisions of integration but this is not always the case. According to Peterson (as cited in Saloman, 2015), this integration process is incredibly difficult to establish and the majority of M&A usually fail at the first stages of integration and planning. Forbes (as cited in Saloman, 2015) adds that 83% of M&A fail due to the key differences in legality, company culture and diversification problems. In sum, with such a complicated integration process and high failure rates the evidence seems to suggest that M&A can be considerably problematic.

In conclusion, there are a number of positive points to M&A such as improving market position, better efficiency, and accessing a range of services. However, the negatives far outweigh the positives with no clear evidence of increased productivity, price increases and significant failure rates. Therefore, to a large extent it is true that M&A are not a beneficial business strategy and should be applied with caution, especially if dominating the market affects customer confidence. It seems important to emphasise Toma (2016), who suggests that more Government regulation is needed to identify the characteristics and the benefits of any new M&A before being allowed to start the process.

574 words

Model Answer

[highlighted Thesis statement topics / **in-text referencing** / counter-argument linking**]**

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