

# Introduction of merger and acquisition management essay



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Acquisition- In this purchases of one company by another in which no new company is formed. The acquisition process is very complex and various studies shows that only 50% acquisition is successful.

Governing law- The company act 1956 thus not define the term merger or amalgamation. It deals with schemes of merger or which acquisition are gives in s. 390. 394' A, 395 , 396 and 396 ' A'.

Classification of merger :-

Horizontal Merger

Vertical merger

Market extension merger

Product extension merger

Conglomeration

Congeneric merger

Purchase merger

Consolidation merger

Accretive merger

Dilutive merger

HP AND COMPAC MERGER

Introduction of HP :- It all began in the year 1928 when two electrical engineering graduates from Stanford University called William Hewlett and David Packard started their business in a garage in Palo Alto. In a year time the Hewlett - Packard was made and by the year 1947, HP was incorporated.

HP enterprise business formerly called TSG is the largest business segment of HP, accounting for 36% of HP's 2007 revenue, providing service, storage, software and information technology services that enables. The product and services from this organization serve HP's business of all sizes in more than 170 countries.

Organizational Structure :- HP's operations are organized into seven business segments

Enterprise storage and server's (ESS)

HP procure

HP services

HP software and solutions

Personal systems group (PSG)

Imaging and printing Group(PSG)

HP financial services (HPFS)

Corporate Investments.

The three business segment ESS , HPS and HP software solution are structured beneath the broader Enterprise Business (EB) group in order to capitalize selling & cross selling opportunities and give a solution sale approach across the HP enterprises offering.

## INTRODUCTION OF COMPAQ

Copaq computer corporation is the world's largest supplier of personal computers and as a result of its acquisition of Digital Equipment Corporation in 1998, is the second largest computer firm in the world . The company was formed by two senior manager's at Taxes Instrument. The company had come from " Compatibility & Quality".

### Position Of HP before Merger.

Stocks gradually rase a peak of \$74. 48 after Fiorina was hired from their value of \$ 54. 43 the day before she had joined HP, meeting growth targets proved difficult as both the company and industry stabled As a result HP was forced to cut the jobs to ask employees to take unpaid leave. By September 2001, stock value had fallen to less than half of its level when fiorina was hired . so she decided to merge with Compaq. At that time Compaq in a stock transaction is net worth was 2 millio. And positon of Compaq is too good revenue increase. They do merge only for expansion the company.

### Main reason of Merger

To compete with IBM and other companies

The combined service business will have 65000 service professionals is 100000 plus for IBM

Reduce cost

Bolster stock

Main aim of merger

The main aim of the merger was to enhance the market competition.

The newly formed company would be bigger than HP

The combined effort would result in a big computer and software services business.

The new company would definitely help the management to increase the number of customer in IT sector.

HP wanted to enhance their market of computer hardware product.

Problem of Merger

The merger totally opposed by both the companies.

The investment and the other stakeholders though at the company would never be able to have the loyalty of the Compaq customers, if products are sold with HP logo on it.

Synchronization of organization's member with each other.

Change in the organization which are not accepted by the employees.

These are the main problem which come first after merger.

The CEO of HP , Fiorina justified that merger by following point:

Merger would remove serious competitor in the over supplied PC market of those days

The market share of the company is bound to increase with merge.

The working unit would double

These points helps to unfreezing the employee.

Advantages of merger

Large the market share in the market and units of production also double.

Compete IBM

Both the companies would decrease as the internal costs on promotion, marketing and shipping would come down with the merger.

New techniques or technology develop

Company requires being consistent with creativity, improvement and modification.

Advantages to the shareholder are as follow

Unique opportunity

Stronger company

Compelling company

Ability to execute

Transaction summary

Structure stock for stock merger

Exchange ratio 0.6325 of HP share per Compaq share

Current value approx \$25 billion

Ownership HP share holder 64% Compaq shareholder 36%

Accounting Purchase

Expected closing First half of 2002

Burke - Litwin Model.

BURKE LITWIN MODLE

This is second order change. It's a big change for the companies.

And all the features of second order change are used in this merger

Transformation :- this merger is done on discounting bases. Both the company combine and form a new vision, new name, policies, culture procedure all changes.

Radical overhaul :- Everything is change in one time so it is radical overhaul.

Revaluationary :- Fiorina CEO of HP come with massive change she is one who ask about merger so, she come with massive change

So all features are cover under this merger so, according to me its second order change.

In this Merger Transformational Leader is Carly Fiorino CEO of HP company

Fiorino announced HP'S plan to acquire the Compaq in stock transaction valued at \$ 25 billion idea for the merger with Compaq a Houston based maker founded in 1982 had grown out of a phone conversation between Fiorina and Compaq chairman CEO Michael Capellas IN JUNE 2001. By the first week of September, the merger had been approved boards at both companies.

#### KURT- LEWIN MODEL

This model include three points:

Unfreezing

Movement

Refreezing

Unfreezing:- for doing unfreezing both the companies firstly establish a sense of urgency in the organization. Then analyze the organizational change need. So doing unfreezing CEO of HP explain that the need of change that what the company condition and its important for the company to make a change and also introduce what the aim behind the merger as I discussed above.. we can say what the desired state companies want the people of HP



and Compaq see the gap what exists and what will exist. Then the people move to reduce the gap and achieved the desired change. So that in this way both the companies do unfreezing.

Movement :- The second step is movement. HP and Compaq really helped their employees and other member for accepting the change and new culture which formed by those two companies. They ask all the advantage of merger to their employees. So that it is easy for employees to move from their position. Employees see the advantages and accept the change and move further.

Refreezing :- the third step but not the least is refreezing. So to give again same level of comfort to employees Fiorino arranged the meeting with investor or employee. Give more information regarding the merger. And also given more information to employees that now company will help in future. In meeting she said " this company has never been about looking in the real view mirror .

But Fiorina strat are as fallow :

Tried to change the culture in HP

Autocratic management

A centralized Approach

So, new CEO was Mark Huld come and he take following step.

Educating the HP employees and manager to make them for talented.

Exploiting the possibilities of the merger

Took initiatives to cut down cost and layoff employees.

## CONCLUSION

According to this merger is right and good for economy. Basically this merger is a need of HP. Fiorina knows that without taking this merger HP faces so many problems. So a very good step and make it possible. In starting she faced problems but afterwards she solved all the problems. But some of their strategies are not good and she resigned in 2005 and new CEO came Mark Hurd taken good step for HP.

So in the end conclude this merger faces many ups and downs. But in the end it is successful. And this merger is good for the world.

## 2ND PART

### PROCTER & GAMBLE

P & G is an American multinational corporation headquartered in downtown Cincinnati, Ohio, U.S. which manufactures a wide range of consumer goods. P & G was founded by William Procter and James Gamble in 1837. It is 6th in Fortune's most admired companies 2010 list. Bob McDonald is current CEO and president for the same.

Vision of Procter & Gamble- vision of P & G unifies them in common cause and growth strategy of improving more consumers' lives in small but

meaningful ways each day. It inspires P &G people to make posture contribution everyday.

Consumer products offered by P&G are in areas of pharmaceutical , cleaning supplies, personal care and pet supplies.

## GILLETTE COMPANTY

Gillette is a brand of proctor & gamble currently used for safety razors , among other peesaral hygiene products. Based in Boston. It was one od several brands originally owned by Gillette company, a various brands which was acquired by P &G in 2005. Their slogan is " the best a man can get". The original Gillette in 1995 as a safety razor manufactures.

Old Gillette products now Gillette products

Disposable blade razor (1902) – Trac ii (2 blade razor)

Super speed model TT design (1997) – trac plus (lubricating razor)

Adjustable razor (1958) – atra plus

– Sensored (spring locaded blaid

– sensor encec

– sensor 3

## MERGER DETAILS

- On October 1st 2005, Procter & Gamble finally purchased the Gillette which resulted in a merger between the two. This merger would be the largest in the personal care and household products company.

- Initially, Gillette company assets were incorporated into a P & G unit known internally as Global Gillette. In July 2007, Global Gillette was dissolved and incorporated into Procter & Gamble's

Other two main divisions, Procter & Gamble Beauty and Procter & Gamble Health Care. Gillette brand and products were divided between the two accordingly.

The merger was financed by 60% of stock and 40% cash. P & G issued 57 billion in stock.

- After acquisition, Gillette CEO James Kilts became vice-chairman.

6000 employees were eliminated and given pink slips which reduced overlapping management positions.

#### PROFILE (POSITION BEFORE MERGER)

The Gillette brand basically caters to safety razors in the market. Before the merger, Gillette products were not so technologically savvy and were comparatively inferior to those of other companies. Due to the declining market, which forced the CEO of Gillette to merge with a high-profile company like P&G to gain a good market share.

PROCTOR & GNABLE is a highly profiled company and ranked 79th in fortune global 500 list of world largest compnies . ti basically involved in consumer good services and previsouly also acquired source of the companies.

Main reasons for merger-

To compete with other companies in the developing countries.

The combined companies introduced new innovative products and product line got increased.

To gain high market growth.

Complementary goods were introduced like P&G given their hand in sharing products to complement safety razors etc.

This merger is a friendly merger just to grow business.

MAIN AIM OF MERGER-

the always to enhance the market share of the company and to compete with the competitors. As 2 companies combine will be more satisfying than one alone.

PROBLEM FACED WITH MERGER

-basically less problem were faced during the merger taken place because the merger is friendly merger between two companies. But initially when the merger news where announced many employees were shocked as companies are good in profits. Some talented employees left their jobs as

they not want to work in merged company and many worker were lay-offed .  
But still company is very cooperative with their employees and given them proper training for the merger.

- some employees were not adapted the new culture of organization for this proper counseling is imparted to them for easy adaption.

#### KURT -LEWIN MODEL APPLICATION

Kurt - lewin proposed three stage in change management programmer.

Unfreezing (preparing ourselves, other to change)

Movement (transition stage)

Refreezing (freezing the new change)

In case of P&G and Gillette merger following stage occurred as follows.

It was basically the decision of CEO of Gillette that two companies were will established and project making companies so it come as a shock to all the people when the merger of two companies was announced.

Unfreezing stage -

To carry out this merger successfully a term was made to carry smooth integration which contain employees from various financial areas experienced personnel. A thought due divergence was done before any step was taken for merger of these companies. This special term selected employees (talented) from different departments of Gillette which P&G

wanted to retain. During this some employees were commenced with the idea of merger some left due job. To fill the gap the company does internal recruitment also based on enterprises of employees. Some valuable employees were not ready to join the merger company so several special packages were given to them. HR managers also worked very well in boosting the morale of employees. In this stage Gillette ensured that each stage the employees were kept informed, they were timely giving the updates and told them the steps clearly the organization is taking for future growth of employees as well as company.

Driving forces re-straining forces

Faster sales growth and cost saving

Several new packages

Opportunities for more innovation

Dedicated team

Capacity addition

Merger P&G Gillette

Leak of news by press and resulting stock fear

Difference in organizational structure

Job insecurity and layoffs

The driving force are so powerful that they overcome restarting force in this merger.

MOVEMENT STAGE- Most of the employees were counted as due employees trusted due management a lot. They are confident that management would keep the best interest of the employees in mind.

-Training programme- one day session was provided to existing employees from Gillette who joined the merged company.

CAREER PLANING-Gillette globally signed a contract with right management consultant to provide career transaction service. In India this project was handled by grow talent.

COUNCELING- The leaders born at corporate and institutional head provided tremendous help to their teams, Internal mentors were appointed to guide implies to make right career choice and in dealing with anxiety, handling new friends and family.

EMOTIONAL SUPPORT- By helping them to manage change of new job news of family and friends with new colleagues.

INTERACTUAL SUPPORT- Preparing employees for improving their marketability salary negotiation and interviews etc .

LANDING SUPPORT- By analyzing strengths and skills of employees to determine career decisions, interpersonal skills, time management skill, organizational skills this training is given to every employee of Gillette whether he stayed in the organization or laid off.



Due to this career transition supported and enabled employees to face the job market at least 90% of the employees who were being laid off got an offer even before they had left the company.

FREEZING:- the employees adapted this change as the company was very cooperative with them. Even people who lay off also got settled down. For this strategic transition Gillette got DMA Erewon innovation award in 2006 also. This deal created by the CEO'S created a win- win situation for all stake holders and set a fine example in today's dynamic business environment preparing HR people for taking challenges.

BRUKE LEWIN MODEL APPLICATION:-

This merger between the two companies P &G and Gillette is a second order change with this merger the structure of two companies changed drastically as it is a radical change..

TRANSFORMATION:- due this merger P&G AND Gillette transformed as policy, culture and produced all change.

REVOLUTIONARY: - CEO of Gillette wanted this merger they took the just step of merger between the two for growth and developing country.

SUCCESS OR FAILURE OF MERGER: - this merger was a grand success because more than a merger it's a friendly move by both companies. As it beneficiate both the company due market after the merger increased. In this merger basically innovation was focused rather than scale. It is unique case of acquisition where in innovative company expanded it product line by

acquiring another innovative company. It was described as a perfect  
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marriage by some analyst. CEO of P&G AG lafley thinks it necessary to overtake close companies especially in developing countries so he acquired Gillette and expanded its product line by adding some shaving products. After this merger the market share of both companies increased tremendously.

#### CONCLUSION:-

Merger of P&G and Gillette acted as a boom for Gillette as we can see from figure Gillette market share raised up by 71. 1% the merger is a perfect marriage of companies which contributed growth, innovations in the product line of the same. Through initially the changes are structured distributed the companies employees but afterwards it benefitted the companies a lot. And market share increased highly after the merger took place.

#### 3RD PART

#### ORGANISATION PROFILE

#### HINDALCO INDUSTRIES LIMITED

Hindalco Industries Limited, a flagship company of the Aditya Birla Group, is structured into

two strategic businesses aluminium and copper with annual revenue of US \$14 billion and a

market capitalization in excess of US \$ 23 billion. Hindalco commenced its operations in 1962

with an aluminium facility at Renukoot in Uttar Pradesh. Birla Copper, Hindalco's copper

division is situated in Dahej in the Bharuch district of Gujarat. Established in 1958, Hindalco

commissioned its aluminium facility at Renukoot in eastern U. P. in 1962 and has today grown to

become the country's largest integrated aluminum producer and ranks among the top quartile of

low cost producers in the world. The aluminium division's product range includes alumina

chemicals, primary aluminium ingots, billets, wire rods, rolled products, extrusions, foils and

alloy wheels. It enjoys a domestic market share of 42 per cent in primary aluminium, 63 per cent

in rolled products, 20 per cent in extrusions, 44 per cent in foils and 31 per cent in wheels.

Hindalco has launched several brands in recent years, namely Aura for alloy wheels, Freshwrapp

for kitchen foil and ever last for roofing sheets. The copper plant produces copper cathodes,

continuous cast copper rods and precious metals like gold, silver and platinum group metal mix.

sulphuric acid, phosphoric acid, di-ammonium phosphate, other phosphatic fertilisers and

phospho-gypsum are also produced at this plant. Hindalco Industries Limited has a 51. 0%

shareholding in Aditya Birla Minerals which has mining and exploration activities focused in

Australia. The company has two R&D centres at Belgaum, Karnataka and Taloja, Maharashtra.

They have been recognized by the Government of India's Department of Scientific and Industrial

Research (DSIR). [Exhibit 1] Year over year, Hindalco Industries Ltd. has been able to grow

revenues from 121. 2B to 193. 2B. Most impressively, the company has been able to reduce the

percentage of sales devoted to selling, general and administrative costs from 4. 15% to 2. 96%.

This was a driver that led to a bottom line growth from 15. 8B to 26. 9B.

**NOVELIS**

Novelis is the world leader in aluminium rolling, producing an estimated 19 percent of the

world's flat-rolled aluminium products. Novelis is the world leader in the recycling of

used aluminium beverage cans. The company recycles more than 35 billion used beverage

cans annually. The company is No. 1 rolled products producer in Europe, South America

and Asia, and the No. 2 producer in North America. With industry-leading assets and

technology, the company produces the highest-quality aluminium sheet and foil products

for customers in high -value markets including automotive, transportation, packaging,

construction and printing. Our customers include major brands such as Agfa - Gevaert,

Alcan, Anheuser-Busch, Ball, Coca-Cola, Crown Cork & Seal, Dachring Holdings,

Ford, General Motors, Lotte Aluminium, Kodak, Pactiv, Rexam, Ryerson Tull, Tetra Pak,

ThyssenKrupp and others. Novelis represents a unique combination of the new and the

5 old. Novelis is a new company, formed in January 2005, with a new velocity, a new

philosophy and a new attitude. But Novelis is also a spin-off from Alcan and, as such,

draws on a rich 90-year history in the aluminium rolled product marketplace . Novelis has a

diversified product portfolio, which serves to the different set of industries vis-à-vis it

has a very strong geographical presences in four continents.

#### POSITION OF NOVELIS BEFORE AQUISITION

Novelis was always a problem child. It was born in early 2005 as a result of a ‘ forced’ spin-off

from its parent, the \$ 23. 6-billion aluminium giant and Canada-based Alcan.

In 2003, Alcan won

a hostile offer to wed French aluminium company Pechiney. But the marriage produced an

unwanted child – Novelis. Both Alcan and Pechiney had bauxite mines, facilities to produce

primary aluminium, and rolling mills to turn the raw metal into products such as stock for Pepsi

and Coke cans and automotive parts. But the US and European anti-trust proceedings ruled that

the rolled products business of either Alcan or Pechiney had to be divested from the merged

entity. Alcan cast out its rolled products business to form Novelis. It is now the world's leading

producer of aluminium-rolled products with a 19 per cent global market share. But in the spin-off

process, Novelis ended up inheriting a debt mountain of almost \$2.9 billion on a capital base of

less than \$500 million. That was just the beginning of its troubles. The situation is worse now.

Though it marginally reduced debt, it made some losses too. On a net worth of \$322 million,

Novelis has a debt of \$2.33 billion (most of it high cost). That's a debt-equity ratio of 7.23: 1.

Soon, the unwanted child stumbled into another crisis. Novelis has a simple business model. It

buys primary aluminium, processes it into rolled products like stock for soft drink cans,

automotive parts, etc., and sells it to customers such as Coke and Ford. But the management took

a wrong call on aluminium prices. In a bid to win more business from soft drink manufacturers,

it promised four customers not to increase product prices even if raw material aluminium prices

went up beyond a point. A few months after Novelis signed those contracts, aluminium prices

shot up 39 per cent (between 30 September 2005 and 2006). To these four customers, Novelis

was forced to sell its products at prices that were lower than raw material costs. These four

account for 20 per cent of Novelis's \$9-billion revenues. But the management's wrong

judgement led to losses of \$350 million (in 2006). For long, Novelis's former CFO Geoffrey P.

Batt, former controller Jo-Ann Longworth and the finance team didn't quantify these losses.



After the complicated spin-off from Alcan this involved extensive operations in over 35

plants in 11 countries and four continents the finance team also struggled to file quarterly and

annual results on time. Many of the numbers it managed to file on time were wrong and were

later re-stated. The board stepped in. First, it replaced its CFO and controller (in December

2005). When that didn't help much, it replaced CEO Brian W. Sturgell in August 2006. (It is still

looking for a full-time CEO.) There are many more reasons for the distress in Novelis.

#### NEED OF THE CHANGE

Post acquisitions, the company will get a strong global footprint.

After full integration, the joint entity will become insulated from the fluctuation of

LME Aluminium prices.

The deal will give Hindalco a strong presence in recycling of aluminium business because as per aluminium characteristic, aluminium is infinitely

recyclable and recycling it requires only 5% of the energy needed to produce primary aluminium.

Novelis has a very strong technology for value added products and its latest technology 'Novelis Fusion' is very unique one and it would have taken a minimum 8-10 years to Hindalco for building these facilities, if Hindalco takes organically route.

As per company details, the replacement value of the Novelis is US \$12 billion, so considering the time required and replacement value; the deal is worth for Hindalco.

#### SUCCESS OF MERGER

Hindalco has undertaken aggressive plans to increase its capacities through capacity expansion as well as by setting up greenfield plants. Hindalco increased its capacity at Hirakud plant by 35, 000 tonnes to one lakh tonne. When Hindalco completes its entire project, smelting capacity has increase by about 10 lakh tonnes. Along with smelting capacities, the companies are expanding alumina capacities and setting up captive power plants. Domestic alumina capacity is set to increase by 9. 5 million tonnes when all the outstanding projects are completed. In 2007 about 1. 23 million tonnes of capacity has come on stream, catapulting aggregate capacity to 4. 23 million tonnes. Large alumina capacities have not only feed captive aluminium smelters, but also leave surplus alumina to be exported to lucrative markets like China. Currently Hindalco's production is tied up with clients. Also Novelis has similar contracts with its suppliers. But after 3-4 years it would start the operation of new plants. Then it can source excess capacity to the <https://assignbuster.com/introduction-of-merger-and-acquisition-management-essay/>

Novelis plants located in south East Asian countries. The merger looks not bad if the current financial valuations are ignored. Also we need to keep in mind that Hindalco is a very aggressively growing company, for it to build infrastructure that can match Novelis is very difficult.

#### PROBLEM FACED BY THE ORGANISATION WHILE MANAGING THE CHANGE

Buy-in and commitment from stakeholder: It is not only the C-level management which has to buy-in to the globalization change but staff at all levels. In the acquisition between Hindalco Ltd. and Novelis the people were involved in the operation for off shoring that do not buy into the initiative and influence other team members, creating waves of resistance. It became critical to have a high degree of commitment from leaders and managers to effectively communicate the needs to the off shore.

Employee resistance: Any change is bound to attract resistance especially in merger between Hindalco and Novelis because of the politicized negative publicity and hence had a direct impact on the employee productivity.

Complacent workforce: The workforce of Hindalco Ltd were comfortable and complacent about productivity and customer service cost and therefore resisted to change.

#### KURT LEWIN MODEL

Unfreezing:

The Unfreezing stage is probably one of the more important stages to understand in the world of change we live in today. This stage is about

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getting ready to change. It involves getting to a point of understanding that change is necessary and getting ready to move away from our current comfort zone.

In this case, both the companies were ready to merge with each other and hence a change was going to be held in both the organization. Novelis is the world leader in aluminium rolling, producing an estimated 19 percent of the world's flat-rolled aluminium products. Novelis is the world leader in the recycling of used aluminium beverage cans. With industry-leading assets and technology, the company produces the highest-quality aluminium sheet and foil products for customers in high -value markets including automotive, transportation, packaging, construction and printing. But Novelis has always suffered a lot of losses. Hence it needed change its system otherwise it would have to pack up from the market.

Hindalco lmt. businesses aluminium and copper with annual revenue of US \$14 billion and a

market capitalization in excess of US \$ 23 billion. It was ready to acquire Novelis because it had a high quality aluminium sheets and even had high technology but the company was going into losses. Therefore, the company had an opportunity to acquire the company and was ready to change and therefore it was following the unfreezing step of kurt lewin model.

Change/Transition:

Kurt Lewin was aware that change is not an event, but rather a process. He called that process a transition. Transition is the inner movement or journey

we make in reaction to a change. This second stage occurs as we make the changes that are needed. People are 'unfrozen' and moving towards a new way of being.

In this case as both the companies Hindalco and Novelis were merged together. While the process of Acquisition both the companies had faced a lot of problems. The employees of Novelis showed resistance towards change in the working condition as per the working model of Hindalco Imt.

### Refreezing

In this process simply, when employees minds move from Novelis to Hindalco Imt. then in this case Novelis have done the refreeze procees with employees because this time 2 different people come in one organization for work together that is why Novelis will have to definitately give some compensations, growth plans to their existing employees for