

The merger between travelers and citicorp

Sport & Tourism



The merger between Travelers and Citicorp to form Citigroup, is considered to be a merger of equals. The merger took place for \$ 73 billion in 1998 and was the second largest merger of the year. The merger saw many problems encountered during post merger integration. In fact it is a classic example of how integrating diverse business is a more daunting task than the actual consummation of the deal. Even when all the businesses are doing one, one problem can highlight the differences, taking up precious time of the management.

The major problem is probably due to the presence of multiple managers at the top, which adds confusion, chiefly in case of complex transactions. Getting people to work together especially when they belong to different corporate cultures is probably the most misunderstood and miscalculated part of any post integration effort, as most of the times the management team believes that such things happen and will even out given some time. Citicorp was a highly bureaucratic styled company as opposed to Travelers.

Payments too were a sensitive area and this came to forefront at the time of the implementation of cost cutting measures, and most of the executives waited in glee for their colleagues to get the sack (DePamphilis, 2007: 313-315). CASE STUDY- III Vodafone and the German firm Mannesmann Vodafone AirTouch Plc, the world' largest wireless communications company, in the year 2000 agreed to buy Mannesmann AG in a deal that exceeded US \$ 200 billion stock swap, subject to shareholder and regulatory approval.

The deal is especially significant because it is the largest merger ever and was ironically extremely hostile in nature. Out of the entire value of the deal and astounding US \$ 17. 8 billion was in assumed debt. The hostility was <https://assignbuster.com/the-merger-between-travelers-and-citicorp/>

however mainly restricted to the price and the stockholding privileges for the stockholders of Mannesmann, who in the end got what they were looking for in terms of price. Hence, much of the local public resentment changed into resignation by the time the deal was finalized. Vodafone had estimated much cost savings as a part of its deal (DePamphilis, 2007: 51-57).

In addition, the company was also interested in gaining best practices from various industries as an additional privilege. Vodafone has a history of several organizational restructuring, and to take the advantage of the new merger, the company organizations structure had to be different still. The company worked with an external team to redesign its organization. Many models were considered and rejected. But the eventual organization structure is still looked upon by many analysts as hasty and motivated by little more than aggressive executive ambition for growth and spoils of war.

The company soon degenerated into boardroom in-fighting and failed to come to terms with the new market and technological challenges. The stock prices of the company too did not reach the historical levels they did in the year 200, during the merger (Clarke, 2007: 314). The corresponding prices are shown in Figure - 4 below. Figure - 4 Vodafone Mannesmann historical stock prices, 1998-2006 (Clarke, 2007: 415) CASE STUDY - V Glaxo Wellcome PLC and Smithkline Beecham PLC in 2000 Glaxo Smithkline merger of 2000 was a friendly merger and a second attempt at merger, with first one failing two years back.

The value of the merger was US\$ 182 billion. The merger maintained its marketleadership even after the merger in the US \$ 300 billion global drug business. The first quarter results reported that the profits had grown 11% to <https://assignbuster.com/the-merger-between-travelers-and-citicorp/>

US \$ 2 billion on sales around US \$ 7 billion from its mega brands. In the financial year 2003, the company has a sales of US \$ 35. 2 billion and the profit before tax was US \$ 11 billion and on average, it was the largest company by capitalization in the UK stock market.

The major merger related issues of the company were related to the investment in R&D, an important part for both the companies. Not every time a company succeeds in the post merger integration efficiently. However, many times it has also happened that the companies can work together efficiently the next time around when they understand the problems and try to rectify it. Glaxo Smithkline merger falls into this category. The merger is especially important because the top management understood and took care of the major issues of management of cultural differences (DePamphilis, 2007: 303-306).

CASE STUDY - VI Daimler-Chrysler merger in 1999 Daimler Chrysler is a merger of equals and had unexpected consequences. The combination of the companies created the world's third largest automobile manufacturing company with more than 428, 000 employees worldwide. Conceptually the strategic fit between the two companies was obvious and as necessary as the first case study here. Cost savings by scales in economy was the main goal in this case also with an urgency so that the merged company could compete with global giants like Toyota and Volkswagen.

The deal was completed within three months of its proposal for US \$ 36 billion. The limitations of the deal obvious immediately after the announcement, when the executives of the company realized how different the two companies were in terms of organization fit emerging due to the <https://assignbuster.com/the-merger-between-travelers-and-citicorp/>

cultural differences. While Daimler was a conglomerate, Chrysler had centralized operations. The management reporting structure and details were completely different. Also the Chrysler's managers were accustomed to a high degree of independence than the Daimler's counterparts.

While not all the problems of DaimlerChrysler can be blamed on the merger, the problems were certainly accentuated the existing problems. The company reported a loss of US \$ 2 billion in the year 2003 and US \$ 400 billion in the year 2004. The company also failed to consolidate its position beyond its erstwhile luxury market, which further added to problems. While many of the cost relate problems were sorted in due course, most of the solutions involved reducing the workforce further adding to the hostilities (DePamphilis, 2007: 246-248). CASE STUDY - VII Quaker Oats and Snapple Beverage Co in 1998

The merger between Quaker Oats and Snapple Beverage Co. was so much of a disaster that many experts believe that the deal was done in defense, to avoid Quaker Oats from being taken over itself. The problem with the deal, done in November 1994, were too many starting from the US \$ 1. 7 billion payment, which is considered by many to be US \$1 billion of excess payment. Snapple was sold a little more than 2 years later to Triarc Companies Inc, for less than 20% of the cost that was paid to purchase the company. The major problem with the deal was due diligence, which many suspect was missing altogether (Borghese?

2001: 71-72). The Snapple organization was too different from Quaker Oats including the target market and supplier relationships. Snapple was a premium product maker and sales were directly projected without
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considering the impact of the cost of producing such a product. The Snapple revenue generating ads were replaced by new marketing programs that suited the new management style, and failed totally to gain any advantage. The merger is considered to be a classic example in failed mergers due to the differences between the brand challenge and management temperament.

In addition to this, the mode of financing the deal was also considered to be impulsive, as Quaker had to sell its highly successful pet and bean divisions to generate capital (Gaughan, 2006: 196). 4. 3 Summary of Findings This chapter showed the basic analysis of the different case studies as per the data available about the different mergers and acquisitions. The data is usually taken from books, but is analyzed on case study basis and using the experience gained from the literature review. Hence, the secondary data is also not presented directly in as is form.

Also understanding of the case studies above was based on studies from many sources, out of which only some are mentioned from which the data has actually being taken. The mergers and acquisitions covered in this section were extremely diverse in nature and consisted of a mixture of successes and failures. The conclusions drawn from each of the analysis will be presented in the next chapter. 5 CONCLUSIONS AND RECOMMENDATIONS

5. 1 Overview of chapter The last chapter explained the cases of 7 different mergers and acquisitions in the last 15 years, each of which had a profound impact on the industry and businesses scenario in its own right.

Some of the mergers were a success, some were not as successful as they were considered to be, while the others where total failures. The mergers, all

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of them, however satisfied a common need to diversify because of business climate changes or to achieve economies of scale. This fact was kept constant while selecting the mergers, so that their comparative analysis would be easier. The results of the mergers i. e. the extent of their success or failure were discussed in detail the last chapter as well. The conclusions from the detailed and comparative study will be given in this section.

5. 2 Conclusions on work done The seven case studies, described in the previous chapter, explain in detail the different mergers and acquisitions. The successful mergers out of the seven given were those between Exxon and Mobil, Glaxo Smithkline and Travelers and Citicorp. A merger that was not as successful as was expected was the merger of the century between Vodafone and Mannesmann. The mergers that were a complete disaster were AOL and Time Warner, Daimler Chrysler and Quaker Oats and Snapple beverages.

An interesting thing that comes out during the analysis is that the mergers that were failure were as huge as the ones that were successful; proving once and for all that the size of the merger has got nothing to do with its success or failure. Yet another thing that becomes clear when the results of the mergers are viewed is that no matter the post merger integration can break even the best strategically thought of merger - fine case in point being the Daimler Chrysler, a merger that was thought to be an excellent strategic decision.

A similar case in point is the AOL Time Warner merger, which also failed because the company heads failed to understand the importance of the post-merger integration especially when the firms were as culturally different as <https://assignbuster.com/the-merger-between-travelers-and-citicorp/>

tow companies could be. This is not, however, a new conclusion and has been echoed by many researchers in recent times. The present research merely confirms the hypothesis that organization fit and strategies to take care of it is as important in a merger and acquisition deal as any other financial or strategic projection.

The following conclusions can be drawn from the results of the seven case studies:

- o It is extremely important that a merger has a proper due diligence done prior to the actual transaction. The absence of due diligence was the cause for all the major failures in the mergers that were studied - AOL and Time Warner, Daimler Chrysler and Quaker Oats and Snapple beverages.
- i. In the first case, the merger was based on a hypothetical technology enhancement benefit, because of which the present conditions of the acquired company, Time Warner, a major problem, was neither understood nor provisioned for.

In addition, the vulnerability of the acquiring company, AOL, to the market fluctuations was also not visualized, which caused the company to go bust due to the burst of dotcom bubble.

- ii. In the second case, the merger was done in a hurry, a mere three months, without understanding the target market or the strategic vision of the merging companies. The only thought was to cut costs. A merger cannot be successful with such a narrow minded focus.
- iii. In the third case, the merger was actually a defense ploy which was impulsively thought of by the head of Quaker Oats.

No ramifications were thought of. Again, neither the target market was analyzed nor the integration plan was analyzed properly.

- iv. All the other companies had at least done their due diligence on these aspects, which is

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why they succeeded or at least were neutral post the merger. o The due diligence of the company must not be restricted to the strategic vision of the company. It must also include the implementation plan and integration plan post merger. The mere existence of a strategy without any plan does not mean anything.

Companies going for costly mergers, can surely spend some money in getting an independent sampling search from an external agency evaluating the readiness of their employees towards the new environment, and measures that can be made to smooth the deal. This was done in case of Glaxo Smithkline - which is why they were able to overcome much of their problems. A focus towards the bottom line is extremely good, but it must not be so narrow as to forget all the other organizational firm issues - most of which stem from cultural differences

o The leadership is extremely important as well as change management principles, when a company is undergoing major restructuring - which always happens in the case of M&As, chiefly in case of merger among equals. The case studies of the mergers that eventually proved to be successful had inadvertently employed these principles. Observing the failed mergers is even more pertinent in this case, as poor leadership and absence of a change management plan were seen to be the chief causes of why the post performances of the mergers were not so good.

o The analysis of the strategic implementation plan needs to be a mandatory part of the merger announcement. Since the merger is a major deal, affecting the money of public, the strategic plan must at least be in place - even if it cannot be disclosed publicly for some reasons. Lack of an

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integration plan is a sure way for the merger to be a failure, and management team must be aware of this aspect too before attempting a merger. o The companies attempting to go ahead with the strategic merger can plan a pilot integration of their respective teams to understand the potential causes of problems with their companies.

A hypothetical team, chosen from the actual employees, like the pilot test of real life population samples for research, is an excellent way to analyze the issue. 5. 3 Recommendations for future research The number of mergers analyzed here were extremely less for the kind of generalization that is required as a result of a research study. The researcher feels that the conclusions of the research could prove to be a strategic blueprint for the mergers and acquisitions of the company regardless of the scale of the transactions.

The process of the merger, every market and competition part of it, is seen to be regulated by law, especially if it causes global shift in the markets. However, curiously there is no provision to avoid the merger itself if it is not following a strategic implementation plan. Failure of a business affects the public just as directly and hence must be a part of the merger deal. Many of the mergers or the ways they happened could have been avoided, had the executives taken some time to understand the strategic implications of their decisions and had a plan to go ahead.

The literature review too points out this flaw. The companies need a strategic blue print and implementation plan - including an analysis of the organization fit and how the companies plan to deal with the same, in order to go ahead with the merger. The future work could consist of corroborating <https://assignbuster.com/the-merger-between-travelers-and-citicorp/>

the findings of this dissertation study with more evidence from multiple companies. 6 REFLECTION WRITING My overall research experience was knowledge gaining and informative to say the least. Each of the sections that I have written as a part of the research work was a result of through study from various sources.

This part of the research writing experience was probably the best. The time I spent in understanding the theories, have definitely helped me, as today I can correlate the theory with the practical research very well. Probably this was because prior to this, I had concentrated more on the theory aspects of things and the practical applications of these theories were something which I had studied only from the conclusions perspective. Being involved in doing the research on my own, helped me to understand the work involved, as well as the way how to apply theory in practical applications.

This is something I would definitely put in as something that I have achieved on my own and something that has helped me in understanding the concepts better. The most informative and the best learning experience of the entire research was the collection of case studies for the research. Needless to say, a primary survey would have been a much different experience, and is probably the one thing I regret not doing as a part of the research. However, the secondary research method, which was used for this study, meant that I had to look into the cases of the other people who had previously worked on mergers and acquisitions.

This meant a closer study of the cases, paying special attention to the data, to consider if it suited my research. This information helped considerably in increasingly my knowledge on how researchers work. The real time <https://assignbuster.com/the-merger-between-travelers-and-citicorp/>

situations, and the difficulties encountered in the research also was an eye opener. The case studies I researched as a part of this research work were not limited to merely university researchers, but included the work of professional researchers such as JP Morgan chase securities as well, which is a professional research not meant for simple research purposes.

An added benefit of my research was an in depth knowledge of the functional working and organizational transform measures employed by some of the biggest and most influential companies in the present day world, since each of the case study I selected represented the top companies in its field at the time or post the merger. The selection of case studies was also a source for struggle. Since none of the case studies have the data raw form, sifting through the entire analysis and finding a way to analyze them together is complicated.

There are methods available in many books and journals, on how to analyze secondary survey data, however none of them mention how to make sense of data that has already been concentrated into a condensed version. In this respect the methodology chapter was probably the most challenging of the entire research report, followed by the analysis chapter. The analysis of data collected by multiple researchers does save the problem of collecting data on my own, but the interpretation of the data from such a large number of sources is not an easy task either.

The secondary data interpretation is probably one of the least research aspects of a research study, probably because of the large variations in the selection of the data sources themselves. The number of studies, kind of studies, the research objectives of the original study - all matter when the <https://assignbuster.com/the-merger-between-travelers-and-citicorp/>

data interpretation is to be done, and since the data purpose, no matter how close it is to the present research is always different, the data interpretation becomes even more difficult. In addition to this, the research also consists of qualitative data interpretation in terms of organizational fit.

Secondary data, that is qualitative in nature, is the hardest to interpret because the many connotations that can be attached to the interpretation. A classic example is the Vodafone' hostile takeover - the acquisitions is considered to be the largest and most hostile in recent times, and the repercussions of the management decisions are still echoing till date. The merger itself is considered to be both a success and failure by different researchers. The data set, situation everything is the same, but the points of organizational success in case of every researcher is different, which lends to this confusion.

The only way to eliminate this confusion would be multiple readings of the same case study, not all of which would be included in the referenced report section, because many reports were rejected based on their selected hypothesis. This too was a part of the present research that was both time consuming and challenging. In short, the research paper, had taught me a lot in terms of subject theory, researching or data, practical research methodology, and interpreting processed data to suit my research needs.

I was also able to understand the importance of background study and leg work, before coming to the actual report writing part - something that is usually scoffed by student researchers, whose point of view is usually study as you go. I am confident that with all this knowledge, I would definitely be

ready for any real-life opportunity to do research, and any next research work coming across my way, most definitely have better results.

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