

# Merger and aquisitions essay



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Suggestion for the future 10. Culminating in a boom of failures and winners. Dwellers all across the industry value chain like Cowardly and KS Communications are a great example to consider. With the immense competition and the industry still very much at its infancy, firms have yet to secure dominant positions. Before acquisitions ever took place, KS Communications has been ineffective in M&As - which in return made them lose a large quantity of money; on the other hand, Cowardly (as a small company) was not known to the general public.

KS Communications was engaged, engrossed, and expanding its share of the portal industry whereas Cowardly was desperate for M&As because of the lack of finance. In relation, both companies sought the idea of venturing both companies together in order to build a more profitable company. When considering M&A, both companies thought that in conjunction with each other, they could make profit. For example, Lower.

Ante. Com,' (a popular Korean portal website) took over Www. Hookers. Co. Kerr' in terms of page view and the number of visitors.

The number of visitors for Ante had easily taken over Yahoo Korea in terms of page views (an estimate of over 10 million viewers).

On the contrary, ' Nymphomania,' (a Cowardly service that can be related to Backbone), increased from 3 million to 18 million, respectively. In 2003, after the acquisition took place, KS Communications had remained in the top for several years. Ante has also become one of the top 3 most used websites. Furthermore, these companies have been finding ways to expand in North

America, Northeast Asia, and even in Europe. Although risky, it has been a successful move.

A few reasons why it became so suitable and attractive was because of the many unique strategies that the companies have made. Here are five reasons: first, they created a synergy effect for the public from the instant messenger service now now as ‘Neaten,’ and the personal ‘Nymphomania’ as mentioned before. Secondly, they used a strategy called CAR (Corporate Social Responsibility) marketing. This is where companies integrate social, environmental, and economic concerns into their values and operations in a transparent and accountable manner.

Third, they increased Profit through a service add-on called ‘Outdoor,’ where users can purchase virtual goods through their website (this has surprisingly become Crossword’s main source of revenue). Forth, they put in a lot of effort in making a successful harmony of reporter culture. Finally, they effectively used the characteristics of the ‘Contents Generations (C Generation),’ where they can feel satisfaction by creating new things and communicating with others freely through a main agent marketing strategy.

Through their acquisition (as this was an M&A between the corporations of Internet portals), they could expect not only visible but also invisible synergy effects; moreover, when looking at this case in a broad perspective, this acquisition was a driving force to strengthen the competitiveness of the national IT industry. It showed owe the companies smoothly moved the capitals between the IT industry and the conglomerates. As Moor’s law has become more prevalent and competition has been increasing between

different companies, statistics have shown that these companies face a recession.

New internet community services, smartness, the upraise of Backbone and Twitter – all of these have dominated the internet culture. What can these within the companies in themselves. They must build a strategy. For example, KS Communications has started off by adding restrictions and has constantly updating advanced services suitable for the Smartened services. The competition between companies is getting fiercer in this globalizes market.

To cope with this competing and gain competitive advantages, many companies have implemented many strategies.

M, which is one of those strategies, is used frequently to easily expand the share of markets. However, not every M results in success. There's a statistics that seven out of 10 M&As usually failed to create synergy effect, and fuse two cultures of companies.

Less than 30% of M&A is evaluated as successful contracts. And this case, M&A between KS Communications and Cowardly is insider successful case in internet portal industry field where the M&A strategy is even hard than other industries. The driving force of success was creative synergy effect between main services of two companies.

This report will be talking about history of two companies, background and motivations of M&A and process of it. And next, we mainly deal with aspects

that made M&A successful including synergy effect, making new portal site as the third place in Korean portal industry.

These aspects are valuable in this information technology industry where transitions happen massively and frequently when undergoing M&A strategy. KS Communications was founded in August 19th, 1996 called ' Knowledge Power Plant. And after, it changed its name as KS Communications in November 1st, 2002.

One year later, this company was listed on the stock exchange. It is quite reasonable to say that the history of KS Communications is the history of Mergers and Acquisitions, since it has gone through a lot of M.

Before KS Communications, KS Telecoms launched Ante. Com in August, 2001. Next year, it acquired Locos Korea in June. And also at the end of that year, KS Telecoms integrated ' Ante. Com', ' Locos Korea' and ' Net's go' and founded KS Communications that started to manage those portal sites. Since then, KS Communications acquired Cowardly in August, 2003, Ethos, an online education company in March 2006.

And it took over Igloos that offers blogging service from the company Monet in May 2006. KS Communications was losing ground in terms of search. In order to cope with this hardship, it acquired some shares of Mesas and Continentally. And in June 2007, KS Communications merged with Mesas in the end. This M&A was for procuring new competitiveness in internet portal and searching market.

The ratio of transfer of stocks was 1 to 3. 5732182 when it merged. The new major shareholder after this M&A was KS Telecoms, obtaining 64.58% of whole share.

Since then, KS Planet that was divided from KS Telecoms and independently founded succeeded every share of KS Communications in August 5th, 2011.

As a result of this acquisition, it started to compete with Adam Communication to take the second spot in domestic portal industry. KS Communications was recognized as the most powerful competitor that can fight with NH Never which education business to Console Academy for fifty billion won. In 1998, six students in KITS graduate school of technological business management decided to make club called BIZ for establishing venture business. So they co-founded several companies related to internet.

They failed several companies but in 1999, Hymen- young Jon, Gone-tea Suck co-founded Cowardly.

At first, when founded, it was mainly focusing on club service. But Freewheel and Adam was so competitive that Cowardly had difficult period. So they reorganized it as community portal type that offers personal PIMPS, sharing bulletin board, chatting, poll service and etc. It was quite big reform but there was no special reaction by entities. What made Cowardly popular was Nymphomania.

In 2001, through the Nymphomania project, Cowardly changed their focus from club service to personal homepage service.

And then, it made differences. Cowardly could not grow for 3 years since foundation. Officers planned the last project in 2001 summer because its financial condition was very poor. With this ' Nymphomania project', there emerged ' Mini me', ' Mini room', ' Outdoor (cyber money)' that made current Cowardly.

Thanks to this project, it started to grow rapidly from winter in 2002. Next year, Freewheel announced to become subscription-based so, Cowardly relatively got lots of attention by entities and other corporations. And finally, it was acquired by KS Communications in 2004. .

Characteristics of IT industry 4. 1. Rapid Transition In IT industry, trend, dominant enterprise or technologies changes so fast that it is very hard to forecast the future. In reality, the market share of portal sites transformed easily and frequently because of M&A.

Also, it is easy to watch the growth and decline of portal sites. Sometimes, IT related companies tend to implement M&A without having enough time to consider that leads to fail. It is cause employees just emotional and intuitively come to decision. (Corporate Finance in Europe, 2011) 4.

2.

Growing and being focused Industry The market of internet portal is growing larger and larger due to the expansion of computer, tablet PC and smart phone worldwide. The distribution rate of cell phone in China which is the largest mobile market in the world exceeded more than 90%. And similar phenomenon is happening in rising nations such as Russia and Brazil. Thanks

to this expansion of internet infrastructure, the portal site industry is developing overall.

So, the importance of online advertisement which is the major resource of income is growing. Actually, online advertisement shows the largest growth rate among most of internet medium.

In reality, online advertisement shows the fastest growth rate among any media as you can see below. Income is Outdoor which is a cyber money purchased by entities. But anyway, the structure of profit is depending a lot on the advertisement in Never and Adam.

Still, online advertisement is one of major profit resources. Not only growing, but also their scopes of role become larger. Its role as a media is getting bigger beyond the original function of portal site. In reality, according to the search in Korea, the most trustful organs of public opinion were KBPS, second-best was MBA and the third was Never.

As the environment that we can easily use portal site is created, the role of portal site as a media and the amount of profit from online advertisement is increasing. 5.

Background of the M&A 5. 1 . Why did they contract? ‘ Motivation’ Why did KS Communications acquire Cowardly? First, we have to consider the situation of Cowardly. As it is mentioned before, the financial condition of Cowardly was not stable. Since there was no enough profit, it was impossible to invest money on enlarging server for better service.

So, it was inevitable for the Cowardly to use M&A strategy to develop itself.

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At the same time, KS Communications was busy expanding its share of portal industry. And Cowardly was desperate for M&A because of the lack of finance for investment. So it was the best target company for KS Communications. In other words, both of the companies were satisfied with each other by merging. At that time, a famous portal named Freewheel announced itself as fee-charging, so quite lots of portal service users started to move from it to the Cowardly.

Getting thicker customer base was also one of attractions for M&A.

SOOT Analysis of Cowardly before M&A showing the necessity of Acquisition  
O(opportunity) T(threat) Improving accessibility of Internet Current trend of Individualism Transitions in Portal Industry Several competitors offering similar services S(strength) SO Strategy SST Strategy ' Relationship' service which is differentiated from other portals Specializing ' Relationship' service in the era of Individualism and Egoism Aggressive investment to not to be turned over Creating Synergy effect through M&A WOW Strategy WET Strategy Unstable condition of server Easy out flow of personal information and date

Uncompetitive other services like mailing, search ad Providing fast online world by using M&A or Joint Venture that eliminates unstable factors  
Divesting drastically when uncompetitive mailing, search ad and multimedia services are evaluated as unpromising and focus on other promising part 6.  
The process of M&A The process of M&A between KS Communications and Cowardly can be divided as two steps. 6.

1 . Cowardly and MIM investment company The investment company MIM was looking for internet portal service provider. And there were several conditions that the target company should have.

It should have attention competitiveness to compete with pacesetter as a last-mover after forming community scale in some degree. Also, it should have original technology, core service and small amount of capital and achieve sound distribution of shares.

Lastly, debt percent compared to capital should high. Consequently, the appropriate company was Cowardly so they reached an agreement. So, MIM started to own 90% of Confound stock. 6.

2. MIM and KS communications Cowardly was operating well as a service model at the beginning of 2003. But it was lots of problems as a business model.

In February 2003, there were about 2 millions f memberships, growing constantly but the profit was so small that the company even could not pay workers' salary that led to raising the turnover rate.

So, in order for the Cowardly to be managed, merging with other company was inevitable. It contacted to Adam and Never but finally, it was acquired by KS that shared the same interests. In the other hand, before KS Communications acquire Cowardly, there were many disputes whether KS Communications will sustain its portal site service, the Ante. Mom.

KS Communications invested lots of money in it but the profit was quite lower than people expected. But consequently, they decided to watch it 3

years more and agreed to increase KS Communications capital, acquiring Cowardly. KS Communications was planning to reinforce the competitiveness of wireless platform and through this, also reinforce the cable platform. And by constructing integrated wireless and cable platform, KS Communications could offer personalized internet service to customers. Cowardly could realize that new service.

Also, when they consider the ardent members of Cowardly and its increasing, they could easily conclude that Cowardly would play an important role to enhance the position of Ante. Com as a portal site. In addition to that, they could also raise the number of KS Telecoms mobile user by making a connection between Ante On service and SST. As a result, KS Communications running Ante.

Com decided to acquire internet community service provider, Cowardly. The M between KS Communications and Cowardly (MIM venture capital) was reached through stock exchange method.

MIM venture capital, which was holding 90% of Crossword's stocks, gets to have new 7. 8% of KS the condition of acquiring future profit or capital gain in holding KS Communications stocks.

Moreover, in KS Communications case, it can take over Cowardly which has any loyal customers whom it wanted through M&A without cash flow.

Because of the merging of two companies, KS Telecoms, the biggest shareholder of KS Communications, started to have the stake from 82. 8% to 89. 9% and the boss of Cowardly, Dong-hung Lee took executive director of the company. .

Results of the M&A - Casual analysis of success 7. 1 . Synergy effect between the messenger service ' Ante on' and personal homepage ' Nymphomania The most effective factor that makes this M successful was the ' Synergy Effect'. Synergy is two or more things functioning together to produce a result not independently obtainable. M transactions give the firm the possibility of achieving positive synergy effects meaning that the two merged companies are worth more together than the sums of their parts individually.

In this M case, the synergy effect was made between the ' Ante on' which is the messenger service operated by KS Communications and the ' Nymphomania the personal homepage of the Cowardly. Thanks to the acquisition, the average profit of the KS Communications per day reached 30 million won and compared with the profit before the M&A, it was almost doubled price. Before the M&A took place, the Crossword's sales rate of increase was owe (between but as the system reconstructing was finished, the sales increase rate maintained 60%.

Although there were a lot of mergers and acquisitions in IT industry in Korea, KS Communications and Crossword's M&A was extraordinary case. 7. 2.

CAR (Corporate Social Responsibility) marketing Not like any other existing portal sites, Cowardly has its own virtual currency called ' Outdoor (which means acorn in English)'. One outdoor costs 100 won, and they are used to purchase virtual goods such as background music, paginated furniture and virtual appliances. Different from other portal sites such as ' never. Mom' or ' Adam.

Net', the company makes profit directly from the site users.

Therefore, if people perceive this system negatively, they may not use the site or wouldn't buy any outdoor. To maintain the profit-making method with outdoor, KS Communications use outdoor not only for the commercial purpose, but also for the sake of charity. For example, during the Christmas seasons, they raise money through Salvation Army Charity pot event, or when the battle of Iraq took place in 2003, they conducted a fund-raising campaign for the International peace.

A great number of people participated in these managing and the perception of the outdoor was highly improved.

The improvement of the people's awareness of outdoor made people buy more outdoor. Therefore the company could make a lot of money from this method and therefore, they can re- donate more money in many different fields. Competitors What KS Communications put all their efforts on right after the M&A finished was stabilizing the service. Before making the contract with the Cowardly, KS they put off adding or developing new functions for their new server, they attempted to stabilize the whole system effectively in advance.

As the service became stabilized, Confound could make a high profit margin.

Here, contribution of outdoor was significant which broke out from the negative image of money and bounded all the services in Cowardly as one. In 2003 when the KS Communications overtook the Cowardly, the Outdoor was so popular that the sales of the outdoor were almost 8 billion. As a

special community model which is the combination of the service and commerce, the company made unique profit-making structure through finding the commercial factor from the social interaction.

For the previous community service, harmonize teens the community services which are the core value provided to the customers and the advertisement which is the method of making the profit was very difficult. But in case of Cowardly, the value offered to the server users and the source of profit were integrated so increasing number of customers and interaction between them directly related to the increasing revenue.

When people buy the outdoor, they not only pay cash but also do the payments through the cell phone or the K casabas points they have saved up. K casabas is a Korean internet marketing company operated by KS Corporation. Almost of the outdoor sales were from K casabas points, and this was the great help to the KS Communications. The combined wire-wireless service what KS Communications planned to achieve through the acquisition was achieved spontaneously and it made a great contribution to create a profit. Not only the individual customers but more than 90 corporations opened their brand homepage in Cowardly, and the profit from this also contributed to the KS Communications.

KS Communications wanted the companies which made the brand homepages to have good image and maximize a marketing effect, it does not allow NY other companies to open brand homepage anymore. It's permitted only for the 90 corporations that they planned at first. Supported by these two effects, profitability of the KS Communications was highly

improved after the M. 7. 4. Successful harmony of corporate culture KS Communications put various efforts on seizing the right core value of Cowardly and preventing the collision of corporate culture.

First, in order to minimize the outflow of manpower, it tried to arrange human resources policy and led natural unification of organization. It moved current Cowardly human resources to boss and also moved Ante. Mom community human resources into teams while remaining basic organization's frame. These moves were for appropriate harmony of organization.

Moreover, for the part which had a difference in Cowardly and Ante. Coma's employees' benefit such as an annual pay or welfare program, KS Communications adjusted for Cowardly and Ante. Mom's employees to have the same levels of benefits. KS Communications also specified the existing Ante.

Coma's community and working area and added clip service, which is informative community, into Ante. Coma's club. To avoid the same mistakes that it made during the undertaking of Locos Korea, it engages Ante. Com and Cowardly independently.

(Mistakes here are about lack of coherence in conglomerate's fund and structure with venture business's flexibility and creativity. In 2002, when KS Communications undertook Locos Korea guided which led to the failure of merger.

Entities write and save various pictures, videos and texts that are related to their everyday lives in Cowardly. You can easily see your friends' pictures of

coffee he or she drink, impressions of the movie and any other pictures. The personal diary enters into the Internet cyber space. These kinds of examples reflect the characteristics of the 'Contents Generations (C Generation)' who feel satisfaction by creating new things and communicating with others freely.

C Generations not just accept the information but want to produce their own contents independently.

Also as avatar a movable image that represents a person in a virtual reality environment or in cyberspace became popular in many other portals, Cowardly users also required to make avatar. But Cowardly did not imitate others. Instead, there created a new service, "Cowardly Minor' and 'Minima'. The owners of the Nymphomania show their circumstances or feelings through this method. It's entirely efferent from avatar which is stuck in a world of his or her own and to use this service, people have to pay money (outdoor).

People think it's valuable and the sales of outdoor quite increased.

The increasing sales of many kinds of Minor and Minima show the C Generations' desires to express themselves as a main agent. Through successful acquisition, KS Communications expected to secure stable customer traffic and increase the sales of advertisement, e-commerce and various chargeable contents on the basis of Nymphomania and community services. Besides, KS Communications wanted to expand both companies' community and communication lolls such as 'Nymphomania service of Cowardly and the 'Ante on' service of Ante. Com effectively.



While the contract of the acquisition was ongoing, many experts thought KS Communications could not make dramatic implications for the IT industry.

Because combining the visitors of Ante. Com and Cowardly, it was only 7.8 million which has a big gap between the visitors of yahoo. Com, 12 million. Also they think Crossword's traffic would not be big enough to threaten the big 3 (Naver, Adam, and Yahoo). However, as making the company large enough through acquiring Locos at an appropriate time and strengthening the corporate structure from merging with Cowardly, they made perfect preparations to threaten the head of the industry.

According to the 'Korean Click' investigation of internet research, as Cowardly became the sub-menu of Ante. Com, 'Ante. Com' won the Hookers. Co.

Kerr' in terms of page view and the number of visitor was more than 10 million. Also the people who use Nymphomania service increased from 3 million to 18 million. Moreover networking user of the Nymphomania service and Ante on which is the messenger service offered by KS Communications reached 160 thousand. In 2003, after the acquisition, KS Communications remained the head of page view for several years, and 'Ante.

Com' became the top 3 of Korean portals finally.

It also put efforts to find ways to enter the global market in America, Northeast Asia and Europe. Could expect not only visible but also invisible synergies. Moreover, when looking at this case in a broad perspective, this acquisition was a driving force to strengthen the competitiveness of the

national IT industry because they showed how the companies smoothly move the capitals between the IT industry and the conglomerate which are totally different.

9. Conclusion - The Future? Cowardly has had its golden age for many years. The recession that Cowardly has faced was because of poor observations on different practical experiences.

Because of the advent of convenient social network services like Backbone, the uprising of the Smartened generation, Cowardly has faced a new challenge. Cowardly was most definitely suitable and convenient for computer users.

People who uses Smartness have moved onto using Backbone or Twitter, just because of the convenience. Backbone has no visiting procedure distinct from Cowardly; therefore the number of suitors became meaningless.

Passbook's strategy - after you became friends with someone, the picture or the text that a friend uploaded were automatically appearing on people's 'Timeline. They also reformed social media by being able to incorporate news articles, blobs, and games from third party applications.

For Twitter, the convenience of just 'tweeting' was also a strategy that became successful. Without agreement, when people follow, then the texts or the pictures are delivered to their own Twitter homepage where the convenience of not having to go to other people's page was simple and quick. Because of this, people have been preferring to choose what they want to know by themselves and also want the shortcut available to see other's updated statuses quickly.

This in return has made Backbone and Twitter immensely more attractive than Cowardly in the recent years.

As there were no outstanding outcomes, many people say that Cowardly is in a crisis. Can they recover? Well, Confound is doing an intensive reconstruction of its organization. People who don't like to show their privacy to others more or so prefer to use Cowardly or Backbone, not Twitter. Cowardly has introduced many new systems that can be a help to overcome the difficulties they have suffered.

As mentioned before, Cowardly at the time was not an appropriate program to be adapted into the Smartened. So the immediate response was the creation of a new Cowardly Application optimized for the Smartened.

This is not an application which simply moves the PC's Nymphomania to the mobiles. But is truly suitable system for the Smartened users. It has been titled as ' Mobile Cowardly' and the new functions added here are ' Maybug (which mean everything at once in Korean),' and ' Now (show the Nymphomania owners' feeling effectively)' and ' Shake (show an interest to friends).