Google talks with groupon are ended without deal

ASSIGN BUSTER

Google and Groupon Merger Analysis The issues The article discusses the issue of merger of Groupon with Google. Though Google was keen on acquiring Groupon as a business partner, however the latter had other plans. Hence, it declined the $ 6 billion offer by Google. For Google it is a loss of opportunity to enter into the local business arena which currently spend $20 billion online and are expected to spend around $35 billion by 2014 (Efrati, Ghon and Fowler 2010).

Management practices at Google

Google has grown very fast since its inception in 1998. However there have been questions on its governance policies. ISS (Institutional Shareholder Services) reported that Google's overall ranking on corporate governance was just 0. 2% in comparison with Standard and Poor's 500 firms – in other words it outranked just one of the other companies (rankforsales 2004). One of the major areas of concern was the way the founders and other insiders were given extra voting rights through the IPO. These share holders had the power of 10 votes per share as compared to the normal share holders who had 1 vote per share powers (rankforsales 2004). Another concern was that of low independent board membership ratio. This shows that founders of the company have not been too keen on losing control over the reins of the company.

Groupon performance

Groupon is still a closely held company. The company is expected to grow very fast and is today the number 1 player in its category. The company has been using innovative marketing concept called " reverse marketing". Here the company does not force customers to buy through blatant advertising but through providing them with information regarding discounts and gives

them the choice to decide which products to buy. The company uses the collective buying concept to offer huge discounts to customers and provide the businesses a huge database. The unique way of business which the company follows has provided the company a negative working capital situation. This means the business gets money upfront from their customers and pay their business partner later on as followed by Wal-Mart also.

Problems in the deal

Mismanagement of the deal seems to be behind this break-off. The problem seems to be the break-up fee that Google has offered. As a part of compliance management, the company which has agreed to be sold is bound by the breakup fee agreement. However, many companies do not comply by the initial agreement and accept counter offers from other firms. In this case Google has publicized about the fee being the dampener. This can be a possible activity to put pressure on the management of Groupon to agree to lower bids. With its reputation at stake over breakup fee, the company might agree to a lesser pricing.

Solutions

The best way to deal with such situation is to have transparency of operation. The SOX guidelines have aimed at increasing this transparency and improving the investor confidence, but the companies find ways of circumventing the laws. The break-up fee needs to be capitalized if it is paid to facilitate another transaction. However, this amount is deductible if there is no covered transaction (Mayer Brown Rowe and Maw 2003). But the companies might wait for a later date for the second transaction to save on this cost from tax. Hence, this cost should not be deductible even if the second transaction has not occurred. The companies should also improve

their media communication system to improve transparency. The reason for the failure of the deal should be announced by both companies together so as to kill any speculations and show better corporate governance by making deals transparent.

Reference

Efrati, A., Ghon, G and Fowler, GA 2010, Google Talks With Groupon Are Ended Without Deal, viewed on December 6, 2010

http://online. wsj. com/article/SB10001424052748703989004575653624184245284. html#ixzz17KfV7hDj

Mayer Brown Rowe and Maw, 2003, Taxation update, viewed on December 6, 2010

http://www. mayerbrown. com/publications/article. asp? id= 575∋d= 6

rankforsales. com, 2004, Google could improve its corporate governance, viewed on December 6, 2010

http://www. rankforsales. com/n-az/733-seo-aug-25-04. html