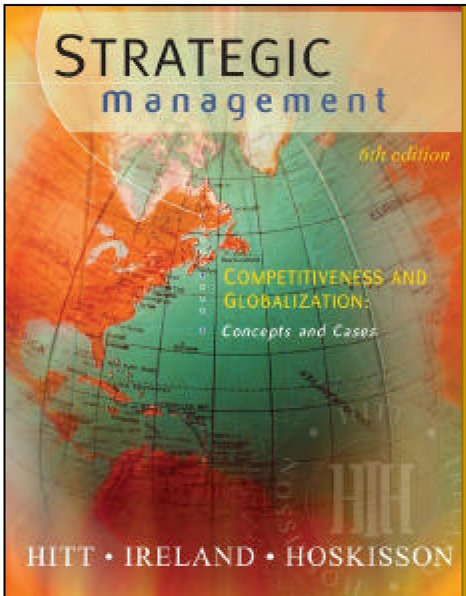
Slide 1



Chapter 7

Acquisitions and Restructuring Strategies

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Slide 2

Types of Corporate & Grand Strategies

Concentrated Growth	Conglomerate Diversification
Market Development	Turnaround
Product Development	Divestiture
Innovation	Liquidation
Horizontal Integration	Bankruptcy
Vertical Integration	Joint Ventures
Concentric Diversification	Strategic Alliances
Consortia	

Slide 3

Mergers, Acquisitions, and Takeovers: What are the Differences?

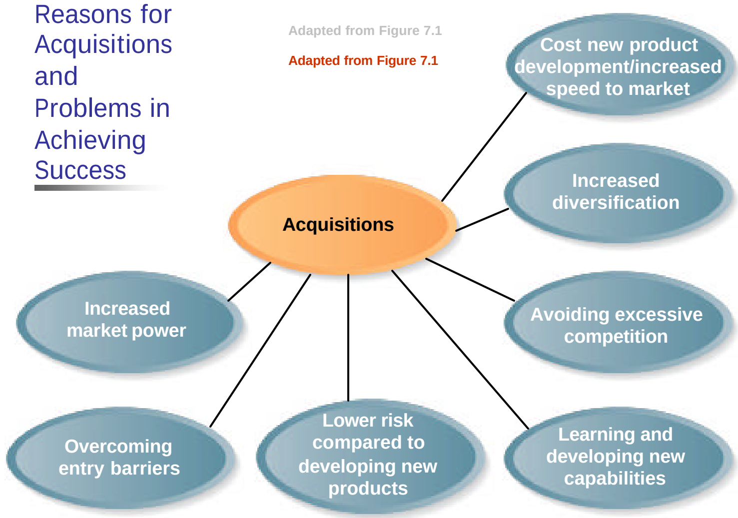
- **Merger**
  - A strategy through which two firms agree to integrate their operations on a relatively co-equal basis
- **Acquisition**
  - A strategy through which one firm buys a controlling, or 100% interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio
- **Takeover**
  - A special type of acquisition when the target firm did not solicit the acquiring firm's bid for outright ownership

Slide 4

Reasons for Acquisitions and Problems in Achieving Success

Adapted from Figure 7.1

Adapted from Figure 7.1



Slide 5

Acquisitions: Increased Market Power

- **Factors increasing market power**
  - When there is the ability to sell goods or services above competitive levels
  - When costs of primary or support activities are below those of competitors
  - When a firm's size, resources and capabilities gives it a superior ability to compete
- **Acquisitions intended to increase market power are subject to:**
  - Regulatory review
  - Analysis by financial markets

Slide 6

Acquisitions: Increased Market Power (cont'd)

- **Market power is increased by:**
  - Horizontal acquisitions
  - Vertical acquisitions
  - Related acquisitions
    - Concentric diversification

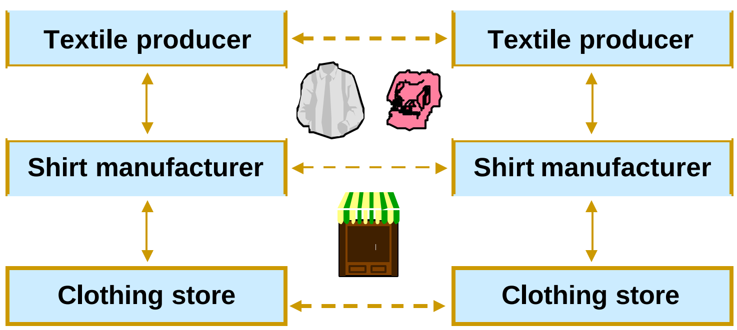
Slide
7

Strategies of Horizontal and Vertical Integration

- **Horizontal integration**
  - **Based on *growth via acquisition* of one or more similar firms operating at the same stage of the production-marketing chain**
  - **Involves eliminating competitors, providing acquiring firm with access to new markets**
- **Vertical integration**
  - **Involves acquiring firms**
    - **To supply acquiring firm with inputs - *backward* integration or**
    - **Are customers for firm's outputs - *forward* integration**

Slide
8

Vertical and Horizontal Integrations



Acquisitions or mergers of suppliers or customer businesses are *vertical integrations*

Acquisitions or mergers of competing businesses are *horizontal integrations*

Slide
9

Acquisitions: Overcoming Entry Barriers

- **Factors associated with the market or with the firms currently operating in it that increase the expense and difficulty faced by new ventures trying to enter that market**
  - **Economies of scale**
  - **Differentiated products**
- **Cross-Border Acquisitions**

Slide 10

Acquisitions: Cost of New-Product Development and Increased Speed to Market

- **Internal development of new products is often perceived as high-risk activity**
  - **Acquisitions allow a firm to gain access to new and current products that are new to the firm**
  - **Returns are more predictable because of the acquired firms' experience with the products**

Slide 11

Acquisitions: Lower Risk Compared to Developing New Products

- **An acquisition's outcomes can be estimated more easily and accurately than the outcomes of an internal product development process**
- **Managers may view acquisitions as lowering risk**

Slide 12

Reasons for Acquisitions and Problems in Achieving Success

Adapted from Figure 7.1

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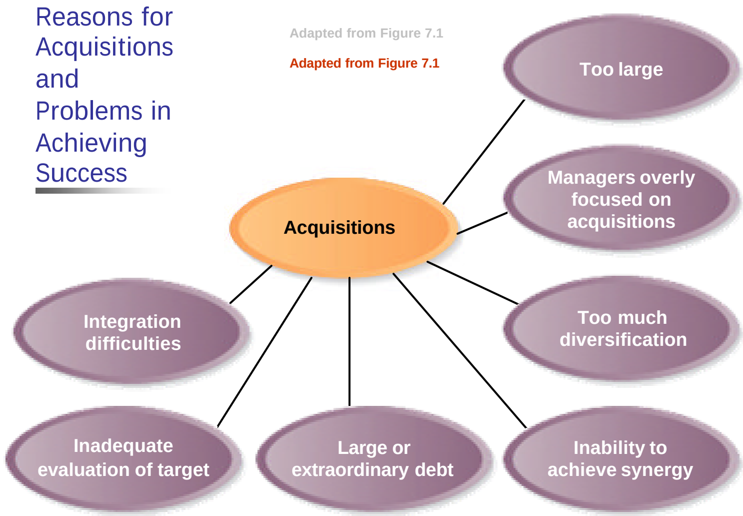


Slide 13

Attributes of Successful Acquisitions

Attributes	Results
1. Acquired firm has assets or resources that are complementary to the acquiring firm's core business	1. High probability of synergy and competitive advantage by maintaining strengths
2. Acquisition is friendly	2. Faster and more effective integration and possibly lower premiums
3. Acquiring firm conducts effective due diligence to select target firms and evaluate the target firm's health (financial, cultural, and human resources)	3. Firms with strongest complementarities are acquired and overpayment is avoided
4. Acquiring firm has financial slack (cash or a favorable debt position)	4. Financing (debt or equity) is easier and less costly to obtain
5. Merged firm maintains low to moderate debt position	5. Lower financing cost, lower risk (e.g., of bankruptcy), and avoidance of trade-offs that are associated with high debt
6. Acquiring firm has sustained and consistent emphasis on R&D and innovation	6. Maintain long-term competitive advantage in markets
7. Acquiring firm manages change well and is flexible and adaptable	7. Faster and more effective integration facilitates achievement of synergy

Table 7.1

Slide 14

Restructuring

- A strategy through which a firm changes its set of businesses or financial structure
  - Failure of an acquisition strategy often precedes a restructuring strategy
  - Restructuring may occur because of changes in the external or internal environments
- Restructuring strategies:
  - Downsizing
  - Downscoping
  - Leveraged buyouts

Slide 15

Types of Restructuring: Downsizing

- A reduction in the number of a firm's employees and sometimes in the number of its operating units
  - May or may not change the composition of businesses in the company's portfolio
- Typical reasons for downsizing:
  - Expectation of improved profitability from cost reductions
  - Desire or necessity for more efficient operations

Slide 16

Types of Restructuring: Downscoping

- **A divestiture, spin-off or other means of eliminating businesses unrelated to a firm's core businesses**
- **A set of actions that causes a firm to strategically refocus on its core businesses**
  - **May be accompanied by downsizing, but not eliminating key employees from its primary businesses**
  - **Firm can be more effectively managed by the top management team**

Slide 17

Divestiture and Liquidation Strategies

- **Divestiture strategy**
  - **Involves selling a firm or a major component of a firm**
  - **Reasons for divestiture**
    - **Partial mismatches between acquired firm and parent firm**
    - **Corporate financial needs**
    - **Government antitrust action**
- **Liquidation strategy**
  - **Involves selling parts of a firm, usually for its tangible asset value and not as a going concern**

Slide 18

The Strategy of Bankruptcy

- **Two approaches**
  - *Liquidation* **- Involves complete distribution of a firm's assets to creditors, most of whom receive a small fraction of amount owed**
  - *Reorganization* **- Involves creditors temporarily freezing their claims while a firm reorganizes and rebuilds its operations more profitably**
- *Advantage* **of a** *reorganization* **bankruptcy**
  - *Proactive option* **offering maximum repayment of a firm's debt in the future if a recovery strategy is successful**

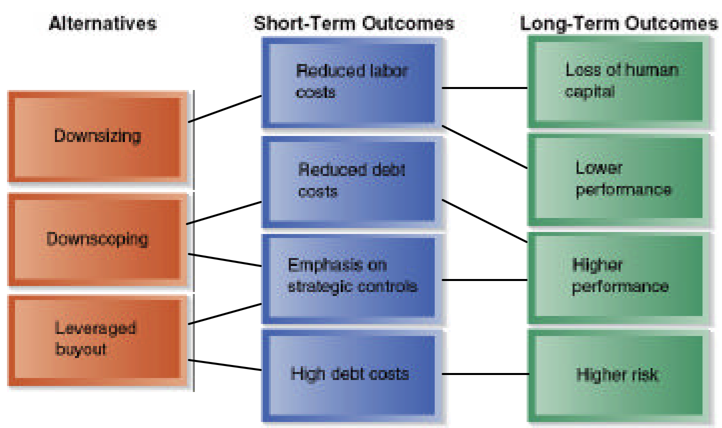
Slide 19

Restructuring: Leveraged Buyouts

- **A restructuring strategy whereby a party buys all of a firm's assets in order to take the firm private**
  - **Significant amounts of debt are usually incurred to finance the buyout**
- **Can correct for managerial mistakes**
  - **Managers making decisions that serve their own interests rather than those of shareholders**
- **Can facilitate entrepreneurial efforts and strategic growth**

Slide 20

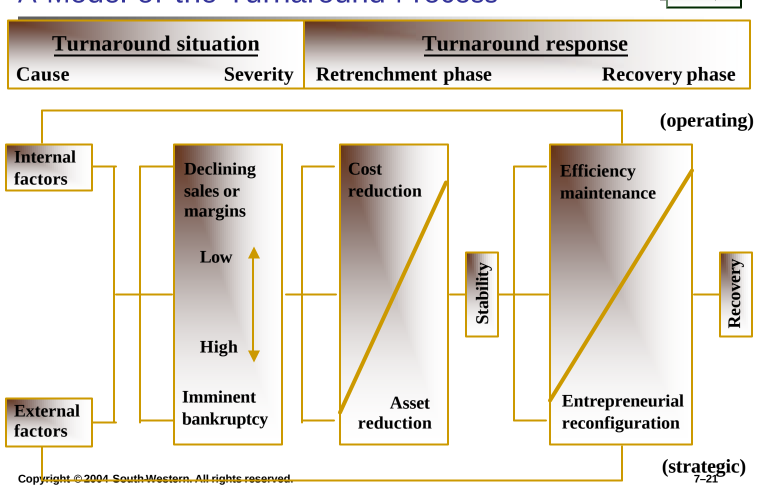
Restructuring and Outcomes



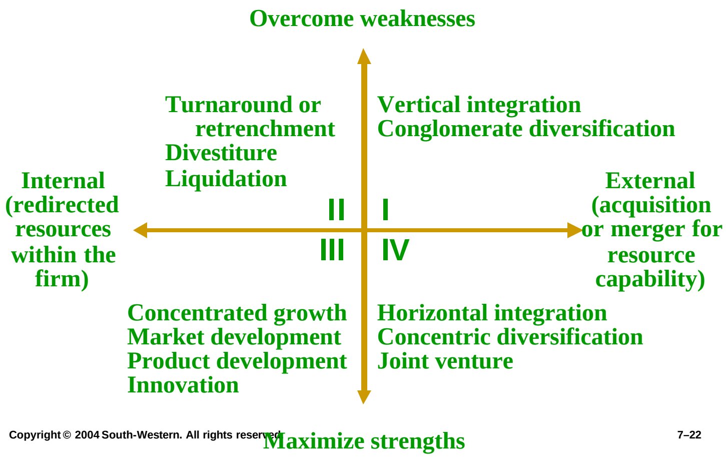
Adapted from Figure 7.2

Slide 21

A Model of the Turnaround Process



Grand Strategy Selection Matrix



Model of Grand Strategy Clusters