

## 18.6: Reading- Mergers and Acquisitions

### Mergers and Acquisitions

The headlines read, “Wanted: More than 2,000 in Google Hiring Spree” and “[Help Wanted: Google Hiring in 2011.](#)” The largest Web search engine in the world was disclosing its plans to grow internally and increase its workforce by more than 2,000 people, with half of the hires coming from the United States and the other half coming from other countries. The added employees will help the company expand into new markets and battle for global talent in the competitive Internet information providers industry. When properly executed, internal growth benefits the firm.

An alternative approach to growth is to merge with or acquire another company. The rationale behind growth through merger or acquisition is that  $1 + 1 = 3$ : the combined company is more valuable than the sum of the two separate companies. This rationale is attractive to companies facing competitive pressures. To grab a bigger share of the market and improve profitability, companies will want to become more cost efficient by combining with other companies.

### Mergers and Acquisitions

Though they are often used as if they’re synonymous, the terms *merger* and *acquisition* mean slightly different things. A merger occurs when two companies combine to form a new company. An acquisition is the purchase of one company by another with no new company being formed. An example of a *merger* is the merging in 2010 of United Airlines and Continental Airlines. The combined company, the largest carrier in the world, flies under the name United Airlines, but its planes display the Continental Airlines logo. The merger will combine the scale of United Airlines with the management culture of Continental. Another example of a fairly recent *acquisition* is the purchase of Reebok by Adidas for \$3.8 billion (Theresa Howard, “[Adidas, Reebok lace up for run at Nike,](#)” *US Today*, August 3, 2005, accessed June 20, 2008). The deal was expected to give Adidas a stronger presence in North America and help the company compete with rival Nike. Though Adidas still sells shoes under the Reebok brand, Reebok as a company no longer exists.

### Motives behind Mergers and Acquisitions

Companies are motivated to merge or acquire other companies for a number of reasons, including the following:

#### Gain Complementary Products

Do you think by acquiring Reebok, Adidas has had an impact on Nike’s command of the running shoe market?

Acquiring complementary products was the motivation behind Adidas’s acquisition of Reebok. As Adidas CEO Herbert Hainer stated in a conference call, “This is a once-in-a-lifetime opportunity. This is a perfect fit for both companies, because the companies are so complementary....Adidas is grounded in sports performance with such products as a motorized running shoe and endorsement deals with such superstars as British soccer player David Beckham. Meanwhile, Reebok plays heavily to the melding of sports and entertainment with endorsement deals and products by Nelly, Jay-Z, and 50 Cent. The combination could be deadly to Nike” (Theresa Howard, “[Adidas, Reebok lace up for run at Nike,](#)” *US Today*, August 3, 2005, accessed June 20, 2008).

#### Attain New Markets or Distribution Channels

Gaining new markets was a significant factor in the 2005 merger of US Airways and America West. US Airways is a major player on the East Coast, the Caribbean and Europe, while America West is strong in the West. The expectations were that combining the two carriers would create an airline that could reach more markets than either carrier could do on its own (“[America West, US Air in Merger Deal,](#)” *CNNMoney.com*, May 20, 2005, accessed June 20, 2008).

#### Realize More Efficient Economies of Scale

The purchase of Pharmacia Corporation (a Swedish pharmaceutical company) by Pfizer (a research-based pharmaceutical company based in the United States) in 2003 created the world’s largest drug maker and the leading pharmaceutical company, by revenue, in every major market around the globe. The acquisition created an industry giant with more than \$48 billion in revenue and a research-and-development budget of more than \$7 billion (Robert Frank and Scott Hensley, “Pfizer to Buy Pharmacia For \$60 Billion in Stock,” *Wall Street Journal Online*, *WJS.com*, July 15, 2002, accessed June 20, 2008). Each day, almost forty million people around the globe are treated with Pfizer medicines (About Pfizer, company Web site, accessed August 28, 2011). Its subsequent \$68 billion purchase of rival drug maker Wyeth further increased its presence in the pharmaceutical market (“[Pfizer Agrees to Pay \\$68 Billion for Rival Drug Maker Wyeth,](#)” *New York Times*, January 25, 2009, accessed August 28, 2011).

## Hostile Takeover

What happens, though, if one company wants to acquire another company, but that company doesn't want to be acquired? You can end up with a very unfriendly situation. The outcome could be a *hostile takeover*—an act of assuming control that's resisted by the targeted company's management and its board of directors. Ben Cohen and Jerry Greenfield found themselves in one of these unfriendly situations: Unilever—a very large Dutch/British company that owns three ice cream brands—wanted to buy Ben & Jerry's, against the founders' wishes. To make matters worse, most of the Ben & Jerry's stockholders sided with Unilever. They had little confidence in the ability of Ben Cohen and Jerry Greenfield to continue managing the company and were frustrated with the firm's social-mission focus. The stockholders liked Unilever's offer to buy their Ben & Jerry's stock at almost twice its current market price and wanted to take their profits and run. In the end, Unilever won; Ben & Jerry's was acquired by Unilever in a hostile takeover. Despite fears that the company's social mission would end, this didn't happen. Though neither Ben Cohen nor Jerry Greenfield are involved in the current management of the company, they have returned to their social activism roots and are heavily involved in numerous social initiatives sponsored by the company.

### KEY TAKEAWAYS

- A **merger** occurs when two companies combine to form a new company.
- An **acquisition** is the purchase of one company by another with no new company being formed.
- Companies merge or acquire other companies to gain complementary products, attain new markets or distribution channels, and realize more-efficient economies of scale.
- A hostile takeover is an act of assuming control that is resisted by the targeted company's management and its board of directors.

## Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

<https://assessments.lumenlearning.com/assessments/189>

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