

9812

Understanding Mergers



The Merger Group

EMGT 520: Understanding Mergers

12/7/98

1

Team Members

The Merger Group

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12/7/98

2

Agenda

- Introduction
- New method for understanding mergers
 - Development
 - Case Studies
- Contributions
- Future work

Introduction

- In general, mergers are complex systems that are difficult to understand.
- We have developed a method that serves to structure the evaluation process for ease of understanding.
- We will verify our methodology with several case studies.

Approach

Mergers

- Mergers are complex systems
- No general formats
- No systematic methodologies
- No standard documentation

Our Method

- Structured evaluation process
- Applicable industry wide
- Systematic
- Comprehensive

Development of Methodology

- Extensive literature evaluation
- Extensive review of mergers
- Brain-storming
- Decision tree analysis
- ISM (Interpretive Structural Modeling)

Method - Step 1

Categorization of variables

- Quantitative
 - Financial
 - Technology
 - Market
- Qualitative
- Exogenous

Method - Step 2

Differentiation of conditions

- Necessary
 - Motivational factors for merger
- Sufficient
 - Variables that support the merger

Merger Compatibility Evaluation

| Quantitative | | | Qualitative | Exogenous |
|--------------|---------------|-------------------------------|----------------------|--------------|
| Finance | Technology | Market | | |
| Cash flow | Production | Distribution network | Corporate culture | Anti-Trust |
| Capital | R & D | Horizontal market integration | Management style | Economy |
| Profit | Marketing | Vertical market integration | Shareholders | World Market |
| Taxes | Manufacturing | Marketshare | Ethnic culture | |
| | Technology | Name Recognition | Long term objectives | |
| | | | | |

Case Studies

- Boeing / McDonnell Douglas



- Novell / WordPerfect

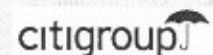


WordPerfect

- Quaker / Snapple



- Citicorp / Travelers



- MCI / WorldCom



- Daimler Benz / Chrysler





Boeing / McDonnell Douglas



BOEING



MCDONNELL DOUGLAS



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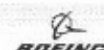
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11



Boeing / McDonnell Douglas



Necessary Conditions

– Technology

- Boeing needed defense technology
- MD needed commercial aircraft technology

– Cash Flow

- McDonnell Douglas suffered after the ValuJet crash in Florida

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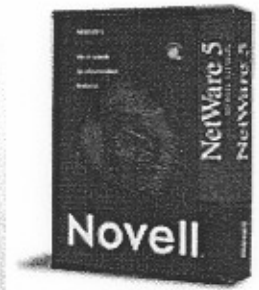
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Novell.

Novell / WordPerfect WordPerfect



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Novell.

Novell / WordPerfect WordPerfect

Necessary Conditions

- Market Share
 - Novell needed desktop applications
 - WordPerfect needed to extend
- Horizontal Market Integration

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14



Daimler-Benz / Chrysler



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Daimler-Benz / Chrysler



Necessary Conditions

- Market Share / Distribution Network
 - Chrysler needed European market
 - Daimler needed US market
- Horizontal Market Integration
 - Chrysler needed to improve quality
 - Daimler needed to increase time-to-market

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16

Key

- C Compatible
 - I Incompatible
 - NA Not Applicable
 - ? No Literature
 - NE Not Evaluated
-
- RED Necessary Condition
 - BLACK Sufficient Condition

Merger Compatibility Checklist

| | | <i>Boeing / McDonnell Douglas</i> | <i>Novell / Wordperfect</i> | <i>Quaker / Snapple</i> | <i>Citicorp / Travelers</i> | <i>MCI / WorldCom</i> | <i>Chrysler / Daimler</i> |
|---|-------------------------------|---------------------------------------|---------------------------------|-----------------------------|---------------------------------|---------------------------|-------------------------------|
| F i n a n c e T e c h n o l o g y M a r k e t | Cash Flow | C | C | C | C | C | C |
| | Capital | C | C | C | C | C | C |
| | Profit | C | C | C | C | C | C |
| | Production | C | C | C | C | ? | C |
| | R&D | C | C | C | ? | C | C |
| | Marketing | C | I | I | C | C | C |
| | Manufacturing | C | NA | C | NA | NA | C |
| | Technology | C | C | C | C | NE | C |
| | Distribution Network | C | I | I | C | C | C |
| | Horizontal Market Integration | C | C | C | NA | C | C |
| | Vertical Market Integration | NA | NA | NA | C | C | NA |
| | Marketshare | C | C | C | C | C | C |
| | Name Recognition | C | C | C | C | C | I |

Merger Compatibility Checklist cont.

| | | Boeing / McDonnell Douglas | Novell / Wordperfect | Quaker / Snapple | Citicorp / Travelers | MCI / WorldCom | Chrysler / Daimler |
|-------------|----------------------|-------------------------------|-------------------------|---------------------|-------------------------|-------------------|-----------------------|
| Qualitative | Corporate Culture | I | I | I | C | I | C |
| | Management Style | C | I | I | C | C | C |
| | Shareholders | C | NA | C | C | C | C |
| | Ethnic Culture | NA | NA | NA | C | ? | I |
| | Long Term Objectives | C | C | C | C | C | C |
| Economic | Anti-Trust | C | NA | NA | NA | NA | NA |
| | Economy | C | C | C | C | C | C |
| | World Market | C | C | C | C | C | C |
| | Other Laws | NA | NA | NA | C | NA | NA |

Contributions

- Standardized checklist
- Structured evaluation process
- Applicable for diverse industries

Future Work

- Evaluate more mergers
- Survey expert individuals
- Factor analysis on subcategories
- Cross-classification evaluation of strata