Mergers and Acquisitions

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Over the past decade, Mergers and Acquisitions (M&As) have reached unprecedented levels as companies use corporate financing strategies to maximize shareholder value and create a competitive advantage. Acquisitions occur when a larger company takes over a smaller one; a merger typically involves two relative equals joining forces and creating a new company. Most mergers and acquisitions are friendly, but a hostile takeover occurs when the acquirer bypasses the board of the targeted company and purchases a majority of the company's stock on the open market. A merger is considered a success if it increases shareholder value faster than if the companies had remained separate. Because corporate takeovers and mergers can reduce competition, they are heavily regulated, often requiring government approval. To increase chances of the deal's success, acquirers need to perform rigorous due diligence—a review of the targeted company's assets and performance history—before the purchase to verify the company's stand-alone value and unmask problems that could jeopardize the outcome.

Methodology

Successful integration requires understanding how to make trade-offs between speed and careful planning and involves:

- Setting integration priorities based on the merger's strategic rationale and goals;
- Articulating and communicating the deal's vision by merger leaders;
- Designing the new organization and operating plan;
- Customizing the integration plan to address specific challenges: Act quickly to capture economies of scale;
- Redefine a business model and sacrifice speed to get the model right, such as understanding brand positioning and product growth opportunities;
- Aggressively implement the integration plan: by Day 100, the merged company should be operating and contributing value.

Related topics

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Common uses
Mergers are used to increase shareholder value by:

- Reducing costs by combining departments, operations, and trimming the workforce;
- Increasing revenue by absorbing a major competitor and winning more market share;
- Cross-selling products or services;
- Creating tax savings when a profitable company buys a money-loser;
- Diversifying to stabilize earning results and boost investor confidence.

Related Bain capabilities

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