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Creating or Destroying Value through Mergers and Acquisitions: A Marketing Perspective

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The thesis is submitted to University College Dublin in fulfilment
of the requirements for the degree of Doctor of Philosophy

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Supervisor: Professor Mary Lambkin

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Abstract

The world has witnessed a major wave of mergers and acquisitions (M&A) through the 1990s and up to 2007. A majority of these M&A deals are horizontal, involving the purchase of another company in the same industry. Such acquisitions imply a motivation to increase revenues by expanding market scope and/or market share, and/or by adding new products to the portfolio. They also suggest a pursuit of cost efficiencies in various aspects of operations. Whether these benefits are actually realised is an empirical question that has attracted research in several disciplines, including economics, finance and accounting. By now, there is a large body of research evidence to indicate that M&As have a poor record of success, with the main beneficiaries being the sellers who reap a one-off gain from the premium paid to acquire their firm.

The objective of this dissertation was to examine post-merger performance from a marketing perspective, a topic that has not been explored thus far. This study followed a multi-stage approach; in the first stage an exploratory case study was conducted to identify the parameters of the research problem and to develop a set of hypotheses. Following this, a quantitative study of a sample of M&A transactions was carried out to test these hypotheses.

The exploratory case study was based on Tata Motors, an Indian company which acquired Jaguar and Land Rover from Ford Motors. This case investigation based on both primary data collected through in-depth interview and a wide spectrum of secondary sources, showed that the acquisition had a significantly positive impact on Tata Motors' marketing performance, with sales volume and revenue growing significantly in the post-acquisition years. However, these sales increases came at a high cost; the company invested a huge amount in new product development and marketing communications, with the result that profit performance was negatively affected in the three years post-merger. Profit margins increased, however, in the seventh year 2014, suggesting that the reduction post-merger may have been a temporary effect.

The quantitative study was based on a sample of forty-five M&A deals involving ninety US companies. This longitudinal study examined performance over six years, three before the merger, and three years after the merger. Four analytical tools were used: a paired sample t-test, an analysis of effect size, an analysis of covariance (ANCOVA), and regression analysis, to examine post-merger performance. The results of both raw data and log-transformed data analyses showed that sales revenue increased significantly in the post-merger years compared to the pre-merger years. Moreover, the combined companies reduced their marketing and selling costs in proportion to sales revenue. However, there was a significant reduction in profit as measured by return on sales (ROS).

Combining the findings from both the qualitative and quantitative studies, we concluded that post-merger marketing performance improved, i.e. sales revenue and cost of marketing and selling, but that this did not follow through into improved return on sales. These findings need to be validated over a longer time frame, and with larger samples drawn from a range of countries and industries.

Statement of Original Authorship

“I hereby certify that the submitted work is my own work, was completed while registered as a candidate for the degree stated on the Title Page, and I have not obtained a degree elsewhere on the basis of the research presented in this submitted work”.

Acknowledgement

Writing a PhD dissertation is a complex and multifaceted intellectual journey. I surely would not have been able to finish this journey without the help, cooperation and encouragement of a number of people and I would like to take this opportunity to thank these people and to acknowledge their contribution to this piece of work.

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List of Abbreviations

M&A	Mergers and Acquisition
ROS	Return of Sales
M-to-B	Market to Book Ratio
RBV	Resource Based View
SAG	Selling, General and Administrative
EBIT	Earnings before interest and tax
CAR	Cumulative abnormal return

CHAPTER ONE
INTRODUCTION: STATEMENT OF THE RESEARCH PROBLEM

Chapter Outline

- 1.1 Introduction
- 1.2 Research objectives
- 1.3 Research question and hypotheses
- 1.4 Research approach
- 1.5 Organization of the dissertation

Chapter One

INTRODUCTION: STATEMENT OF THE RESEARCH PROBLEM

1.1 Introduction

It is well-known by now that mergers and acquisitions (M&As) come in waves and the world has thus far witnessed a major wave through the 1990s and up to 2007 when the value of deals reached an all-time record level of \$4.4 trillion representing 76,000 transactions (Martynova & Renneboog, 2008). Given this very active market for corporate assets, mergers and acquisitions has received extensive research attention from several disciplines, with most from Finance and Accounting, and least from Marketing (e.g. Havila & Salmi, 2000; Weber & Dholakia, 2000; Anderson, Havila, & Salmi, 2001; Homburg & Bucerius, 2005; Öberg & Holtström, 2006; Bahadir, Bharadwaj, & Srivastava, 2008). Each discipline looked at M&A transactions through its own lens, with one section of the literature concerned with the causes and characteristics of M&A transactions, and another concerned with the gains and losses resulting from M&A transactions.

The evidence shows that a majority of M&A deals are horizontal, meaning that they involve the purchase of another company in the same industry, either at home or abroad (Andrade, Mitchell & Stafford, 2001; Kengelbach & Roos, 2011). According to UNCTAD(2006), horizontal M&As accounted for approximately 80 per cent of all M&A deals worldwide in the 1990s and 2000s. Such horizontal acquisitions imply a motivation to increase revenues by expanding market scope and/or market share, and possibly by adding new products to the portfolio. They also suggest a pursuit of synergies in various aspects of operations, with an impact both on revenues and cost efficiencies (Gugler, Mueller, Yurtoglu & Zulehner, 2003).

Whether these synergies are actually realised is an empirical question which has attracted a great deal of research effort in several disciplines. By now, there is a large body of research evidence in the economics and finance literatures to indicate that mergers and acquisitions actually have a poor record of success, with the main beneficiaries being the sellers of businesses who reap a one-off gain from the premium

paid to acquire their firm (Andrade, et al., 2001; Haleblan, Devers, McNamara, Carpenter & Davison, 2009).

Among various streams of research on M&A, post-merger performance seems to have received most research attention (Martynova & Renneboog, 2008; Haleblan, et al., 2009). Post-merger performance is usually defined as the amount of value created as a result of a merger or acquisition (King, Dalton, Daily & Covin, 2004), and the concept of value creation is synonymous with that of synergy -- the 2+2=5 effect (Ansoff, 1965; Seth, 1990). Despite the vast amount of research on post-merger performance, researchers have failed to reach unanimity as to the impact of mergers and acquisitions on firm performance (Haleblan, et al., 2009).

Considerable research evidence exists to show that the generally poor outcome of acquisitions results from the fact that the hoped for synergies are rarely realised (Ficery, Herd & Pursche, 2007; Homberg, Rost & Osterloh, 2009). The research on this topic tends to be largely from finance and accounting and focuses predominantly on financial measures, and cost savings in production and related issues. The marketing dimension of post-merger performance has received very little attention despite the fact that the motivations for mergers are frequently stated in marketing terms. Moreover, the few existing studies on post-merger marketing performance typically examined only one dimension of the construct such as sales or market share, while marketing performance is actually a multidimensional construct (Seggie, Cavusgil & Phelan, 2007; Ambler & Roberts, 2008; Stewart, 2009).

This dissertation sets out to advance our understanding of post-merger performance from a marketing point of view, as an addition to the wider literature on post-merger performance. A further contribution rests in the fact that the study reported here uses multiple measures of marketing performance in order to provide a more comprehensive understanding of the value drivers in post-merger performance. This study is based on a sample of 45 M&A deals that took place in the United States between 1990 and 2010, a period in which such deals were believed to be motivated primarily by value enhancement (Roll, 1986; Trautwein, 1990; Seth, Song & Pettit, 2000; Martynova & Renneboog, 2008; Haleblan, et al., 2009). The study examined

detailed marketing and financial metrics on both the acquirers and the targets to investigate their behaviour and performance for the three years pre-merger and for the three years post-merger.

1.2 Research Objectives

The research objectives of the dissertation were as follows:

Objectives of the Dissertation
1. To understand the role of marketing in the context of mergers and acquisitions.
2. To identify the relevant parameters of post-merger marketing performance, and to develop a model and hypotheses concerning the cause and effect relationships.
3. To test the model of post-merger marketing performance on a cross-section of firms that have completed M&A transactions.

The first objective of the dissertation was fulfilled through a comprehensive review of the literature on M&A. As a multi-dimensional construct, M&A has received research attention from scholars from many disciplines, including Economics, Finance, Management, and, to a lesser extent, Marketing. Our review examined articles from all of these disciplines so as to bring together the existing knowledge in a systematic framework, to enable the identification of research gaps, and to help formulate a set of hypotheses on post-merger marketing performance.

The second objective of the dissertation was to identify the parameters of the concept of post-merger marketing performance and to try to construct a model showing how they are connected in a cause and effect way. This objective was essentially exploratory, and was fulfilled through a case study investigation. The case study helped to develop a rich understanding of post-merger marketing performance, the metrics involved in measuring performance, the variables driving that performance, and the pattern of evolution over the period from pre- to post-merger. The chosen case was Tata Motors' acquisition of Jaguar and Land Rover from Ford Motors. Jaguar and

Land Rover had gone through several acquisitions over time, most of which had resulted in failure. In contrast, the Tata Motors acquisition has been hailed as a success. This example of varied fortunes seemed to provide an ideal case to examine issues concerning post-merger marketing performance.

The third research objective was fulfilled through a quantitative study based on a sample of 45 merger and acquisitions deals involving ninety companies. The quantitative study provided a test of post-merger marketing performance across a range of industries and company types. It also allowed us to utilize multiple performance measures as opposed to the single performance measures utilized in earlier studies which enabled us to strengthen the robustness of the research.

1.3 Research Question and Hypotheses

This dissertation sought to answer the following research question:

Do mergers and acquisitions lead to improved marketing performance in the post-merger years?

Or, more specifically,

Do mergers and acquisitions lead to improved marketing efficiency and marketing effectiveness leading to improved overall profitability in the post-merger years?

An enormous empirical literature on this issue exists, beginning in the 1960s and continuing right up to the present day (King, et al., 2004; Tuch & O'Sullivan, 2007; Halebian, et al., 2009). Post-merger performance has received attention from several different disciplines including Accounting, Finance, Economics, Industrial Organization and Management (Zollo & Singh, 2004; Zollo & Meier, 2008). Despite the extensive volume of research and the variety of the methodologies applied, the evidence is extremely mixed, with a broad consensus that mergers and acquisitions do

not add value (Andrade, et al., 2001; King, et al., 2004; Tuch & O'Sullivan, 2007; McNamara, Haleblan, & Dykes, 2008).

In sum, despite extensive research in this area over the last three decades, the evidence suggests that post-merger performance tends to fall short of expectations, both in terms of real operating performance and in terms of stock market value. However, the evidence across all of this research is at best mixed and at times conflicting. These mixed findings may be attributed to two factors: differing definitions of the construct “post-merger performance” and the wide variety of methodologies used to measure it. We would like to argue in this dissertation that a marketing perspective on post-merger performance may help to resolve some of this confusion.

Marketing performance is a multidimensional construct similar to overall firm performance (Morgan, Clark & Gooner, 2002). Literature on *firm performance* defines it as the process of quantifying outcomes and the two most fundamental dimensions are efficiency and effectiveness (Neely, Gregory & Platts, 1995). In simple terms, effectiveness means doing the right things while efficiency means doing things right

The study reported here is concerned with measuring both marketing effectiveness and efficiency. It is focused on the relationship between the goals and objectives pursued via a merger and the degree to which they are achieved. For our purposes, marketing effectiveness is defined in relation to the strategic goals of the merger, and the degree to which they are achieved. Sales growth is assumed to be the main evidence of marketing effectiveness, in that it provides demonstrable evidence of the achievement of a number of intermediate goals such as expansion of the customer base, expansion of geographic reach, and adding new lines of business or new products. Increased sales also suggest the possibility of increased profits, the realisation of which will depend on the degree of marketing efficiency among other things.

Marketing efficiency refers to the relationship between inputs and outputs, a measure of marketing productivity. For our purposes, increased efficiency would be demonstrated if marketing expenditure were to be reduced in relation to a given level

of sales, or if sales were increased for a constant level of marketing expenditure. These effects are equivalent to economies of scale.

Finally, the achievement of sales growth through economies of scope and/or cost reductions through economies of scale should follow through into improvements in profit margins as measured by return on sales, if the merger is ultimately to have any benefit for shareholders.

These arguments were brought together into 3 hypotheses which are set out below, which were tested in this study.

Hypotheses	
H₁	<i>Mergers and acquisitions will have a positive impact on the marketing effectiveness of the combined firm as measured by sales revenue.</i>
H₂	<i>Mergers and acquisitions will have a positive impact on the marketing efficiency of the combined firm as measured by the ratio of selling and marketing expenditure to sales revenue.</i>
H₃	<i>Mergers and acquisitions will have a positive impact on both marketing efficiency and marketing effectiveness leading to a positive impact on the overall profitability of the combined firm.</i>

1.4 Research Approach

The research described in this dissertation was carried out in two-stages. In the first stage, an exploratory study was conducted employing a case study methodology. Data for the case study was collected both from primary and secondary sources. The chosen case was Indian automobile company Tata Motors' acquisition of Jaguar and Land Rover from Ford Motors. It appeared from the case analysis that Tata Motors successfully turned around the ailing JLR brands in a very short span of time. We analysed a number of marketing performance measures and found that the performance of Tata Motors improved in the post-merger years as measured by sales

volume and sales growth rate. Moreover, Tata Motors was able to transform itself from a local company into a global one through acquisition of Jaguar and Land Rover. Before the acquisition, 80% of the revenue of Tata Motors came from India. After the acquisition, only 37% of revenue was earned from the Indian market.

However, our analysis also found that the marketing productivity of Tata Motors declined in the post-acquisition years because of greatly increased spending on advertising and sales activities, necessary to kick start sales of the newly acquired brands. Furthermore, Tata Motors embarked on a massive investment in new product development which resulted in the introduction of a number of very successful new models into the market, such as the Land Rover Evoque. The combined cost of increased marketing and capital investment has meant that, while Tata Motors has increased sales substantially, its profits have not increased at the same rate.

In fact, the profit performance displayed mixed results. While the gross profit margin improved considerably in the post-merger years compared to that of the pre-merger years, both net income margin and operating margin declined in the post-merger years as compared to those of the pre-merger years. It appears therefore that, while marketing performance was enhanced post-merger, this may have been at the expense of a reduction in profit performance. It should be noted, however, that performance as measured by all three profit margins has increased in the current financial year (2014), suggesting that the depressed profits might be a temporary phenomenon, recovering as a consequence of the marketing turnaround.

This apparent paradox was investigated further in the second stage of the research which involved a quantitative analysis of both the marketing and financial performance of a cross-section of firms following M&A transactions. This second stage study was based on a sample of 45 M&A deals (90 companies) drawn from various industries in the USA. The data was analysed using three statistical tools namely, paired sample t-tests, effect size analysis and regression analysis. The motive for utilization of different statistical tools was to overcome the weakness of any one specific analytical tool, and to investigate whether or not all analytical tools produce convergent results. Moreover, it has been argued in the M&A literature that one of the

reasons of the existing mixed or conflicting results of the post-merger performance studies is because of wide variety of methodological approaches utilized. Data for the current study has been analysed in both raw- and log-transformed formats.

Overall, the results of the paired sample T-test of both raw data and log-transformed data showed that the 3 year average sales revenue in the post-merger years increased significantly compared to the 3 year average sales in the pre-merger years. Furthermore, the results of the effect size analysis showed that the performance improvement in the post-merger years was mainly because of the merger itself. The regression analysis without the control variables demonstrated that the improved sales performance post-merger was a combined effect of strong pre-merger performance and the synergies realized due to the merger itself. However, the regression analysis with the two control variables added demonstrated that this improved performance was largely attributable to the pre-merger performance.

The analysis also demonstrated that the ratio of selling, general and administrative expenditure to sales revenue dropped significantly in the post-merger years compared to the pre-merger years. The results of the regression on the ratio of selling, general and administrative expenditure to sales revenue indicated similar results. Mergers and acquisitions had a statistically significant effect on the ratio of selling, general and administrative expenditure to sales revenue in the post-merger years and the improvement in the post-merger years appeared to be a combined effect from a continuation of pre-merger performance together with the synergy achieved because of merger.

In contrast, however, the results showed that the return on sales (ROS) of the sample firms dropped considerably from the pre-merger to the post-merger years. Furthermore, the result of the regression found that, while the return on sales dropped in the three years after the merger, there was not any statistically significant evidence that this drop in ROS was a continuation from the pre-merger period, suggesting that it was therefore a consequence of the merger.

In sum, combining companies through merger or acquisition did yield economies in scope or in scale, at least on some measures. However, these did not translate into an improved return on sales, leaving us with a perplexing paradox to understand. One possible explanation could be that, while marketing performance improved, there may have been a deterioration in research and development and production costs, which account for a far higher percentage of the total, and therefore wiped out the benefit from the gain in sales and marketing.

Some preliminary lessons can be drawn from these results. First, revenue-based synergies contribute more to acquisition performance than do cost savings, as suggested by previous research (Homburg & Bucerius, 2005; Tuch & O'Sullivan, 2007; Halebian, et al., 2009). We have very little real evidence, however, as to where the revenue growth comes from -- the degree to which expanded market coverage or an extended product line, or some combination, produces the revenue growth. Furthermore, we do not know exactly what led to the increase in other costs that cancelled out the savings in selling and administration. One possibility is that problems in the post-merger integration process may have reduced production efficiency (Krishnan, Hitt & Park, 2007). The nature of these effects is yet to be researched in any depth and seems to offer fertile ground for future study.

1.5 Organization of the Dissertation

The dissertation consists of ten chapters. The content of each chapter is outlined below.

Chapter	Contents
Chapter 1	This first chapter introduces the context and objectives of the research, as well as the research questions and hypotheses addressed. It provides an introduction to the methodology and findings, and summarises the structure of the chapters.
Chapter 2	This chapter contains a comprehensive review of the various streams of M&A literature and integrates the existing knowledge into a general framework covering all the stages from motivation, to pricing, execution and post-merger integration.
Chapter 3	This chapter reviews the research on post-merger performance, starting with the research in finance and accounting, and then considering what

	is meant by post-merger marketing performance. It concludes by proposing a comprehensive model of post-merger marketing performance.
Chapter 4:	This chapter considers methodological issues in researching post-merger performance, reviews methods used in finance and accounting, and delineates the strengths and weaknesses of the methods utilized by the extant studies.
Chapter 5	This chapter delineates the methodology utilized for the exploratory case study.
Chapter 6	This chapter describes the case study on Tata Motors' acquisition of Jaguar and Land Rover and draws some preliminary conclusions.
Chapter 7	This chapter delineates the theoretical model underpinning of the quantitative study and suggests a set of hypotheses and also delineates the methodology of the quantitative study.
Chapter 8	The findings of the quantitative study are reported, analysed and discussed in this chapter.
Chapter 9	This chapter deals with discussions of managerial implications, limitations and future directions for research.
Chapter 10	This chapter provides a final summary and conclusion.

CHAPTER TWO

MARKETING AND MERGERS & ACQUISITIONS: A REVIEW

Chapter Outline

- 2.1 Introduction
- 2.2 Motivations for Mergers and Acquisitions
- 2.3 Prices Paid for Acquisitions and Brand Value
- 2.4 Valuing Brand Equity in M&A
- 2.5 Conditions affecting Brand Value
- 2.6 Implementation Issues
- 2.7 Measuring the Transfer of Marketing Assets and Skill
- 2.8 Summary and Conclusion

Chapter Two

MARKETING AND MERGERS & ACQUISITIONS: A REVIEW

2.1 Introduction

It is well-known by now that mergers and acquisitions (M&As) come in waves and we have witnessed a major wave through the 1990s and up to 2007 when the value of deals reached an all-time record level of \$4.4 trillion representing 76,000 transactions (Martynova & Renneboog, 2008). Thomson Reuters have recorded a total of 752,000 deals around the world from 1985 to the end of 2012, demonstrating the enormous scale of this phenomenon. Deal activity slowed dramatically due to the global financial crisis in 2008 and 2009 but resumed again in 2010. Global deals numbered 40,000 in 2012, with a total value of US\$2.6 trillion (Reuters, 2012).

Given this very active market for corporate assets, mergers and acquisitions has received extensive research attention from several disciplines, with most from Finance and Accounting, and least from Marketing (e.g. Havila & Salmi, 2000; Weber & Dholakia, 2000; Anderson, et al., 2001; Homburg & Bucerius, 2005; Öberg & Holtström, 2006; Bahadir, et al., 2008). Each discipline looked at M&A transactions through its own lens, with one section of the literature concerned with the causes and characteristics of M&A transactions, and another concerned with the gains and losses resulting from M&A transactions.

The evidence shows that a majority of these M&A transactions are horizontal, meaning that they involve the purchase of another company in the same business, either at home or abroad (Andrade, et al., 2001; Kengelbach & Roos, 2011). According to UNCTAD(2006) horizontal M&As accounted for approximately 80 per cent of all M&A transactions worldwide in the 1990s and 2000s. Such horizontal acquisitions imply a motivation to increase revenues by expanding market scope and/or market share, and possibly by adding new products to the portfolio. They also suggest a pursuit of synergies in various aspects of operations, with an impact both on revenues and cost efficiencies (Gugler, et al., 2003).

Such motivations immediately suggest an interest in and involvement from marketing people, both academics and practitioners. Decisions about entering new markets or increasing market share are the fundamental strategic issues that marketers deal with and, therefore, one would expect them to be centrally involved in business decisions involving such moves. Whether or not they are actually involved in such decisions, or whether they are kept within the realm of the financiers is an empirical question that seems to call for examination. The fact that marketing personnel are so poorly represented in the boardroom of major companies creates a strong suspicion that perhaps they may not be as closely involved as they should be (Nath & Mahajan, 2008; Verhoef & Leeflang, 2010).

In addition to the strategic motivations for mergers and acquisitions, the implementation of the deal also requires a marketing involvement. First of all, there is the fact that every single merger or acquisition involves decisions about the composition of the combined product portfolio—its breadth and depth-- and whether there is redundancy between the existing and acquired products that may require some to be divested. There will also be decisions required about the brand architecture to exploit potential cost synergies and to maximise the value from combining the firms or businesses (Basu, 2006; Ettenson & Knowles, 2006; Muzellec & Lambkin, 2006). There are also many issues involved in communicating any change of name and in winning over customers so as to preserve the brand equity embodied in the acquired brand and its underlying business. This is another topic that has received very little research attention.

Secondly, the integration of firms post-acquisition to realise the hoped for synergies is a complex and challenging task that is often poorly executed with the result that performance is often negatively affected (Chatterjee, 1986; Krishnan, Joshi & Krishnan, 2004). This stage usually involves transfers of people and resources and often results in downsizing to try to extract scale efficiencies and to remove duplication with repercussions for morale and cooperation. Sales and marketing resources are often at the forefront of this process, and the success or failure of integration in this area can strongly influence whether the acquisition is a success or

failure(Capron & Hulland, 1999). How this is experienced in practice is a question requiring research but thus far it has received almost no attention.

The final test of success for mergers and acquisitions is in the performance they achieve over time, measured by marketing and financial metrics. There is a large body of evidence in the economics and financial literature to indicate that mergers and acquisitions have a poor record of success, with the main beneficiaries being the sellers of businesses who reap a one-off gain from the premium paid to acquire their firm (Andrade, et al., 2001; Halebian, et al., 2009). The poor long-run performance of acquirers may be also be because of excessive price premiums paid for acquisitions, with an average premium of about 30% over stock market value in recent merger waves (Antoniou, Arbour& Zhao, 2008; Moeller, Schlingemann, & Stulz, 2004)

Considerable research evidence exists to show that the generally poor outcome of acquisitions results from the fact that the hoped for synergies are rarely realised(Ficery, et al., 2007; Homberg, et al., 2009). The research on this topic tends to be largely from finance, however, and tends to have a bias in terms of focusing on cost efficiencies rather than on revenue generation. A marketing perspective on this topic would help to redress this balance by putting greater emphasis on revenue growth either through market expansion or through value enhancement. This is a contribution that has yet to be made.

The foregoing points combine to suggest that marketers ought to have a central role in every aspect of M&A, both practically, in the planning and execution of such transactions, and academically, in researching best practice from a marketers' perspective. This chapter sets out to review the topic of marketing and M&A, to identify the key parameters of this important strategic issue, to review theory and research on the topic from a variety of sources, and to suggest areas for conceptual development and research. It starts with the strategic objectives and motivations for M&A; it then examines the the pricing decision, and the implementation process, all viewed from a marketing perspective.

2.2 Motivations for Mergers and Acquisitions

The motives underlying acquisitions have been examined by various disciplines including Finance, Accounting, Organization studies, and Management (Trautwein, 1990; Tuch & O'Sullivan, 2007; Martynova & Renneboog, 2008). Broadly, the motives for merger can be classified into two categories: value destroying or value creating motives (Haleblian, et al., 2009). Value destroying merger motives such as managerial hubris and increased CEO compensation have been studied mainly by Finance scholars. Value creating merger motives such as market power, resource deployment, and resource dependence have been conceptualised and investigated mainly by management and organization studies scholars (Haleblian, et al., 2009).

Economic theory has suggested many reasons for why mergers might occur: efficiency-related reasons that involve economies of scale in production, distribution, marketing or other “synergies”; attempts to create market power by building market share and thereby increasing industry concentration; a desire to improve market discipline, as in the case of the removal of excess capacity or incompetent management; self-serving attempts by acquirer management to “over-expand” ; and to take advantage of opportunities for diversification, such as exploiting internal capital markets and managing risk for undiversified companies (Andrade, et al., 2001; Martynova & Renneboog, 2008).

This economic perspective is primarily focused on efficiency gains and diversification of risk which is in direct contrast to the empirical evidence which suggests that revenue growth is the primary motive for M&A transactions. This has been borne out in successive bi-annual surveys of large global M&A deals by KPMG (KPMG Transaction Services Surveys). The results of these surveys indicate that managers and boards of directors consider sales revenue growth as the single-most important reason for undertaking mergers and acquisitions. For example, in 2010 survey by KPMG (2011), respondents cited general revenue growth (39 percent), expansion of customer base (37 percent), expansion of geographic reach (36 percent), entering new lines of business (26 percent), and introducing new products (17 percent), as the primary reasons driving their own acquisitions. In contrast, cutting costs was

mentioned as a motivation by only 15 percent, and enhancing intellectual property was mentioned by only 13 percent.

Further corroboration of this tendency may be found in the well-documented fact that mergers and acquisitions are most likely to occur between firms within the same industry. In other words, horizontal mergers and acquisitions in which firms acquire others in the same industry thereby increasing their market share are the most numerous. This trend has continued from the 1970s right up to the present day with 60% of all M&A deals being within the same industry in recent decades (Andrade, et al., 2001; Halebian, et al., 2009).

In earlier waves of M&A activity, the focus of market share expansion was mostly domestic, but since the 1990s, there has been a substantial increase in the number of cross-border transactions suggesting that growing international sales and market share has become the objective in recent decades (Martynova & Renneboog, 2008). This observation ties in with the KPMG research which lists geographic expansion as the second most important objective for M&A deals after market share. Cross-border M&A activity totalled US\$944 billion during full year 2012, accounting for 36% of overall M&A volume, and this percentage has been growing steadily over recent years, up from 29% in 2002 (Reuters, 2012).

In sum, the evidence indicates that growing revenue through widening the customer base and market share, and adding new products are the primary objectives in a large proportion of M&A transactions and therefore these variables should be high on the list of topics to be examined in the due diligence process.

2.3 Prices Paid for Acquisitions and Brand Value

A considerable body of research evidence exists on the subject of prices paid for acquisitions, mostly from finance, and it suggests a norm of 20-30% over the stock market value of the firm as the typical premium paid. For example, (Jarrell & Poulsen, 1989) examined 663 successful tender offers from 1962 to 1985 and found that takeover premiums averaged 19 percent in the 1960s, 35 percent in the 1970s, and 30 percent in the first half of the 1980s. Andrade, et al. (2001) reported remarkably stable

target firm premiums of 23 to 25 percent for completed mergers spanning decades in the 1973 to 1998 period.

Alexandridis, Fuller, Terhaar & Travlos(2013) found that the valuation difference between acquirers and targets was narrower in the sixth wave (from 2003 to 2007) relative to the 1990s wave; they found that the average premium paid in public acquisitions during this time was 38% compared to 45% during the 1993-1999 period. Price premiums paid for acquisitions were more subdued following the 2008 crash but have recovered in recent years. The average acquisition premium for global deals completed in 2012 was 32%, with a range from 24 to 36%, according to the latest data from (Reuters, 2012). The equivalent multiple in terms of price/EBITDA was 11.5× on average, with a range from 10 to 17×.

2.3.1 Industry Effects on Merger Valuation

Individual industries were affected more or less during different merger waves and the premium paid for acquisitions varied correspondingly across industries. (Madura, Ngo& Viale, 2012) showed that acquirers paid higher premiums when the target firm's industry has a higher growth rate and has a higher level of investment in research and development. This implies that the acquirers are willing to pay a higher premium if there is a greater possibility that they will be able to add new products to their existing product portfolio. In 2012, for example, the highest premiums were paid for healthcare (36%) and high technology (35%) companies, and the lowest for industrials (23%) (Reuters, 2012)

2.3.2 Firm Level Variables affecting Valuation

Earlier studies have examined the impact of industry level variables on acquisition premiums. At the firm level, it might be supposed that firms with strong brands would get a higher premium and vice versa. This suggests the likelihood of paying a higher premium in industries which are known to be brand driven such as FMCG industries compared to industries which are not brand driven such as capital goods which are mainly product driven. This is broadly borne out by the transaction data which show consumer goods acquisitions averaging a 30% premium on share price, while

industrials attract a lower level of 23% (Thomson Reuters, 2012). However, both categories achieve prices of around 10.3×EBITDA and so cannot be differentiated on this benchmark.

There is little or nothing written in the marketing literature about valuing acquisitions despite the fact that much of what is purchased is intangible—in other words, acquirers are seeking to purchase brand equity. The next section considers how brand equity may be identified, measured and transferred in mergers and acquisitions, a topic upon which marketers have an opportunity to develop an expertise that would allow them to participate more actively in the planning and execution of M&A deals.

2.4 Valuing Brand Equity in M&A

The importance of intangible assets in M&A deals has been increasing steadily over time and, in most cases, brands account for a considerable portion of these assets (Knudsen, 1997). For example, KPMG(2010) found that goodwill and intangible assets made up over 50% of the value of M&A deals in a majority of 372 deals that they studied and, on average, brands and customer relationships account for a major proportion of that (KPMG, 2010). Not surprisingly, perhaps, the highest percentage of intangible assets is in the FMCG sector, at 57%, followed by Life Sciences & Healthcare (45.1%), and Entertainment & Media (43.5%) industries. In contrast, the intangible percentage in energy and power generation is only 7% and 6% in building and construction.

It seems intuitively likely that differing brand equity is the main explanation for this large difference, and the evidence bears this out. KPMG's results show that a high proportion of the intangible assets identified were marketing related (69 %) within the clothing and beverages sectors, with product brands frequently being recognised. The main value drivers in the print and publishing sector were customer-related intangible assets (38.0%) such as subscriber and advertising customer bases, and marketing related intangible assets (27.5 %) such as brand names associated with magazines, journals and newspapers. In the film, television and broadcasting sector, marketing related intangible assets were also prominent (14.3 %), such as TV and radio station names.

2.4.1 Brand Equity Variations between Acquirer and Target

While we have said that brands are an important part of the intangible assets being purchased in acquisitions, this value refers to the brands of the target company only. In fact, of course, there are two companies involved in any transaction, and the two companies involved will likely differ in the levels of brand equity that they bring to a merger (Capron & Hulland, 1999; Bahadir, et al., 2008). The most typical situation is one in which a large, strong firm acquires a smaller, weaker one in the expectation that the performance of the acquired firm can be improved by an infusion of skills and resources from the acquirer, thereby providing a gain for the combined entity (Capron & Hulland, 1999; Andrade, et al., 2001; Bahadir, et al., 2008).

A number of studies have shown that the relative size of acquirers and targets is an important variable in predicting the pattern of redeployment of resources following M&As, as well as the post-merger performance of the combined entity. In a large study of M&A transactions over 30 years in the United States, Andrade, et al. (2001) found that the acquirers were, on average, 10 times larger than their targets. In a global study of acquisitions, Gugler, et al. (2003) found that, on average, the acquired firms were just 16% of the size of the firms which purchased them and made only around a tenth of the profits. More recently, a survey of European M&A deals by PWC found that 80% of targets had assets of less than 10% of the acquirers, while 64% were of businesses whose assets were less than 1% of the acquirers (PriceWaterhouseCoopers, 2011).

Assuming that individual companies have different levels of brand equity at any point in time, then the likelihood is that merging companies will differ in the levels of brand equity that they bring to the merger (Capron & Hulland, 1999; Bahadir, et al., 2008). The large variation in price premiums paid for acquisitions and in the brand value as a percentage of firm value associated with those transactions seems to bear this out. For example, in a study of large M&A transactions in the United States, Bahadir et al. (2008) found a wide range of variation in brand value, from 49% of firm value at one end of the spectrum (in the case of P&G's acquisition of Gillette), to less than 1.5% in

the acquisition of Latitude by Cisco Systems. The mean value for all the transactions studied was 7.3%.

The general tendency in M&A therefore seems to be that a strong firm acquires a weaker one and seeks to leverage its strength to enhance the value of the target, and thereby the value of the whole combined entity. This is somewhat akin to the economic theory according to which merger waves are predicted to occur as a result of over-valued firms seeking to acquire less over-valued ones, in the expectation that the higher valuation will then transfer to the acquired firm, resulting in an overall gain to the combined entity (Rhodes-Kropf & Viswanathan, 2004). These are known as “value” acquisitions, which represent the most common type, in contrast to the opposite possibility—known as “glamour” acquisitions-- in which a firm with a high market-to-book ratio acquires another with an even higher ratio. Rhodes-Kropf, Robinson & Viswanathan(2005) found that about 40% of the total dollar volume of merger activity occurred during such merger waves and a majority of firms (about 65%) with higher market- to- book ratios acquired other under-valued or less over-valued firms in industries which themselves were over-valued. The valuation difference between the acquiring and target firm was roughly 20%.

This "high buys low" (Market- to- book ratio) ties in closely with the proposition that usually firms with relatively high brand equity buy firms with lower brand equity. Furthermore, it is expected that the acquiring firm would redeploy its stronger brand and marketing to the target firm and that this transfer would significantly boost the performance of the combined firm.

Figure 1 below illustrates this general proposition with a large, strong acquirer purchasing a smaller, weaker firm and leveraging its superior brand equity and marketing skills to pull up the value of the acquired firm, thereby increasing the value of the combined entity; in other words, achieving a synergistic effect.

Figure 1: Transfer of brand equity following M&A

2.5 Conditions affecting Brand Value

What is the source of heterogeneity in the target firm's brand value across M&A deals? The extant marketing literature suggests that each brand involved in an M&A transaction has a different potential for generating future cash flows as a result of differences in brand specific factors which might be summarised as differences in brand equity (Srivastava, Shervani& Fahey, 1998; Bahadir et al., 2008). One hypothesis that has earned some support is that firms with stronger marketing capabilities will attribute higher value to targets' brands because their expectations of future revenues from a brand portfolio will be higher than firms with lower marketing capabilities. This stems from the notion that acquirers with stronger marketing capabilities are able to deploy a target's brand portfolio more efficiently, which will affect the level, growth, and volatility of cash flow expectations from the target's brand portfolio (Bahadir, et al., 2008)

Firms in the same industry have different growth potential because their resources vary (Barney, Wright& Ketchen, 2001; Harisson, Hitt, Hoskisson& Ireland, 1991), and firms with a larger product portfolio serving numerous customer segments, and with stronger brands, have a better growth potential than firms with weaker brands and

limited product portfolios. Bahadir, et al.(2008) provided empirical evidence on this point from a study of 133 M&A transactions in the US. Their results indicated that brand portfolio diversity had a significant positive effect on a target firm's brand value. Based on this reasoning, we might conclude that firms with stronger brands and broader product portfolios are likely to be more highly rated by the stock market and thus have a higher market to book ratio.

In summary, we can hypothesise that the likelihood of brand equity transfer is greatest under the scenario in which a relatively large, strong firm with access to substantial resources acquires a smaller, weaker firm with lower brand equity. The ultimate example is when a major multinational acquires a local firm to which it brings its global brand name and reputation as well as a very strong marketing capability and extensive resources. The likelihood of a successful transfer of brand equity is also enhanced where the two firms involved are operating in the same industry –a horizontal acquisition—or in closely related sectors, in which there is a natural connection between the products and brands involved.

The achievement of a successful transfer of brand equity is not automatic, however, and can be mitigated by a number of factors, mainly concerned with the way in which the transfer is implemented and this aspect of brand equity transfer is yet to be examined. Whether and how internal and external stakeholders, i.e. employees, customers and suppliers, of merging firms help or hinder this transfer process remains to be explored. In cases where the acquired firm is rebranded under the acquiring firm's brand, it would be interesting to know how the target firm's employees adapt themselves to the new brand, having been working under a brand with a completely different set of brand values. In other words, the kind of internal branding activities that are carried out by the acquiring firm during the brand equity transfer process is an important topic which has yet to be investigated.

2.6 Implementation Issues

Post-merger integration has been examined extensively in the M&A literature and has been shown to be an important variable that affects post-merger performance (Datta, 1991; Vaara, 2002; Tarba & Weber, 2011). However, integration of marketing- related

variables have received scant research attention. One exception is Homburg & Bucerius(2005) who demonstrated that the speed of marketing integration positively affects post-merger profitability. They further showed that the level of marketing integration has a positive effect on cost savings but a negative effect on profitability. In other words, a greater level of marketing integration results in a higher level of cost savings, but these cost savings are offset by deterioration in profitability.

Using a balanced-scorecard approach, Palmatier, Miao & Fang(2007) developed a methodology for integrating distribution channels following mergers. Their suggested methodology is based on a four channel selection framework namely, sales management, historical performance, strategic fit and customer choice, which is carried out in three separate stages. In the first stage, an integration team is formed, comprising members from the acquiring firm and target firm. This team then collects data on the existing channel partners of the merging firms in order to make the balanced-scorecard worksheet, and the channel partner for the combined firm is then selected based on the balanced-scorecard assessment. This methodology was developed and tested in a business to business marketing environment wherein the length and breadth of channels is relatively less intricate than it is in business to consumer market. We believe that sales channel integration in business to consumer markets warrants further research.

It is widely recognised that many M&As fail because they pay inadequate attention to “soft” issues such as vision and leadership, stakeholder communication, employee morale and retention, corporate culture, and integration speed and momentum (Balmer & Dinnie, 1999;Krishnan, et al., 2007). These problems can best be discussed by focusing on the main groups of stakeholders upon whom the company relies for its continuing success, specifically, employees, customers and other external groups.

2.6. 1 Employee Reaction

It is frequently the case that acquiring firms set about reducing the size of the workforce as one of their first moves(Krishnan & Park, 2002). This is particularly likely in horizontal or closely related acquisitions where workforce reductions are necessary to eliminate duplication and thereby to extract operational synergies and

economies of scale. Research evidence shows that asset disposals and employee layoffs are three times more likely to be in the target than in the acquirer firm. For example, Capron(1999) found that 37% of acquirers let go more than 10% of employees involved in administrative activities, and 21% let go more than 30% in target companies following acquisition. Similarly, 25% let go more than 10% of employees in their sales networks, and 13% let go more than 30%. Top executives of target firms may also leave or be laid off following mergers which might be detrimental for the combined firm as the firm loses valuable knowledge capital. Krug(2009) found that following mergers, the target firm experiences a sharp increase in top executive turnover.

Workforce reduction may be detrimental to organizational performance because it erodes the resource base of the firm and can have a de-motivating effect on the remaining employees, thereby reducing their effort and output. The adverse effect of downsizing will presumably be greater in certain industries than others such as technology in which a firm's success is determined mainly by its human capital. In the worst of situations, the relationship between the two organizations becomes contentious; promised synergies remain elusive; employees become distrustful and disgruntled; and customers grow cynical and dissatisfied. With no solid brand platform to work from, company integration will often be mismanaged, and communications to key constituencies will necessarily suffer (Ettenson & Knowles, 2006; Krishnan et al, 2007).

It is therefore very important not only to retain the key employees but also to keep the job related uncertainty of the merging firms at a minimum during the integration phase. Failure to manage employees successfully post-merger may lead to disastrous results such as customer attrition, loss of sales force productivity, deterioration of customer service etc. in the post-merger years. Lack of cooperation can also damage innovation with a detrimental effect on new product development and the future product pipeline. Chen, Chang & Lin(2010) showed that lack of interdepartmental interaction and collaboration among the merging firms result in lack of product vision defined as clear and specific direction, goal and objective for product development and the delivery of unique and better quality products compared to the competitors. It can

be concluded from their study that cooperation from the employees is essential for the success of new product in the market.

2.6.2 Customer Reaction

Most fundamental of all, perhaps, is how customers are likely to react to a merger or acquisition in which their supplier comes under new ownership. Should they react negatively and switch their business to another supplier, there would be a direct, negative effect on sales and market share. Since the target firm usually undergoes a complete makeover, especially in the case of horizontal mergers, the customers may feel that their freedom of choice for product or service provider has been threatened and this may result in customer dissatisfaction and loss of customer loyalty (Thorbjornsen & Dahlen, 2011).

Many acquirers embark on a massive cost cutting mission for short term gains i.e. banks close down branches and reduce the number of front desk employees which affects the longer term operating performance by way of making customers dissatisfied and eventually losing them. One study by the American Bankers' Association(2008) found that the normal customer attrition rate in the financial industry, usually measured at 15%, can double after a merger.

During the integration phase, managerial energy is often absorbed by internal issues, which can lead them to neglect customer-related tasks (Hitt, Hoskisson, & Ireland 1990). This strong internal orientation is frequently accompanied by a decline in service quality (Urban & Pratt, 2000). This decline can cause customers to question their future relationship with the merging firms leading to defection to competitors (Reichheld & Henske, 1991). Competitors' actions often reinforce this effect as they take advantage of the situation and try to alienate customers. The incidence of this phenomenon and the extent to which it damages post-merger financial performance remains an empirical question.

Using a case study, Havila & Salmi(2000) demonstrated that the target firm's customers stopped buying from the combined firm because customers did not feel confident that they would receive the same level of service from the acquiring firm.

They further found that in some cases the acquiring firm was forced to reduce the product's price to retain customers. Thorbjornsen & Dahlen(2011) examined customers' reaction to re-branding following merger between a large acquirer and a relatively small target firm. Their study found that customers of the target brand developed a more negative attitude towards the acquirer brand even when they previously had a more positive attitude towards it. This was because customers felt a loss of control and a threat to their perceived freedom of choice. This negative attitude led to an increased intention to switch to a different brand after the merger. However, this study also found that the negative feeling was mitigated to an extent when customers' opinion was sought in the post-merger re-branding decision.

The opposite possibility, where customer loyalty is enhanced by an expectation of superior quality under the new ownership, is equally poorly understood. A study by Jaju, Joiner & Reddy(2006) showed that mergers and acquisitions can yield significantly different results depending on the similarity in attitudes between the two firms and the degree of fit between their businesses. In the best case, where there was a good fit between the businesses and a dissimilarity in attitudes (usually the acquirer being viewed as superior to the target), then consumer attitudes to the merged entity were actually higher than that of either the acquirer or target prior to the merger. At the opposite end of the spectrum, where there was a poor fit and dissimilar attitudes, the brand equity of the combined equity was found to be reduced by as much as 35% (Jaju, et al., 2006).

Overall, it seems that customers' reaction to mergers will hinge upon several factors. Firstly, the level and extent of post-merger restructuring carried out within the target firm--the greater the restructuring the greater will be the negative reaction from the customers. Secondly, the extent to which customers are informed about the merger and involved with the integration process -- if the customers are kept in the dark as to what is going on inside their product/ service providing firm, they will feel insecure about their future with the firm which might lead to defection. Hence, the impact of customer defection on post-merger sales revenues warrants further investigation.

2.6.3 Reaction of Other Stakeholders

The reaction of suppliers to the merging firms is another significant dimension of deal-making because suppliers' actions in the post-merger years might positively or negatively impact the post-merger performance of the combined firm. Havila & Salmi(2000) showed that suppliers increased the price of raw materials and declined to give credit to the combined entity because the suppliers did not consider the new owner trustworthy. In a similar vein, Öberg & Holtström(2006) showed that mergers between customer firms also led to merger between supplier firms and the motivations for mergers among supplier firms was varied ranging from capacity improvement to increased global presence.

The measure of performance implied in the above discussion is the firm's operating performance, but its stock market valuation may be considered as another relevant measure. Several studies from this perspective have suggested that the stock market seems to respond positively to the announcement of a change of ownership, particularly where the new owner is seen as a stronger entity than the firm it has acquired (Andrade, et al., 2001; Gugler, et al., 2003; Tuch & O'Sullivan, 2007).

In sum, regardless of the intrinsic logic of a particular merger or acquisition, a successful outcome relies ultimately on the continuing cooperation of various stakeholders, none of which is guaranteed. The previous paragraphs drew on the relatively few studies that have been done in this area to scope out the issues. However, there is clearly considerable scope for research in this area.

2.7 Measuring the Transfer of Marketing Assets and Skills

To achieve a successful merger requires not only cooperation among the stakeholders but also a transfer of assets and skills between the two entities. The next question that needs to be considered is what exactly is transferred under the heading of marketing assets and skills.

Capron & Hulland(1999) examined the extent to which firms redeployed three key marketing resources --brands, sales forces, and general marketing expertise--following

horizontal acquisitions. Results from their survey of 253 acquisitions by European and American firms showed that all three marketing resources were frequently redeployed following merger, with most of the flow of resources from acquirer to target. Resource redeployment from acquirers to targets “to a large extent” or greater occurred in manufacturing (51%), marketing (48%), supplier relationship (48%), R&D (44%), and distribution (33%). By contrast, redeployment was much less common from targets to acquirers. Target firms redeployed resources to acquirers at least “to a large extent” in manufacturing and product innovation (24%), marketing and supplier relationship (20%), and distribution (14%).

Capron & Hurland (1999) also found that marketing resource deployment was strongly related to the degree of market similarity. As the similarity of the markets served by the two firms increased, redeployment also increased. Strategic similarity provides greater potential for exchanging resources that are relevant to each other’s business and for absorbing and recombining resources across firms.

2.7. 1 Branding Issues

The available evidence suggests that branding is usually given low priority in merger negotiations and is typically decided on the basis of simple expediency after the deal is concluded, to bring some order to the untidy collections of names and entities that are inherited as a result of combining two firms and their collective products and markets (Kumar & Blomqvist, 2004; Ettenson & Knowles, 2006). From a study of 207 mergers and acquisitions, Ettenson and Knowles (2006) found that branding issues were accorded only low or moderate priority during the negotiations in two thirds of cases. Due diligence processes during M&A negotiations tended to focus more on tangible assets (such as property, plant, equipment and working capital), and on the more concrete elements of intangible assets (such as contract rights and patents). Intangible assets such as brands, employee skills and customer goodwill tend not to be factored in, partly for want of robust metrics for doing the analysis.

In many instances, the corporate brand strategy receives serious attention only after the deal is approved and announced. In these cases, the re-branding becomes part of the

post-acquisition clean-up. Furthermore, the choices made seem to be based more on expediency rather than any detailed analysis. This runs the risk that the new brand configuration may be “sub-optimal, often reflecting a muddled process driven by short-term goals, ego or horse-trading in the final stages of the negotiations”(Ettenson and Knowles, 2006).

2.7.2 Access to Customer Base

Clemente & Greenspan(1996) provided a useful conceptual model for considering the possible interactions between the customer bases of acquirers and target firms, which is summarised in **Figure 2**. This suggests three possible areas of gain following an acquisition. Firstly, the acquirer can cross-sell its existing products to the target firm’s customers. Secondly, the acquired company can sell its products to the customers of its new parent company. Thirdly, the combined product line may give the new company an opportunity to grow its market into new areas not previously served by either company. However, these gains must be offset by the possibility for some customer loss due to cannibalisation, particularly if there is significant duplication between the products of the two firms.

Figure 2:Possible Combinations of Acquirer and Target Customers

<p>Common Customers</p> <p>Risk of losing sales through customer duplication</p>	<p>Target Company Customers</p> <p>Additional sales through cross-selling</p>
<p>Acquirer Company Customers</p> <p>Additional sales through cross-selling</p>	<p>New Customers</p> <p>Additional new sales for the merged entity</p>

Source: Adapted from Clemente, M.N. and Greenspan, D.S. 1996

This is a plausible model that is helpful in clarifying the possible outcomes. However, it has not been tested in any systematic way to ascertain what actually happens in practice. This presents an interesting opportunity for future researchers.

2.7.3 Product Portfolio and New Product Development

Hise(1991) put forward a list of variables that he believed should be considered in assessing the worth of the marketing assets held by possible M&A targets and in calculating possible synergies. Specific elements he proposed included brands, product portfolio and new product development (NPD), advertising and promotion, distribution, pricing, market position and personnel. Some of these overlap with Capron and Hulland's three categories but it seems worthwhile to single out the product portfolio and the new product development pipeline as an additional category which might possibly have a substantial impact on customer retention as well as market expansion, with a consequential impact on revenue potential.

The success of new product development (NPD) will largely depend on successful integration of the target and the acquiring firm (Chen & Lin, 2011). Bahadir, et al.(2008) provided empirical evidence on this point from a study of 133 M&A transactions in the US. Their results indicated that brand portfolio diversity had a significant positive effect on the target firm's brand value. Several other positive benefits were also observed. First, product quality was found to increase significantly with the transfer of brands from acquirer to target. Second, product line breadth improved significantly both when the sales force resource was redeployed from acquirer to target and when general marketing expertise was redeployed from target to acquirer. Third, expanded geographic coverage was significantly and positively associated with brand redeployment from acquirer to target.

Other issues relating to brand portfolio management have remained unexplored such as redefining the boundaries of the portfolio—the breadth and depth, as well as the accompanying brand architecture. For instance, Google's recent acquisition of Motorola has necessitated redefining the boundary of its product portfolio as it now has both software and hardware products in its portfolio.

2.7.4 Advertising and Promotion

Another point worth singling out is the opportunity to transfer advertising and promotions from the parent to the target in the form of joint advertising and promotion. There is considerable evidence that economies of scale in advertising and promotion have significant cost benefits and it seems likely that the realisation of such benefits is a common motivation for mergers and acquisitions (Chatterjee, 1986; Ghosh, 2004). Fee, Hadlock & Pierce(2012) found that acquiring firms drastically reduced the advertising expenditure of their newly acquired brands, particularly when there was an overlap between them. Large advertising cuts are also more likely if the old owner of the brand was generally investing at a high level and/or if the buyer displays a preference for a lower level of investment. Combined buyer and seller returns were found to be more positive in deals characterized by post-acquisition cuts in advertising, suggesting that these cuts represent efficiency-enhancing cost savings. Whether or not this cost-cutting practice following acquisition affects other performance variables such as sales remains an empirical question.

2.7.5 General Marketing Expertise

Capron & Hulland(1999)defined general marketing expertise as a "knowledge-based" resource or capability-- a functional resource that encompasses both individual employee and team knowledge of the environment and business practices related to the development and implementation of marketing strategy. Some firms clearly have stronger marketing capabilities than others and such capabilities may be particularly difficult to reproduce, which can be a source of competitive advantage (Capron & Hulland, 1999; Krishnan, et al., 2007). In their study of 253 manufacturing acquisitions, Capron and Hulland (1999) found the main areas of resource transfer from acquirer to target to be: manufacturing know-how (51%), marketing expertise,(48%), supplier relationships (48%), production innovation (44%), and distribution expertise (33%).

They found that redeployment of general marketing expertise from acquirer to target had a significant, positive effect on both market share and profitability. They also found redeployment of brands and general marketing skills to be significantly higher

for consumer goods target firms than for other categories in their study of 253 manufacturing acquisitions. This rebranding practice following merger was also demonstrated by (Gussoni & Mangani, 2012).

Adding these variables together gives us a comprehensive model of brand equity transfer that suggests which variables are likely to be transferred from acquirer to target. This is illustrated in **Figure 3**.

Figure 3: Transfer of marketing assets following M&A

Each of the variables in this model offers potential for future research because the current state of knowledge with regard to transfer of marketing assets through M&A is still very slight, and the effect of these transfers on sales and profit performance is even less. The next chapter will explore in detail how these variables might be expected to affect post-merger performance.

2.8 Summary and Conclusion

This chapter set out to review the topic of marketing and M&A, to identify the key parameters of this important strategic decision, to review theory and research on the topic from a variety of sources, and to suggest areas for future conceptual development and research. It began with the strategic objectives and motivations for M&A; it then examined the pricing decision, and the implementation process, all viewed from a

marketing perspective. It finished by examining the evidence concerning post-merger performance.

In sum, the evidence indicates that growing revenue through widening the customer base and adding new products/brands is a primary objective in a large proportion of M&A transactions. We have very little real evidence, however, of whether firms achieve their stated objectives of expanding market coverage via mergers or acquisitions. As we can say at this point is that it seems that many firms pay a high premium to gain that market coverage, which may or may not be recouped through improved market performance. Further, there is a significant risk that the benefits of additional market coverage may be cancelled out by the effects of reducing costs in the post-merger integration process. The nature of these effects is yet to be researched in any depth and seems to offer fertile ground for future study. The next chapter will consider in more detail what is needed to understand post-merger performance, both from a financial and marketing point of view.

CHAPTER THREE
**POST-MERGER PERFORMANCE AND POST-MERGER
MARKETING PERFORMANCE**

Chapter outline

- 3.1 Post-merger performance
- 3.2 Post-merger marketing performance

Chapter Three

POST-MERGER PERFORMANCE AND POST-MERGER MARKETING PERFORMANCE

3.1 Post-merger performance

Post-merger performance is usually defined as the amount of value created as a result of a merger or acquisition (King, et al., 2004), and the concept of value creation is synonymous with that of synergy--the $2+2=5$ effect (Ansoff, 1965; Seth, 1990). The existing literature examined a number of potential reasons for mergers and the most commonly studied motive for M&A is achievement of synergy (Trautwein, 1990; Agrawal & Jaffe, 2003; Halebian, et al., 2009). Synergy occurs when the combination of two firms results in increased efficiency (i.e. lower cost) and/or increased effectiveness (i.e., more appropriate allocation of scarce resources, given environmental constraints) than operating as separate entities (Lubatkin, 1983). Furthermore, value can be created in horizontal mergers through both cost-based synergy and revenue-based synergy (Capron, 1999).

The critical question is whether merging companies do actually generate sufficient value through the exploitation of synergies to repay the premium paid to acquire the target firm, and to provide a satisfactory return for shareholders. An enormous empirical literature on this issue exists, beginning in the 1960s and continuing right up to the present day (King, et al., 2004; Tuch & O'Sullivan, 2007; Halebian, et al., 2009). Post-merger performance has received attention from several different disciplines including Accounting, Finance, Economics, Industrial Organization and Management (Zollo & Singh, 2004; Zollo & Meier, 2008). The two most common perspectives taken by studies on post-merger performance are the shareholder perspective, measuring returns based on share value, and the accounting managers' perspective, measuring operating profits. Despite the extensive volume of research and the variety of the methodologies applied, the evidence is extremely mixed, with a broad consensus that mergers and acquisitions do not add value (Andrade, et al., 2001; King, et al., 2004; Tuch & O'Sullivan, 2007; McNamara, et al., 2008).

The measurement of shareholder return through an event study methodology developed in the 1970s seems to be the most popular research approach, underpinning a majority of the studies by economists and finance scholars (Andrade, et al. 2001; King, et al. 2004; Tuch and O'Sullivan, 2007; McNamara, et al. 2008). It is based on capital market efficiency theory, which assumes that current stock prices reflect future earnings potential (Duso, Gugler & Yurtoglu, 2010). In respect of post-merger performance, the evidence suggests that the short-term announcement effect of takeovers is at best insignificant, and long-term performance is overwhelmingly negative (Tuch & O'Sullivan, 2007; Martynova & Renneboog, 2008). Furthermore, there is no evidence that takeover performance improves over time; indeed, there is some evidence that more recent takeovers may have been the most detrimental to shareholder wealth (Tuch & O'Sullivan, 2007; Martynova & Renneboog, 2008; Halebian, et al., 2009).

Accounting research tries to evaluate post-merger operating performance, defined as profitability and efficiency changes in the combined entity following mergers or acquisitions, compared to the performance of the two entities separately. Typically these studies examine operating margins and return on assets over one, two or three years after the merger. A meta-analysis based on the results of 93 studies representing 206,910 companies conducted by King, et al. (2004) provides a comprehensive summary of the accounting and finance research. They studied post-merger performance of acquiring firms measured by return on assets (ROA), return on equity (ROE) and return on sales (ROS) over a series of event windows (days 1-5, 6-21, 22-180, 181-3 years and greater than 3 years), using both operating performance and stock market data. They found that, after the day when the merger is announced, all of the 'abnormal returns', that is, returns over and above the norm for the industry, for the acquiring firms are either insignificant or negative. These results strongly suggest a conclusion that anticipated performance outcomes are not realised by acquiring firms.

3.2 Post-merger Marketing Performance

A systematic search was conducted to find articles measuring post-merger marketing performance. We used the following key words to find relevant articles through EBSCOhost, ProQuest and Science Direct: Post-merger performance, mergers and

acquisitions and Marketing performance, Merger performance, Acquisition performance. Our extensive literature research produced only a handful of studies that measured post-merger performance variables over which marketing people have some control, such as sales volume, sales growth rate, market share, etc. **Table 1** summarises the findings of the extant studies.

Table 1: Studies on post-merger marketing performance

Study	Sample size, period and country	Industry	Variable examined	Findings
Goldberg(1973)	44 conglomerate mergers. 1950s and 1960s. USA	Mixed	Market share	Market share increase for 28 firms and decreased for 13 firms
Mueller(1985)	209 M&A, 1950-1972, USA	Manufacturing	Market share	Declined
Baldwin & Gorecki(1990)	Population of Canadian manufacturing firms	Manufacturing	Share of value-added	Increased by 10% for 3 years but fell by 50% by year 8
Knudsen(1997)	23 cases of brand acquisition in the US	Mixed	Market share	Declined in more than 50% of cases
Ghosh(2001)	315 M&A 1981-1995	Manufacturing	Cash flow and sales	No improvement is sales growth
Gugler, et al.(2003)	1250 M&A, 1981-1998, Different countries	Mixed	Sales	Declined
Ghosh(2004)	2254 M&A, 1985 to 1999, USA	Mixed	Market share	Increased

The first study that examined market share gains from acquisition was conducted by Goldberg(1973). He studied a sample of 44 conglomerate mergers¹ in 15 industries (heavily weighted towards consumer goods and insurance) acquired in the 1950s and 1960s in the US. He found that 28 of the firms increased their market share in the three years following new ownership, 13 decreased market share, and 3 saw no change. He also found that neither the size of the acquiring firm, nor the size of the market share of the acquired firm had any impact on the share change over time. The only variable that had some significant predictive power was the rate of growth of the share of the acquired firm prior to the acquisition. In other words, a firm that was growing fast before being taken over continued its growth but one which had weak growth before acquisition remained weak afterwards. Indeed, when past growth was controlled for, there was no evidence of any growth in market share post-acquisition, suggesting that the acquirer firm made no impact on growth.

Following on from Goldberg's study, Mueller(1980) investigated a sample of 133 mergers among US manufacturing firms from 1962 to 1972 and found a significant decline in the growth rate in the five years following merger. Later again, Mueller(1985) studied a sample of 209 acquisitions of firms in the top 1,000 in the US between 1950 and 1972, over an average of 11 years post- merger. He observed significant *declines* in market share; on average, he found that non-acquired firms retained 88.5% of their 1950 market share in 1972, while acquired firms retained just 18.5% of their share.

He distinguished between horizontal and conglomerate mergers in his sample and compared the results for both. Counter-intuitively, perhaps, he found that the market share results for horizontal mergers were worse than for the sample as a whole. Non-acquired firms in the industries in which horizontal mergers occurred retained about 50% of their market shares between 1950 and 1972 while acquired firms retained just 4%.

¹Conglomerate acquisitions were classified into 3 categories: product extension, market extension, and other conglomerate. In product extension, the companies produce products that do not compete directly but which are functionally related in production or distribution. In market extension, the companies produce the same products but sell them in different geographic markets. Conglomerate mergers are those among entirely unrelated firms. This sample is domestic and has no examples of market extension.

Mueller (1980) identified what he called the “failing firm” hypothesis as one possible explanation for his findings. This hypothesis suggests that a firm tends to be put up for sale because it is doing badly and the acquirer buys it in the hope of being able to turn around its fortunes. The evidence in this study shows, however, that turn around does not tend to happen—if anything the takeover just “cushions the company’s fall”. Many of these failed attempts are then spun-off and this move is seen as an admission of failure. In this sample, 13 of the mergers were spun-off in a relatively few years, at dramatically lower prices than those at which they had been acquired.

In the same vein, Baldwin & Gorecki(1990) studied the population of Canadian manufacturing firms from 1970 to 1982. They found that the share of value-added of the merged firms increased for the first three years after merger, up about 10% on pre-merger level, and down 50% from its initial level by year 8. They also advanced the argument that this was because mergers were usually undertaken as a way to revitalise older, mature firms, but that they do not succeed in arresting the ageing process completely. The larger size of the firms coupled with the low growth in their markets limit their opportunities for achieving long-term growth.

At a brand level, Knudsen(1997) studied 23 cases that covered a variety of situations, from complex mergers of several brands operating in the same market, to seemingly straightforward acquisitions of local or regional brands by global brands. They found that the market shares of the brands at the point of combination were maintained in fewer than half of the cases studied. For pure brand mergers where two or more brands in a single market were combined into one, the success rate fell to 13 percent. They concluded that top managers often over-estimate the value of acquired brands and jump unprepared into an ill-conceived consolidation, leaving customers puzzled and business associates confused, to the detriment of sales and market share.

Continuing this stream of research, Gugler, et al.(2003) studied a sample of 1,250 mergers from different countries (about 50% from US and the rest from around the world) completed from 1981 to 1998, and the sample included all types of mergers, i.e. horizontal, vertical and conglomerate. Based on a comparison with non-merging benchmark firms, their results showed that a majority of mergers led to higher profits

than those predicted, while the reverse was true for sales. For the five years post-merger, 57% of the combined firms produced higher than projected profits, on average 8.2% better than the median for the industry. The mean difference between actual and projected profitability was positive in all 5 years after the mergers, and was significant in every year at the 10% level, or better.

In contrast, five years after the merger, the average acquiring firm had sales that were 14.5% lower than the median for the industry. The change in sales by year 5 was positive for just 45% of the sample, and the mean difference in sales was negative every year after the merger, with the gap widening in absolute value as the years progressed towards year 5. This negative sales effect was evident across all types of mergers in the sample, although there were some differences in degree. The decline was greater for mergers in manufacturing industries than for those in service industries but, within manufacturing, the decline was significantly smaller for horizontal mergers, suggesting that this type of merger performs better than vertical or conglomerate mergers.

Gugler, et al.(2003) concluded that their results were broadly consistent with those obtained by others using similar methodologies, i.e. comparing actual post-merger performance with those predicted using a control group. They cited a survey of the literature by Mueller(1997) which reviewed the results from 20 studies drawn from 10 countries over the post-World War II period. Nine studies that measured changes in the growth rates of merging firms following mergers found either that the mergers produced no significant change in growth rates or, in several cases, significant declines.

Gugler, et al.(2003) did not examine market share directly, but they suggested that their research methodology which measured the results of the merged firms relative to the median non-merging firms allowed them to infer that market share declined along with sales. On this basis, they concluded that their results concurred with those of previous studies which found declines in market share post-merger (Goldberg, 1973; Mueller, 1985; Baldwin & Gorecki, 1990).

In sum, a majority of the studies that have investigated the sales revenue following mergers and acquisitions have produced disappointing results. Gugler, et al.(2003) concluded that “no study of which we are aware has found significant increases in either the internal growth rates of merging companies or their market shares following acquisition, and several have reported significant declines”.

Since then, however, the results of a very large US study by Ghosh(2004) were published, which found that market share increased following acquisitions and that the increased market share was positively and significantly related to long-term operating performance. With a sample of 2,254 acquisitions completed by US publicly traded firms across all industries during the period 1985 to 1999, he observed a large increase in market share in the merger year, which is just the sum of the two merging firms, but also in subsequent years following mergers. The mean market share in year 0, when the merger occurred, was 11.2%, rising to 12.1% in year 1, 12.6% in year 2 and 13.1% in year 3. In sum, the mean market share increased from 10.5% in year -3 to 13.1% in year 3, which was a 24% increase over the seven-year period. The mean increase of 3.9% for merging firms between years -1 and 3 translated into a 39% rate of increase which was statistically significant at less than the 1% level.

Ghosh(2004) also found that these findings were robust after adjusting for industry growth, and for the degree of relatedness between the merged firms. The increase in market share was found to be larger for related acquisitions (3.5% versus 0.8%), and was statistically significant, while the difference for non-related acquisitions was not statistically significant. He also performed a regression analysis to assess the effect of change in market share on shareholder wealth gains (CAR^2), and this indicated that an increase in market share of 1% led to a 47% increase in shareholder wealth gain for merging firms, which was statistically significant at less than the 1% level. Furthermore, the data suggested that gains to shareholders were larger when merging firms were dominant players in their respective industries.

²Cumulative abnormal returns (CAR) are calculated by summing the abnormal returns in stock price from five days before the acquisition announcement date to the completion date of the acquisition.

How to reconcile the results of large studies such as those of Gugler, et al.(2003) and Ghosh (2004) is not clear. Both are based on very large, cross-sectional samples over similar periods of time. Both seem to use similar and well accepted methodologies, comparing sales and operating performance relative to benchmarks based on industry averages or non-merging peers. Both also found evidence of improvements in profitability over time for the merged firms, presumably reflecting the realisation of some economies of scale or scope. However, Gugler, et al.(2003) produced significant evidence of sales decline, while Ghosh produced significant evidence of market share increase.

In sum, there appears to be a compelling need for further research on these points. As marketers, it seems unforgivable that we have so little understanding of the sales and market share performance outcomes of mergers and acquisitions, particularly when these kinds of transactions are happening all the time in the firms which we study or advise. The little bit of evidence there is, reviewed above, comes from studies by economists and accountants, and is quite contradictory in its outcomes.

Figure 4 below provides a model to summarise the existing knowledge concerning marketing performance outcomes from M&A transactions, to help us to deepen our understanding of the costs and benefits of mergers and acquisitions from a marketing perspective.

Figure 4: Factors affecting post-merger performance

CHAPTER FOUR
**POST-MERGER PERFORMANCE MEASUREMENT: A
REVIEW OF METHODOLOGIES**

Chapter Outline

- 4.1 Measurement of firm performance
- 4.2 Measuring firm financial performance
- 4.3 Measurement of post-merger firm Financial performance
 - Event Study Methodology*
 - Accounting-based Methodology*
 - Survey-based Methodology*
- 4.4 Summary an Conclusion

Chapter Four

POST-MERGER PERFORMANCE MEASUREMENT: A REVIEW OF METHODOLOGIES

M&A is a multidimensional and multi-disciplinary phenomenon and thus has received research attention from diverse disciplines. Extensive research attention has resulted in proliferation of methodologies over the past four decades. These methodologies are discussed below. Before describing these methodologies, it seems worthwhile to examine the conceptualization and operationalization of firm performance.

4.1 Measurement of Firm Performance

Firm performance is a complex, multidimensional construct which is inherently difficult to operationalize (Dess & Robinson Jr, 1984; Venkatraman & Ramanujam, 1986; Richard, Devinney, Yip & Johnson, 2009; Carton & Hofer, 2010). Dess & Robinson Jr (1984) suggested that firm performance researchers must address two basic issues: (1) selection of a conceptual framework from which to define firm performance and (2) identification of accurate, available measures that operationalize firm performance. It thus appears that the conceptualization and measurement of firm performance will vary across discipline because of differing conceptual frameworks grounding each discipline.

Ford & Schellenberg (1982) found three major frameworks used to conceptualize firm performance. The *goal approach* conceptualizes firm performance based on explicit and identifiable goals which the firm pursues and this perspective defines firm performance as achievement of those goals. The *systems resource approach* conceptualizes firm performance as attainment of scarce and valuable resource upon which the survival of firms hinges. The *process approach* defines performance in terms of the behaviour of firms' participants. Finally, the *constituency approach* conceptualizes firm performance as a means to provide benefit to various 'internal and external constituencies' of the firm such as customers, suppliers, shareholders etc. and firm performance measurement is focused on the fulfilment of the needs of these internal and external constituent.

4.2 Measurement of Firm Financial Performance

While *firm performance* is a multi-dimensional construct (Venkatraman & Ramanujam, 1986; Richard, et al., 2009), *firm financial performance* is also a multi-dimensional construct (Chakravarthy, 1986; Carton & Hofer, 2010). Venkatraman & Ramanujam(1987) has shown that sales growth, profit growth and profitability measure different dimensions of firm financial performance and no one of these measures fully captures firm financial performance. Put differently, studies of firm financial performance should be compared with caution as they may be measuring different dimension of firm financial performance.

4.3 Measurement of post-merger Firm Financial Performance

Given the fact that, Mergers and Acquisitions is a multidisciplinary subject, it has attracted attention from diverse discipline and researchers from each discipline looked at and attempted to measure the construct through their own academic lens. Finance scholars have mainly used an event study methodology, Accounting scholars used financial reporting methodology, and Management researchers predominantly used case study and survey based methodologies. Indeed, different disciplines should have different definitions and measures of post-merger performance because they deal with different research questions (Venkatraman & Ramanujam, 1986). All these methodologies are discussed in the following sections.

4.3.1 Event Study Methodology

This type of research is the most popular among post-merger performance measurement researchers who come predominantly from finance. Event study methodology is also known as residual analysis and abnormal performance index tests. This methodology was introduced to the Accounting and Finance literature by Ball & Brown(1968) and Fama, Fisher, Jensen & Roll(1969). However, According to MacKinlay(1997), the earliest event study was used by Dolley(1933) in an article published in Harvard Business Review to examine stock price reaction to stock splits. The use of event studies has since been utilized by a wide range of disciplines as well, including economics, history, law, management, marketing (Henderson Jr, 1990; McWilliams & McWilliams, 2000; Corrado, 2011).

The popularity of this methodology among the researchers of diverse discipline can be attributed to two factors; the relative ease of use and availability of stock market data (McWilliams & Siegel, 1997; Oler, Harrison & Allen, 2008). Event study methodology is a relatively simple way to evaluate various strategic decisions by firms; it simply relies on measuring the stock market reaction to any decision or announcement by the firm. If the stock market reacts positively to an announcement and the stock price performs better relative to some benchmark, the researcher may conclude that that strategic decision was viewed as beneficial to the firm and the abnormal or excess return to the shareholders was due to the event itself. On the contrary, if the stock price drops around the announcement, the researcher may conclude that the stock market viewed the strategic decision as harmful for the firm and thus punished such decision by lowering the stock price (Peterson, 1989; McWilliams & McWilliams, 2000; Corrado, 2011).

Research using event study methodology follows several steps:

1. Specifies the date on which the information of interest i.e. merger announcement reaches the stock market
2. Collects the stock returns of the individual firms assuming the absence of such information
3. Measures the difference between actual returns and "no-information" returns for each firm which is called "the abnormal returns"
4. Compares the abnormal returns across firms and/or industries, and across time
5. Tests the aggregated returns to determine whether the abnormal returns are statistically significant (Henderson Jr, 1990).

Studies using event study methodology can be classified with respect to their time frame and unit of analysis. From a time-frame perspective, there are short-window studies and long window studies. From the unit of analysis perspective, some studies examined the share price of the acquiring firms; some studies examine the target firms while other examine both the acquiring firm and target firm.

The most important assumption of studies using event study methodology to measure post-merger performance is stock market efficiency and that stock prices represent the discounted value of firms' future stream of profits. In other words, the stock price of a firm reflects all public information (Armitage, 1995; Bond & Cummins, 2000; Oler, et al., 2008). However, it may not necessarily incorporate private information (Fama, 1970). Mergers and acquisitions are a complex and multidimensional phenomenon and thus involve extensive amounts of information regarding various aspects of operations of the target and acquired firm. Some information may not be made public and held back by the managers. Moreover, even though firms are required to disclose information by the Securities and Exchange Commission, newspapers may curtail the press release sent by firms and may not publish the entire press release which might be important for the shareholders (Peterson, 1989).

Event study methodology is not without criticisms. Firstly, shareholder return is only a forecast based on the general consensus among the shareholders at a point in time. As more information becomes available regarding the event of interest, i.e. a merger announcement, this forecast is updated continuously. Secondly, the financial market itself is not free from structurally and psychologically induced biases (Bond & Cummins, 2000; Oler, et al., 2008). Thirdly, like all human beings, shareholders are not fully rational (Oler, et al., 2008) and are considered to have bounded rationality (March & Simon, 1958). Finally, and most importantly, the fundamental assumption of this methodology, market efficiency, has been criticized by many researchers (Oler, et al., 2008).

4.3.2 Accounting-based Methodology

While event studies measure shareholders' expectations of the future performance of the firm, accounting methodology measures the actual financial performance. Accounting based measures have been used widely to measure firm financial performance and the validity of such measures is well documented (Richard, et al., 2009). A large proportion of M&A researchers have used accounting-based measures to gauge post-merger firm financial performance (e.g. Kusewitt, 1985; Fowler & Schmidt, 1989; Agrawal & Jaffe, 2003; Krishnan, et al., 2007).

Accounting-based studies, however, are not uniform in that they have utilized a wide variety of metrics to measure post-merger performance, as shown in **Table 2**.

Table 2: Accounting metrics used to measure post-merger performance

Accounting metric	Operational definition	Example of study
ROA (including extraordinary items)	After tax earnings (including extraordinary items) divided by the year end book value of assets	Kusewitt(1985)
ROA (before extraordinary items)	Net income after tax but before extraordinary items divided by total asset	Park(2002)
ROE	Ratio of net income over book value of equity	Beccalli & Frantz(2009)
ROCE (Return on common equity)	Income available for common shareholders after adjustments for common stock equivalent divided by the firm's average common equity	Fowler & Schmidt(1989)
Cash flow return	Ratio of operating cash flow over the market value of equity	Beccalli & Frantz(2009)
	Pre-tax operating cash flow divided by market value of assets	Anand & Singh(1997)
	Ratio of EBTIDA to revenue	Clark & Ofek(1994)
	Cash flow divided by pseudo market value of assets	Linn & Switzer(2001)
	Operating pre-tax cash flow divided by book value of assets at year end.	Cornett, McNutt&(Tehrani, 2006)
	Cash flow divided by sales	Ghosh(2001)
ROS (Return on sales)		Krishnan, et al.(2007)
OPS (Operating return on sales)	Operating earnings before depreciation divided by net sales	Agrawal & Jaffe(2003)
Sales		Gugler, et al.(2003)

Furthermore, many of these studies used only one measure, particularly return on assets (ROA), so that they were, in fact, measuring only one dimension of the multi-dimensional concept of firm financial performance (Venkatraman & Ramanujam, 1986; Richard, et al., 2009; Carton & Hofer, 2010). This variation in accounting measures of performance means that it is not possible to compare all accounting-based studies directly.

4.3.3 Survey-based Methodology

Research in management has tended to use questionnaire surveys as their chosen methodology to understand the managers' perception of post-merger performance (e.g. Bruton, Oviatt, & White, 1994; Morosini, Shane, & Singh, 1998; Capron, 1999). This kind of study suffers from a number of weaknesses. Firstly, survey-based methodology is very subjective in nature (Schoenberg, 2006; Papadakis & Thanos, 2010; Very, 2011). It also suffers from weak linkages between firms as the units of analysis and respondents (Pinsonneault & Kraemer, 1993). Moreover, subjective measures are susceptible to errors of recollection depending on the recency of events (Tversky & Kahneman, 1973), and imperfections in human cognition which increases the possibility of error (Richard, et al., 2009). Another notable weakness of survey-based methodology is that subjective measures of firm performance suffer from psychological biases (Richard, et al., 2009) because respondents usually view themselves positively (Taylor & Brown, 1988).

4.4 Summary and Conclusions

Mergers and Acquisitions are a multidisciplinary subject which has attracted attention from several disciplines, and researchers from each discipline measured the construct using their own distinct methods. Finance scholars have mainly used an event study methodology which measures shareholder returns; Accounting scholars have used financial reporting which measures profitability, typically return on assets (ROA); and Management researchers have mainly used case study and survey based methodologies to investigate qualitative issues.

Each of these methods has its own strengths and weaknesses, and no one captures all dimensions of the complex, multi-dimensional subject of mergers and acquisitions. For our research, we decided to combine qualitative and quantitative methods in a multi-stage approach, using a case study for the exploratory, first stage, to help develop and refine a set of hypotheses, and a quantitative longitudinal study to test those hypotheses. This approach also allowed us to measure multiple variables rather than the single variable approach that has been common in previous studies. Our particular approach is described in detail in the next chapter.

CHAPTER FIVE

METHODOLOGY OF THE QUALITATIVE STUDY

Chapter Outline

5.1 Methodology of the qualitative study

5.1.1 Exploratory Case Study

5.1.2 Sample Selection for Exploratory Case Study

5.1.3 Data Collection for the Case Study

5.1.4 Data Analysis

Chapter Five

METHODOLOGY OF THE QUALITATIVE STUDY

In view of the strengths and weakness of the methodologies discussed in the preceding chapter, this research used a mixed method i.e. both qualitative (case study) and quantitative methodology. A mixed method is now being viewed as a *third methodological movement*, with the quantitative being the first and qualitative being the second methodological movement (Venkatesh, Brown & Bala, 2013). Researchers have suggested methodological pluralism for a number of reasons. First of all, a mixed method has been proposed as a good way to examine a complex phenomenon (Venkatesh, et al., 2013). Secondly, triangulation of qualitative and quantitative data is recommended to get deeper insights into the research phenomenon under investigation (Jick, 1979).

In view of the research objective, this research was conducted in two stages; first, using a qualitative method i.e. an exploratory case study and, second, using a large sample quantitative study utilizing accounting-based performance measures. Both stages are discussed in detail below.

5.1 Methodology of the Qualitative Study

Researchers choose a qualitative methodology over quantitative methodology for a number of reasons. One of those reasons for choosing a qualitative methodology is the preference or experience of the researcher himself/herself. A more valid reason for choosing a qualitative methodology is the nature of the research problem under investigation (Strauss & Juliet, 1998). Indeed, the choice between quantitative and qualitative research methodology should be influenced by the research question, not by the preference of the researcher (Marshall, 1996). The choice of an exploratory case study in the initial stage of this research was determined by the research question, as explained in the following section.

5.1.1 Exploratory Case Study

The objective of a PhD dissertation is to make a meaningful contribution to knowledge (Kekäle, 2001). This objective may be achieved in several ways, namely, by exploring theories, refining existing theories, and/or developing new theories (Winter, Griffiths & Green, 2000; Mullins & Kiley, 2002; Park, 2005). The objective of this dissertation was to gain an in-depth understanding of post-merger marketing performance. A case study method seemed appropriate to fulfil this objective for reasons explained in the next few paragraphs.

Yin(1994) defined a case study as qualitative in nature with a small N (sample size), and the case study method is useful when the boundaries of the phenomenon and context is blurred. Yin(1994)further suggested that the case study method should be used when the researcher is dealing with “why” and “how” questions. Even though qualitative research is traditionally based on inductive reasoning, Patton(1990) argued that qualitative researchers, including case study researchers, can adopt both an inductive and deductive approach.

Given the complexities and multi-dimensionality of M&A, an exploratory case study was conducted to explore this complex phenomenon, combining both qualitative and quantitative data (Yin, 1981; Gerring, 2004). Moreover, a relative lack of understanding as to why some mergers fail and others succeed also warrants an in-depth review of the topic area and argues for the use of a case study methodology.

The extensive review on M&A described in earlier chapters provided numerous insights and a set of propositions. The objective of the exploratory case study, therefore, was not to verify or falsify an existing theory, but to provide a preliminary test of a newly-developed theory. Gerring(2004)referred to this kind of research as path-breaking which necessitates the use of an exploratory case study.

Below is a summary of the reasons why an exploratory case study has been chosen for this research:

1. Our extensive literature review on post-merger performance revealed that the findings of existing studies on the post-merger performance of horizontal mergers is mixed and at times conflicting. This area of research therefore necessitates further in-depth investigation to try to find out why some horizontal M&A transactions fail and others succeed. A case study method is well-warranted to investigate this complex phenomenon (Yin, 1994; Gerring, 2004).
2. A case study method is particularly useful when the research or theory is in the formative stages. Since this study developed a conceptual model which is at its formative stage, a case study would be beneficial to further refine and develop the conceptual model.
3. Mergers and acquisitions are a multi-dimensional phenomenon and a multitude of endogenous and exogenous factors have the potential to influence post-merger performance. A case study methodology is a good way to help identify and define these performance-influencing factors.

5.1.2 Sample Selection for the Exploratory Case Study: Why Tata Motors?

Research based on case studies endeavours to describe the features of the population from which the case studies are drawn. Selection of a representative case is critical therefore because the selected case must stand for the population (Gerring, 2004; Seawright & Gerring, 2008). Case study researchers usually adopt a systematic sampling approach where a case is selected for theoretical reasons (Barratt, Choi & Li, 2011).

Tata Motor's acquisition of Jaguar and Land Rover was selected for the exploratory case study for a number of reasons. Firstly, like many other global industries, the automotive industry has undergone an extensive transformation, predominantly through mergers & acquisitions and other alliances, over the past few decades. This industry therefore provided an information-rich context for a research study concerned with mergers and acquisitions.

Secondly, Jaguar and Land Rover have been bought and sold several times in the course of their history with highly variable outcomes. This variation in post-merger performance under a number of different owners seemed to provide a promising

setting in which to examine post-merger performance under several different scenarios.

Thirdly, Jaguar and Land Rover are two globally-reputed iconic brands while Tata Motors is a rising contender in the global automotive industry from an emerging country i.e. India. This combination of emerging-country company and developed-country brands received extensive media coverage focusing on the potentially disastrous ending of this inter-racial marriage. This case therefore provides a context which is rich in information and multi-faceted in nature.

Finally, as a “critical or instrumental case”, Tata Motors fitted the conditions posed by the proposed model and can therefore illustrate what the model envisages within the specific context (Roche, 1997).

5.1.3 Collection of Data for the Case Study

While a case study is a qualitative research method, the data collected in a case study method might be qualitative or quantitative or both (Hofstede, Neuijen, Ohayv & Sanders, 1990). Archival data collected for the exploratory study were both qualitative and quantitative in nature. While the quantitative data were collected on various performance variables such as sales volume and value, and marketing and selling expenditure, qualitative data were collected on M&A deal-related variables such as deal mood and deal objectives, as well as post-merger strategies.

Researchers may conduct qualitative secondary analysis for a wide range of reasons. For instance, a researcher may return to his/her own data to address new questions which were not the central focus of the original research; they may seek to relate their own primary research or data to existing data resources; they may ask new questions of existing qualitative datasets which they had no role in producing, or bring different datasets into conversation with one another. Alternatively, they might try to develop knowledge into hard-to-reach populations or sensitive topics, or they might undertake critical analysis of the embeddedness of methodology and explanation in historical and theoretical context (Irwin, 2013).

It should be mentioned that most of the data collected in the exploratory case study were quantitative in nature as the chief focus of the study was to investigate the impact of M&A on marketing performance. Hence, this exploratory case study may be classified as a “quantitative case study” wherein longitudinal data relating to the performance of the case company were collected from archival sources and subsequently analyzed with assistance from key informants in the companies and from independent third parties such as investment analysts (Kristensen & Israelsen, 2014).

Furthermore, qualitative data pertaining to deal motive, deal mode, post-merger integration and strategies were also collected and analyzed for this exploratory case study. It is worth mentioning that qualitative data were collected both from archival sources and through an in-depth interview.

Quantitative data were collected from the following sources.

- Annual Reports of Tata Motors and Ford Motors
- Form 20-F submitted to United States Securities and Exchange commission
- Company reports for shareholders

Qualitative data were collected from the following sources.

- A semi-structured in-depth interview was conducted with the chief executive of the OHM Group, the exclusive Jaguar and Land Rover importer in Ireland.
- Company press releases
- Interviews of top executives published in business press
- Annual Reports of Tata Motors and Ford Motors
- Company websites Company reports for shareholders
- Form 20-F submitted to United States Securities and Exchange commission
- Media reports published in Economist, Financial Times, The Independent

- Analyst reports and commentaries from all of Tata's main markets (US, UK, India, China).

Furthermore, the following set of books was also consulted.

- Mckenna, A. T. 2000. Jaguar. Abdo Publishing Company, Minnesota, USA
- Gunnell, J. 2007. Standard Catalog of Jaguar. Krause Publications

5.1.4 Analysis of Data of the Case Study

The fact that both qualitative and quantitative data were collected for the exploratory case study necessitated the use of two different data analysis procedures. In fact, most of the data was quantitative in nature and analysis of such data was relatively straightforward and done using Excel spreadsheets. As mentioned earlier, the quantitative data collected for the exploratory study was pertaining to the impact of M&A on the marketing performance of the case company. Detection of change in performance following M&A was evaluated by comparing the pre-merger performance with that of the post-merger years.

Qualitative data analysis is far more intricate and less straightforward than quantitative data analysis (Miles & Huberman, 1994). Even though contemporary theories of knowledge acknowledge the impact of a scholar's position and perspectives (Malterud, 2001), qualitative data analysis can follow some guidelines to enhance the validity of the research outcome. For this study, some guidelines developed by Miles & Huberman (1994) were followed.

Miles & Huberman (1994) suggested that qualitative researchers deal with a "ladder of abstraction," collecting data in the form of text and then coding the text into various categories. Subsequently, the researcher endeavors to detect themes and trends in the data. Finally, the researcher tests hunches and tries to explain deep structures in the data. The collected data for this study was sorted, coded and categorized according to pre-determined categories developed based on the relevant literature.

The resulting case analysis provides a systematic review of the evolution of Jaguar and Land Rover, under three different sets of owners. The quantitative data provide a clear, factual account of the sales, marketing and profit performance, and the accompanying narrative fills out the story with a strong sense of the strategic thinking driving the various decisions. The story that emerges shows the high risk associated with mergers and acquisitions, and the extreme difficulty of successful transformation. It also provides a rich scenario in which to explore the marketing strategies pursued and the outcome of the different approaches, which will be examined in the next chapter.

CHAPTER SIX
**POST-MERGER MARKETING PERFORMANCE: AN
EXPLORATORY CASE STUDY**

Chapter Outline

- 6.1 Jaguar and Land Rover Ownership History
- 6.2 Sale of Jaguar and Land Rover to Tata Motors
- 6.3 Comparison of Pre and Post-merger performance of Tata motors following acquisition of Jaguar and Land Rover
- 6.4 Impact of acquisition on the marketing performance of Tata Motors
- 6.5 Looking ahead—Tata Motors
- 6.6 Summary and Conclusion

Chapter Six

POST-MERGER MARKETING PERFORMANCE: AN EXPLORATORY CASE STUDY

6.1 Jaguar and Land Rover Ownership History

The history of Jaguar and Land Rover under different owners is described below.

6.1.1 Land Rover: Pre-BMW Era

Rover's origin dates back to 1877 when John Starley and William Kemp started producing penny-farthings and tricycles in a small workshop in Coventry (Michael Harrison, 1994). However, the Rover group started producing cars a few decades later, in 1904, and two years later, in 1906, the Rover Car Company was founded (David Hearst & Mark Tran, 2000). A few decades later, the first Land Rover was launched at the Amsterdam Motor show in 1948 (Irish Farmers Monthly, 2008). Land Rover was inspired by the American brand Jeep which was used during World War two and it was intended to bridge the gap between light trucks and tractors in a post-war market when the demand for luxury automobiles was very low. Land Rover gradually became the hallmark for the British car industry (Hearst & Tran, 2000).

The Rover group, consisting of Land Rover, Mini, Triumph, Austin-Healey, Riley, MG and Wolsey brands, had a chequered history, with outstanding sales success but poor financial performance throughout its history. The Rover group changed hands several times. The Leyland Motor Corporation acquired Rover in 1967 and one year later the Leyland Motor Corporation merged with British Motor Corporation and British Leyland Motor Corporation was born (Parker, 2012). By 1975 British Leyland Motor Corporation was in such a poor financial situation that the British government had to step forward to rescue it because the banks refused to extend any more loans to the company (Harrison, 1994).

A few years later, in 1978, the company was re-branded as BL (British Leyland). In the 1970s, British Leyland's cars became notorious for unreliability and inferior quality. At one time, Rover was known in the rest of the world as the "British disease" (Feast, 1999a). To improve product quality, British Leyland went into a partnership with Japanese Automaker Honda in 1978 (Gould, 1998). Meanwhile, in 1988, the British government sold Rover group to British Aerospace. In the 1990s, with the help of Honda, the product quality, reliability and productivity of Rover group improved dramatically and the company attracted the attention of Ford and Volkswagen as a potential target (Gould, 1998).

British Aerospace eventually sold off the Rover group to focus on its core business, as well as to raise cash (Gould, 1998). The day in 1994 (January 31) that the announcement was made that BMW had acquired Rover for USD 1.27b in cash from British Aerospace (BAe), *The Independent*, the leading UK daily, said this "day will be remembered as the day when the sun finally set on the British motor industry" (Harrison, 1994) because, after the acquisition, for the first time in 112 years Britain did not own any volume car manufacturer.

6.1.2 Land Rover: The BMW Era

The main motivation behind BMW's acquisition of Rover was to become a global car manufacturer, given the fact that the European car market was saturated and was badly hit by the recession in the early 1990s, while demand for cars was on the rise in the emerging markets (Olivier & Ball, 1994). "What we want to become is the world's largest specialty-car manufacturer without becoming a mass manufacturer," commented Bernd Pischetsrieder, the chairman of BMW in an interview (Suris, 1994). BMW was a dominant player in the luxury segment of the automotive industry but its product portfolio had lacked smaller and cheaper cars suitable for emerging market customers.

The acquisition of Rover helped BMW to fill out its product line at the lower end, and it also helped it to enter other segments including the fast growing four wheel drive segment with Land Rover (Olivier & Ball, 1994). In an interview at the time, Bernd Pischetsrieder, Chairman of BMW, commented that the acquisition created the

opportunity needed to get into markets such as Latin America, Indonesia, India, China and the Philippines, where entry might have been difficult with only BMW's luxury line-up of coupes and sedans. Smaller and more affordable cars under the Rover umbrella were the likely candidates for new plants in these markets. "These are the markets you can't seriously enter with a BMW-badged car," Mr. Pischetsrieder said (Suris, 1994).

Chief Executive Officer of BMW (US), Tom Purves, commented in an interview that the deal was a bargain for BMW (Henry, 1999). BMW shareholders also showed optimism towards the acquisition by pushing up the BMW share price by 8.3% on the day of the deal (Olivier & Ball, 1994).

However, despite massive investment in the Rover Group by BMW, following the acquisition, the financial performance of the Rover group continued to decline (Robson, 2008). This was in spite of the fact that the BMW Group was financially strong and was making profit. Because of the poor performance, Rover became known as "The English Patient" in Germany (Feast, 1999b). Chairman of BMW Group, Mr. Joachim Milberg, said in a statement that "burdens arising from our investment in Rover continued to grow....the Rover brand was not strong enough to perform the tasks intended for it...We have decided to part with Rover"(BMW Annual Report, 1999).

Even though the Rover group's financial performance was dismal, the Land Rover brand was an exception. **Figure 5**, below, shows Land Rover's sales volume from 1994 when BMW acquired it. It demonstrates that Land Rovers' sales performance was on the rise throughout the period under BMW's ownership. Land Rover's sales volume³ grew from 90,100 units in 1994 to 115,600 units in 1995, to 125,200 units in 1996 to 127,420 units in 1997 to 153,500 units in 1998 and 178,000 units in 1999. This amounted to almost a doubling of sales over the five years, or an annual growth rate of about 20%. Despite the improved performance of Land Rover, BMW decided to get rid of the brand along with the rest of the Rover Group. Chairman of BMW defended

³All financial data for the paper has been collected from the Annual Report of BMW, Tata Motors, Ford Motors and Form F20 submitted to Securities and Exchange Commission, Press release, company presentation and company websites if not otherwise mentioned.

the decision saying “with the launch of the Sports Activity vehicle BMW X5, we now have an attractive model in our product line for the off-road segment” (BMW Annual Report, 1999).

Figure 5:Land Rover sales volume under BMW ownership

After six years of disappointment despite massive investment, BMW eventually split up the Rover group and sold off the Rover brands to Phoenix, a consortium of West midlands businessmen headed by John Towers, the former Chief Executive Officer of Rover Group and the Land Rover Brands consisting of Range Rover, Discovery, Freelander and Defender to US car company Ford Motors. BMW was desperate to get rid of Rover, which was costing the company £2m a day. To assist the disposal of the Rover brands, BMW lent Phoenix £500m as a dowry to overhaul the company and Phoenix paid a symbolic amount of £10 for Rover (Hearst & Tran, 2000; Robson, 2008). The Phoenix consortium got support from the employees, dealers, trade unions, and from the British government because of their plan to maintain Rover Group as a mass producer of automobiles.

Even though Land Rover was considered to be the jewel in the crown of the Rover group, BMW sold it off together with other Rover brands. Executives at BMW said its successful U.S.-made X5 sport utility vehicle eliminated the need for Land Rover (CNN Money, 2000). BMW sold off the Land Rover brand to Ford Motors for USD2.7

billion. Apparently, BMW made a gross profit of over USD 1 billion out of the Rover Group. However, when their massive investment of USD 2.8 billion into the Rover Group is factored into the equation, BMW in fact made losses by selling off the Rover Group.

It thus appears that the performance of the Rover group under BMW ownership was unsatisfactory, despite the fact that BMW invested heavily into the group. Industry analysts have attributed the Rover group's failure to the fact that BMW let the English manage their own company. The performance of Rover group could have been different if BMW had managed the Rover group directly. However, managing Rover Group by the Germans did not appear possible in the post-war era. The Land Rover brand was an exception and the brand's performance was better compared to other brands belonging to the Rover Group. However, BMW sold it off together with other brands because BMW was already doing well with its own X5 SUV and that eliminated the need to have another SUV in BMW's brand portfolio (Burt, 2000).

6.1.3 Jaguar: Pre-Ford Era

The company that owned the Jaguar brand, which started life as the "Swallow side-car company", was established in 1922 (McKenna, 2000). The company specialized in manufacturing side-cars for motorcycles used by the military. The company was rebranded as "SS Cars Ltd" when it started to produce cars (Gunnell, 2007). The company produced a car in 1935 that could travel at 100 miles per hour. The name "SS Jaguar 100" was chosen to reflect the speed, power and sleekness of the vehicle, in 1946 the company dropped the "SS" and rebranded itself as "Jaguar" (Schaefer, 2008). In 1948, the company launched the new Jaguar XK120 at the London motor show, which had an engine output of a staggering 160 BHP. The most famous sports car of all time--the Jaguar E-Type-- was launched in 1961. Right from the beginning, Jaguar was a shining star in car racing and was very popular among celebrities and earned the reputation as "cars for stars" (Gunnell, 2007).

As a part of the on-going consolidation in the British motor industry in the 1950s and 1960s, Jaguar merged with the British Motor Corporation in 1966 (Gunnell, 2007).

The latter was itself the result of a merger between Austin Motor Co. Ltd. and Morris Motors in 1952. Following the merger of the British Motor Corporation and Jaguar, the company was re-branded as British Motor Holdings Ltd. Subsequently, British Motor Holdings Ltd was taken over by Leyland Motor Corporation Ltd. in 1968 and the combined firm was branded as British Leyland Limited. The motivation for the merger between British Motor Holdings Ltd and Leyland Motor Corporation Ltd. was to achieve economies of scale in production in the face of growing global competition.

British Leyland Limited was nationalised in 1977 (Parker, 2012) and was re-branded as BL plc in 1978 because the merger was a complete failure. Motor industry consultant, Karl Ludvigsen, in an interview with the BBC, commented that "combining Leyland with British Motors turned out very badly. Some poor decisions were made and people who took them didn't really have an adequate grasp of how the global car market could be tackled, so the next step was government intervention to maintain a role for Britain in the car industry" (BBC, 1999). As a part of the British Government's privatization program, Jaguar was split off from British Leyland in 1984.

General Motors was interested in acquiring Jaguar but the British government was against the idea of an American company acquiring a quintessentially British brand (Parker, 2012). The government was of the view that the sale of Jaguar to a foreign company would be harmful for the whole British car manufacturing industry because Jaguar was a part of the very fabric of Britain (Morrisette & Hatfield, 2007; Parker, 2012). Finally, however, Jaguar was sold off in 1984, through a stock market flotation, by offering 177,880,000 ordinary shares at 165p each, which raised BP 294 million (Parker, 2012). In 1989, however, Jaguar was finally acquired by Ford Motors, despite the British government's desire to retain it as a British-owned brand.

6.1.4 Land Rover and Jaguar: The Ford Era

Ford's acquisition history reveals that the company was in an "acquisitive mood" in the 1990s. Ford Motor's buying spree was driven by both the on-going consolidation in the auto industry and the massive cash pile it was sitting on. Ford was mainly buying luxury brands which resulted in the creation of the Premium Automotive Group (PAG) to accommodate its premium brands including Jaguar, Land Rover, Aston Martin,

Lincoln and Volvo. The company, which was previously a mass-market producer of cars, bought a number of premium brands with high price tags, but was forced to sell nearly all of them in the 2000s, at prices substantially below those originally paid. The following table (**Table 3**) summarizes Ford's acquisitions of luxury brands and the prices paid.

Table 3: Acquisition price compared to fair value of acquired brand

Acquired brand⁴	Acquisition year	Total price paid for acquisition	Amount paid in excess of fair value of net assets of the acquired brand
Jaguar	1989	USD 2.5 billion	USD 2 billion
Land Rover	2000	USD 2.6 billion	USD 775million
Volvo	1999	USD 6.5 billion	USD 2.5 billion

When Ford bought Jaguar and Land Rover it had to compete intensely with General Motors, and Auto industry analysts opined that Ford paid significantly more than the value of these brands. Ford paid USD 2.5b for Jaguar in 1989 and USD 2.73b for Land Rover in 2000. Ford also bought a 75% controlling interest in Aston Martin in 1987 for USD 32m, and Volvo Cars in 1999 for USD6.5bn (Ford Annual Report, 1999).

Ford's motivation to acquire Jaguar was primarily driven by the fact that Jaguar was a premium brand and thus would help Ford to enter the luxury segment of the automotive market (Ford Annual Report, 1989). Ford already had a successful luxury brand in the "Lincoln" which was targeted towards older people but it was mainly positioned at the lower end of the luxury car market. Rather than building a new luxury brand, Ford wanted a market-ready brand to compete with the Japanese and European companies.

⁴Data in relation to acquisition price and fair value of net assets of the acquired brands was collected from Ford Annual Report 1989 and 1999.

Some industry analysts commented that Ford paid a significant premium for the ailing Jaguar brand whose annual sales volume was very low and which was barely breaking even (Prokesch, 1989). According to Ford's 1990 Annual Report, the management of Ford Motor Company admitted that the price tag of Jaguar at \$2.5-billion was five times Jaguar's actual net asset value. In other words, Ford paid USD 2bn for the brand "Jaguar" (goodwill) alone, and the rest was paid for the other tangible assets that came with the brand (Ford Annual Report, 1989). Our analysis also showed that Ford paid significantly more than then fair market value⁵ of the acquired brands (**Table 3**).

Ford Chairman, Harold Poling, defended the very high purchase price, saying that "Ford has been exploring opportunities to develop its presence in the worldwide premium-car market; the Jaguar action represents an important step toward that goal. The purchase gives Jaguar access to a worldwide technology base and financial resources for new product development. There is significant potential for sales increases for Jaguar in Europe, North America, the Far East and other areas. Ford is also aware of the potential of newly emerging markets" (Ford Annual Report, 1989). It thus appears that Ford was confident that it would be able to turn around Jaguar successfully and to move into the premium segment of the car market.

After acquiring Jaguar, Ford Motors spent USD 10bn to rebuild Jaguar's factories, to engineer new models, and to cover for 15 years of earlier losses (Madslie, 2007). Despite being a predominantly mid-range car producer, Ford began to use the same platforms and components for Jaguar cars which were targeted towards the upper-end of the luxury car market which turned out to be a massive mistake later. As expressed by the importer of JLR in Ireland: *"Jaguar has lagged because of product development.....the perception for Jaguar under Ford.....they made a big mistake with the X-type..... because it has a Ford platform"*. Ford management also believed that they would be able to improve quality and achieve significant cost savings

⁵ **Fair Market Value (FMV)** is a valuation using assumptions that include: A) A willing buyer and a willing seller, with both parties having the facts about the asset. Fair market value is also regarded as the price an "interested but not desperate" buyer and an "interested but not desperate" seller agree upon. B) An open market; that is, one which is accessible by many buyers and sellers, and which is not closed or private.

byexploiting economies of scale in manufacturing that would enable Jaguar to become more reliable and more profitable.

After taking over as Chairman and chief executive of Jaguar in 1992, Nick Scheele commented that “I just don't see the problem in using Ford components, as long as they're of sufficient quality and are hidden from view. It's the tangibles - the styling, the cabin, the ride and the performance - that must be pure Jaguar” (Green, 1994).Mr. Alex Trotman, the next Chairman of Ford, said in a statement to the shareholders in 1996 that “to improve quality and reduce costs the number of basic vehicle platforms is being reduced by 50%, while the number of parts common to different vehicles is increased to 50%”(Ford Annual Report, 1996). “Our goal is to standardize the best practices around the world, so that all our customers have the best-in-class service experience”- commented Mr. Alex Trotman, Chairman of Ford (Ford Annual Report, 1996).

Despite their massive investment in improving the quality and reliability of Jaguar cars, Ford failed to turn around this iconic but ailing brand and it remained a massive drag on cash for many years. A number of reasons played a role in the failure of Jaguar while under Ford's ownership, management and corporate governance being the most important. According to our interviewee: *“Jaguar and subsequently Land Rover became absolutely strangled by the corporate governance of Ford.....they were just stifled.....to get a decision they had to go through massive documentations.....endless”*Jaguar's sales volume under Ford's ownership declined on a yearly basis as shown in **Figure 6**. Jaguar's sales volume was 90,031 in 2000 which grew to 100,791 units in 2001 and 130,330 units in 2002. However, in the years leading up to sale to Tata Motors, Jaguar's sales volume plummeted on a yearly basis. In 2003, sales volume was 120,570 units and dropped to 118,918 units in 2004 and 89,802 units in 2005, 74,953 units in 2006 and 60,485 units in 2007.

Figure 6: Sales of Jaguar and Land Rover under Ford Ownership⁶

In contrast, the graph in **Figure 6** shows that Land Rover sales volume was increasing steadily. Sales volume of Land Rover was 169,492 units in 2000 which slightly declined to 164,010 units in 2001 before rising to 174,593 units in 2002. In 2003 sales volume fell again to 165,163 units and the sales volume decline continued in 2004 which stood at 162,422 units in 2004. However, in the three years leading up to the sale of Land Rover to Tata Motors, sales volume registered strong growth on a year on year basis. Sales volume grew from 185,120 units in 2005 to 193,640 units in 2006 and to 226,395 units in 2007.

The graph in **figure 7** below illustrates the sales growth rate of Jaguar and Land Rover while under Ford's ownership. Land Rover's growth rate was -3.23% in 2001, 6.45% in 2002, -5.4% in 2003, -1.66% in 2004, 13.98% in 2005, 4.6% in 2006 and 16.92% in 2007. On the other hand, Jaguar's growth rate was 11.95% in 2001, 29.31% in 2002, -7.49% in 2003, -1.37% in 2004, -24.48% in 2005, -16.54% in 2006 and -19.3% in 2007. It therefore appears that Land Rover's sales performance was a lot better than that of Jaguar under Ford's ownership.

⁶Ford started to report sales volume of individual brands only from 2000. Hence, sales data for Jaguar could not be collected 1989 to 1999.

Figure 7: Sales growth rates of Jaguar and Land Rover under Ford Ownership

Ford's failure to turn Jaguar around may be attributed to several factors. Firstly, Ford paid too much for Jaguar. According to Ford's annual report, the price tag of USD 2.5b that it paid to acquire Jaguar was five times Jaguar's actual net asset value, which media reports described as a significant premium. Ford executives defended the high price paid by saying they were paying a premium for the Jaguar brand name. The year before the acquisition, 1988, only 51,939 units of Jaguar were sold and the brand was barely breaking even.

Secondly, Ford's efforts to achieve cost synergies by integrating the two firms in several functional areas such as purchasing, manufacturing and, especially, marketing, resulted in a dilution of the features that made Jaguar unique (Pritchett, Robinson & Clarkson, 1997). Industry analysts attributed Jaguar's sales slump to too much parts-sharing with Ford, especially with the Jaguar X type. "It became obvious very quickly that it was based on a Mondeo"-commented one industry analyst (Madslien, 2007). It appears therefore that Ford tried not only to standardize the product but also customer service to save costs, which might have alienated Jaguar customers and Jaguar brand became diluted. One industry analyst termed the Jaguar X type as "the dud of the decade" (Garrett, 2007). Tata Motors eventually stopped production of the Jaguar X type in December, 2009 in an effort to revive Jaguar brand.

Thirdly, even though Ford spent considerable amounts of money to improve the old Jaguar factories, there was a lack of new products. It can be assumed that Ford's heavy investment in factory improvement limited its scope to invest more into new product development which eventually harmed sales.

Fourthly, there is no evidence that Ford managed to exploit its worldwide market coverage to widen the distribution of Jaguar so as to increase sales. Even though Ford had 10,963 dealers in 2007 for Ford cars, the number of dealers for Jaguar was only 859 dealers. It therefore appears that Ford failed to properly utilize its extensive dealer network so as to expand Jaguar's dealer network.

Following sustained losses in the 1990s, Ford embarked on a radical restructuring in the early 2000s, focused on its core business. The company decided to offload the brands from its luxury car group (PAG-Premier Automotive group) comprised of well-known brands, namely, Aston Martin, Lincoln, Jaguar, Volvo and Land Rover. Chief executive and president of Ford Motors, Alan R. Mulally, said "Now, it is time for Ford to concentrate on integrating the Ford brand globally, as we implement our plan to create a strong Ford Motor Company that delivers profitable growth for all" (BBC, 2008b).

Ford sold off Aston Martin, its prestigious sports car business, in 2007, to a consortium comprised of David Richards, John Sindors, Investment Dar and Adeem Investment Co, for USD 925m. "The sale of Aston Martin supports the key objectives of the company, to restructure so as to operate profitably at lower volumes and a changed model mix and to speed the development of new products," said Alan Mulally, Ford's President and chief executive officer (Mcgrath & Stoll, 2007).

Ford sold Jaguar Land Rover to Tata Motors in June 2008, just as the global financial crisis loomed. Ford also sold off Volvo in 2010 to Chinese company Geely for only USD1.5bn which Ford bought for USD 6.45 billion in 1999. The financial performance of Land Rover was relatively better as against the dismal performance of Jaguar. Nonetheless, Ford decided to sell off both the brands as Ford decided to chiefly focus on its "Ford" brand in the aftermath of the financial crisis in 2008. In the words of our

interview respondent: *“Jaguar was losing money.....they would not have got rid of Land Rover.....Jaguar would be been gotten rid of happily....I would say.....we are just concentrating on Ford”*.

In sum, Ford Motor’s acquisition history reveals that the company was on a buying spree when it was cash rich in the 1990s and bought a number of luxury brands. However, it failed to take advantage of these strong brands for a number of reasons discussed above. Paying a very high price for acquisitions was one of the most crucial factors which made it very difficult for Ford to obtain a viable yield on their investment. Eventually, Ford was forced to sell these brands off in the 2000s, with the hope of turning around the company by focusing back on its core brands.

6.2 Sale of Jaguar and Land Rover to Tata Motors

Ford sold Jaguar and Land Rover because these two brands had been a huge financial drain on the company. The company had to sell both of the brands together because they shared production facilities and thus individual disposals would have been complicated. The eagerness of Ford to sell off these two brands as quickly as they could is evidenced by the name of the project which was code-named "Project Swift" (Hotten, 2007). In the words of our in-depth interview respondent: *“People at that time would have thought 3.5 billion dollar is a lot of money.....Ford could not wait to get away from it.....the car market in America dropped from eighteen million to nine million.Ford had to rationalize their production and dealer network and all of that”*.

Industry experts commented that Ford was fortunate to have found a strategic acquirer like Tata when, overall, the market environment was difficult because of the credit crisis and general pessimistic outlook on the auto industry. Only two other companies submitted bids for the brands -- Indian automaker Mahindra & Mahindra Ltd. and U.S. private equity firm One Equity Partners LLC. It was reported in the press that the potential suitors had submitted bids for both companies that ranged from \$1.5 billion to \$2 billion (CBS News, 2009).

Analysis of both secondary and primary data reveals that while Ford motors did not have the money to continue to support these two brands, they decided to focus on their flagship brand “Ford”, Tata Motors leapt at the opportunity to acquire these two iconic brands.

6.2.1 Motive of the Acquisition

Tata Motors acquisition of Jaguar and Land Rover was predominantly motivated by the extension of their brand and product portfolio. According to the respondent of our in-depth interview: *“they did not see Tata becoming an international brand.... They saw the opportunitypotential in Jaguar and Land Rover.”* Our analysis of secondary data pointed to the same fact that Tata’s salient acquisition motive was to add complementary products and brands to their existing portfolio. At the time of the acquisition, Mr. Tata, the owner of Tata Motors said, “This is a momentous time for all of us at Tata Motors. Jaguar and Land Rover are two iconic British brands with worldwide growth prospects..... It is our intention to work closely to support the Jaguar Land Rover team in building the success and pre-eminence of the two brands” (BBC, 2008a).

In their annual report, Tata Motors explained their motivation as follows: “we believe that our acquisition of the Jaguar Land Rover business will enable us to expand our product range and extend our geographical reach..... Jaguar Land Rover has given us the opportunity to participate immediately in the luxury performance car and premium all-terrain vehicle segments with globally recognized brands and has diversified our business across markets and product segments” (Tata Motors Annual Report 2008). Tata Motors reiterated their acquisition motive the following year, saying “recent acquisition of Jaguar Land Rover has given us the opportunity to participate immediately in the luxury performance car and premium all-terrain vehicle segments with globally recognized brands and has diversified our business across markets and product segments” (Form 20-F submitted to United States Securities and Exchange Commission, 2009).

It thus appears that the Tata acquisition was motivated by a revenue-based synergy through capitalizing on the strength of these two brands and expanding into other

geographic markets, although it was also motivated by opportunities for synergy in other areas of operations as well. In its 2009 annual report, the Chairman of Tata Motors said that "considerable progress has been made in identifying sources of components from India, recognizing engineering and Computer Aided Design capabilities within Tata Motors and marketing synergies in various geographies. Tata Motors has also recognized the high level of technology and skills embedded in JLR which could be of great value to both companies" (Tata Motors Annual Report, 2009). It thus seems that Tata Motors saw the opportunity for increased sale of its existing brands through marketing synergy. "Both brands have tremendous unfulfilled market potential and a significant global presence"- commented Tata Chairman in a statement to its shareholders (Tata Motors Annual Report, 2008).

Hence, it can be concluded that Tata Motors acquisition of Jaguar and Land Rover was primarily driven by the desire to exploit a revenue-based synergy as opposed to cost-based synergy because the intrinsic motives behind the acquisition was expanding the existing brand portfolio as well as market coverage. There was an opportunity for Tata Motors for revenue-based synergies because of the addition of two global luxury brands to its portfolio. Moreover, acquisition of these global brands catapulted Tata Motors into the global automotive industry. Before the acquisition, Tata was at best a regional player but the purchase created the opportunity to expand its presence in the passenger car market beyond India and gave it the clout necessary to compete with global automotive players. Acquisitions of these two renowned brands helped Tata to enter the luxury segment of the auto industry.

Automotive analysts were less convinced as to what synergies there could be between a maker of trucks and basic cars (including the new \$2,500 Tata Nano) and two luxury marques, in an industry dominated by costs. Auto industry experts had expressed scepticism as to whether Tata Motors would be able to change the fate of these ailing brands. Some experts went as far as terming the deal "a collector's item" as opposed to a "business deal" and opined that the change of ownership from UK to Indian might further tarnish the brand image (Economic Times, 2008). Despite the fact that Tata Motors is the biggest car manufacturer in India, there was wide scepticism as to how a producer of small cars would manage two such premium brands.

6.2.2 Price Paid for Jaguar and Land Rover Acquisition:

Tata Motors acquired these two iconic brands combined for USD 2.3bn in cash. This was more than the price the market expected, but was still about half what Ford originally paid. Ford paid USD 2.5b for Jaguar and USD 2.73b for Land Rover in 1989 and 2000, respectively. In addition, Ford Motors paid USD 600m for the pension plan, giving a total acquisition cost of USD 5.8b. According to our respondent: “*Ford invited bids.....Tata had the highest bids.....it was a sealed bid.....Tata came up with the highest number... it was a competition*”

Industry analysts commented at the time that Tata got these two brands at a bargain price (Economist, 2008). Total assets of Jaguar and Land Rover stood at USD7.54b while total liabilities stood at USD5.08b at the time of acquisition (M. C. Ford, 2007). The book value of net assets (difference between assets and liabilities) stood at USD 2.46b at the time of acquisition. Of the USD 7.54b of total assets, Ford Motors estimated the value of the two brands (trade names) at USD1.09 billion.

It appears therefore that Tata bought these two brands at a price (USD 2.3b) below the book value of the assets of these two brands (USD 2.46b). Whereas Ford paid USD 2.5b for the Jaguar brand alone, Tata paid only USD2.3b for both Jaguar and Land Rover. Which is why, some industry experts termed this transaction as a BOGO (*buy - one-get-one -free*) transaction.

Table 4⁷ below shows the assets and liabilities of Jaguar and Land Rover in 2007 before being sold off to Tata Motors.

Table 4:Assets and liabilities of Jaguar and Land Rover at the time of acquisition

Assets	Amount (USD million)	Total (USD million)
Receivables	758	
Inventories	1530	
Net properties	2,246	

⁷ Data was collected from Ford Motor's Annual Report 2007

Goodwill and other net intangibles	2,010	
Pension assets	696	
Other assets	297	
Total Assets	7,537	7,537
Liabilities	Amount	Total
Payables	2,395	
Pension liabilities	19	
Warranty liabilities	645	
Other liabilities	2022	
Total liabilities	5,081	5,081
Net assets (Assets - liabilities)	(7,537- 5,081)	2,456 (USD 2.5 billion)

6.2.3 Method of Payment

The USD 2.3b paid by Tata Motors was an all-cash deal. Tata secured a \$3 billion loan from Citigroup and JPMorgan in order to finance the acquisition. The deal price included the ownership of Jaguar and Land Rover or perpetual royalty-free licenses of all intellectual property rights, manufacturing plants, two design centres in the United Kingdom and global network of national sales companies.

As per the terms of the deal, Ford continued to supply Jaguar and Land Rover with engines, stampings and other car components, in addition to a variety of technologies. "It seems as though they have resolved some tricky supply issues," commented an Ernst & Young's automotive expert (BBC, 2008b). Ford also contributed USD 600ml towards the pension plan of Jaguar and Land Rover employees.

6.2.4 Mood of the Acquisition

Tata's acquisition was welcomed by all stakeholders of Jaguar and Land Rover. The Chief executive officer of Jaguar and Land Rover, Geoff Polites said: "Jaguar Land

Rover's management team is very pleased that Ford and Tata Motors have come to an agreement today. Our team has been consulted extensively on the deal content and feels confident that it provides for the business needs of both our brands going forward" (Just Auto, 2008).

Mickey Livingston, who has worked at JLR for 30 years, commented on the announcement: "It's been very tense and "today the tension has been lifted." Terry Fitzgerald - another Jaguar worker with 30 years' service - described the mood as "very confident" (BBC, 2008c). It thus appears that the merger was welcomed by the employees.

Tata's acquisition was also welcomed by other stakeholders. Blair Sharpe, the owner of a Jaguar dealership in Grand Rapids, Mich., said, "I didn't know anything about Tata, but I do now, and I'm very excited about it. It's a new chapter for Jaguar and Land Rover. Tata is a big company. They have lots of resources and the money to invest in new products" (ABC News, 2008).

The shareholders also welcomed the deal by pushing up the share price. It can be concluded therefore that the mood of the deal was very friendly which made the integration of Jaguar and Land Rover into Tata Motors relatively easy.

6.4.5 Integration of Jaguar and Land Rover into Tata Motors Brand Portfolio

It appears from the analysis of our both primary and secondary data that Ford and Tata Motors dealt with the acquisition very professionally, which paved the way for a seamless integration of these two iconic brands into Tata's brand portfolio. When the deal was being hammered out, Mike O'Driscoll, the managing director of Jaguar Cars under Ford, said he met with top executives, including Ratan Tata, chairman of the parent Tata Group, and was encouraged by Tata Motors to let the Jaguar staff run the company with little interference. He further commented that "Tata would give us some space. They want us to run our business, to be a premium British car company" (Carty, 2008). Our interview with the Jaguar and Land Rover importer in Ireland revealed the same. In the words of our interviewee: "*they did not put any of Tata Management into the company.....but they had representation on the board*". Put differently, Tata

Motors tried to keep the newly acquired Jaguar and Land Rover Business separate and gave the JLR management a free rein to turn these two brands around. In the words of our interviewee: *“they have not integrated.....Jaguar and Land Rover runs as totally autonomous unit”*.

Soon after the acquisition of Jaguar and Land Rover, the chairman of Tata Sons and Tata Motors, Ratan N. Tata, said that the Tata Group “will endeavour to preserve and build on the heritage and competitiveness” of the two brands, while “keeping their identities intact” (New York Times, 2008). It appears that Tata Motors had a plan not to interfere with the management of Jaguar and Land Rover while providing the requisite support to turn around these two brands. As voiced by our interview respondent: *“management have the authority....the freedom and that’s really important point ”*. At the time of the acquisition, Tata confirmed that it would continue building the cars in the UK and would make minimum changes to its workforce of 16,000. Tata kept both the headquarters and production of Jaguar and Land Rover in the UK. The Ford Motor Credit Company even continued to provide financing for Jaguar Land Rover dealers and customers for a period of up to 12 months in various markets following the acquisition. However, in a bid to shake off the old corporate culture, Tata Motors brought forth a few drastic changes to the company. According to our interviewee: *so the culture in Coventry ... they say we are moving our European headquarters to Frankfurt, those of you who want to come, please come and those who do not want to come, you can find alternative employment.....that office is now staffed with ex-employees of Mercedes, Audi, BMW.....total culture change.....the very cleverness of Tata to recognize that they needed people who had the right experience with luxury cars”*.

Moreover, employees of Jaguar and Land Rover, the trade union, and the UK government were kept informed of the development and they all supported the move. In fact, trade union leaders at Jaguar and Land Rover were given written guarantees about the future of jobs and factories (BBC, 2008c). This kind of clear communication and reassurance on the part of the acquiring firm sent out a very clear signal to the stakeholders of the acquired firm, especially to the employees and customers. Studies have shown that the risk of customer defections from the acquired firm is greatest

during the integration phase, particularly in the absence of clear communication concerning the future of the acquired firm.

Even though the two companies came from two different national cultures, the transition was smooth and there was no resistance from the employees of Jaguar or Land Rover. One of the reasons why there was no culture clash between these two companies was because there was almost no integration between the two companies and each of them continued to operate as separate entities under Tata Group's ownership. In the words of our interviewee: *"to my knowledge, there was zero integration"*. Therefore, both Tata and Ford worked together in a clear manner so as to avoid any customer or other stakeholder confusion. According to our interviewee: *"in the beginning, as I said, there was a lot of concern.....people thought they were going to lose their jobs and Tata Motors would migrate from India....they quickly saw that was not happening.....it was not an issue actually"*.

In addition to the cooperation received from various stakeholders of Jaguar Land Rover, Tata spent nearly USD300mn setting up an independent IT ecosystem for Jaguar and Land Rover. "It's not an easy task and today I am very happy that we did this. It helped save millions of pounds (that would have been needed) to set up our own Microsoft Exchange server," said Jeremy Vincent, chief information officer, Jaguar Land Rover (Tata Motors Annual Report, 2011).

6.2.6 How Tata Breathed Life into these Ailing Brands

"Without the Tata Group, Jaguar Land Rover would not be alive. We did not get any help from the UK government. Not even a letter of support," said Ralf Speth, chief executive officer, Jaguar Land Rover (Banerji, 2013). The story of Tata Motors' success in turning Jaguar Land Rover around is quite a noteworthy one considering the short span of time in which the two brands, especially Jaguar, started to make profit under Tata Motors. Where the previous owners of these iconic brands (BMW and Ford Motors) failed, Tata Motors success with these brands is enviable. According to the Jaguar and Land Rover importer in Ireland *"the revolution that happened when Tata took over is just incredible"*. It therefore appears that Jaguar and Land Rover

underwent a complete transformation under Tata Motor's ownership and the acquisition gave Jaguar and Land Rover a new lease of life.

When Tata acquired Jaguar Land Rover in March 2008, a few months before the credit crunch engulfed the world, Jaguar's future seemed doomed, and the financial crisis made things even harder. Tata Motors spent USD 1bn to keep the brands afloat in the first year after acquisition. When cash was in short supply, Tata Motors hired KPMG and Roland Berger Strategy Consultants, a German-based consultancy firm, to advice on cost-reduction, cash flow management, reduction of breakeven volumes, and increasing the efficiency of Jaguar and Land Rover's overall operations.

Ravi Kant, Vice Chairman of Tata Motors, said teams had been formed and they had been working very hard to work the entire thing out. "There are some things which are visible which we are working on and that can be done. And, there are some things which are not visible at the moment, we are working on. We do hope that we are able to get some very major gains as we go along" (Moneycontrol, 2009). Mark Raddan, a KPMG consultant, who led a long running cash management programme at Jaguar and Land Rover that ensured survival and generated cash for investment in new products to drive the turnaround, received a 'Rising Star' Award at the 2011 Institute for Turnaround (IFT) Awards.

It appears that the main objective of cost reduction and the better cash management system at Jaguar and Land Rover was not to bolster the bottom line; rather, the company reinvested the saved money in new product development. This testifies to the fact that Tata Motors saw the latent value in those brands and tried to capture the value through new product development.

6.2.6.1 Unlocking the Value of the Brands through increased Marketing Expenditure

After the acquisition, Tata Group's head, Ratan Tata, said they planned to keep "the image, touch and feel", of these two brands. And "there is no reason to tinker with the brands. Our challenge is to make them grow" (Guardian, 2008). This statement indicates Tata Motor's intention to extract value out of these two brands through

recouping the lost brand equity under Ford's ownership. Tata Motors invested heavily in the marketing activities of Jaguar and Land Rover which was a step in the right direction due to that declining brand equity of the brands. As voiced by the respondent: *huge ...huge..... massive budget behind marketing.....lead sponsor for Rugby world cup.....lot of sponsorships etc."*

Our analysis of secondary data portrayed a similar picture. In the pre-acquisition years the yearly marketing (publicity) expenditure grew modestly, from USD 42.8m in 2005 to USD 43.81m in 2006 to USD 57.2m in 2007 to USD 77.3m in 2008. Not surprisingly, following the acquisition the yearly marketing expenditure grew exponentially because of the addition of two global luxury brands to the brand portfolio.

In 2010 the marketing expenditure was USD 627.2m which rose to USD 909.3m (up 45%) in 2011 and to USD 1125.8m (up a further 24%) in 2012. This was a major ramp up in expenditure, indicating that Tata motors was determined to get the unrealized value out of the newly acquired global brands by increasing marketing expenditure.

Figure 8 below illustrates Tata Motors' yearly marketing (publicity)⁸ expenditure before and after acquisition of Jaguar and Land Rover. This demonstrates very clearly the major step up in marketing support provided by Tata. From 2005 to 2008, annual expenditure averaged USD 55.28 million. This increased to USD 574.8 million in 2009, USD 627.2 million in 2010, USD 909.3 million in 2011 and USD 1125.8 million in 2012. In sum, USD 3237.1 million was invested in the four years following the acquisition averaging USD 809.28 million per year as compared to a mere USD 55.27 million in the pre-merger years.

This massive marketing expenditure following the acquisition of JLR bears testimony to the Tata Motor's determination to extract value out of these two brands through rejuvenation of these two ailing brands. This astronomical investment in marketing expenditure immediately after the acquisition also indicates that Tata Motors was fully

⁸ Tata Motors reports marketing (publicity) expenditure data in Indian local currency which was converted to US dollar using the exchange rate for each individual year collected from the Form 20-F of Tata Motors

aware of the deteriorating brand equity of these two brands under Ford's ownership and could presumably figure out a turn-around strategy even before the acquisition.

Figure 8: Tata Motors Marketing Expenditure (USD Million)

6.2.6.2 Increased Expenditure on New Product Development

Following the acquisition in 2008, the Tata Chairman recognised that “there is a need to introduce a greater number of attractive products for both brands, and to re-ignite Jaguar’s past image connected with its sports car heritage” (Tata Motors Annual Report, 2008). The company undertook a number of initiatives to create new models of Jaguar and Land Rover as well as to improve the existing models to make them more attractive to customers. In the words of our interviewee: *“Tata Motors decided that they are going to invest in product, expand the product range and improve the quality of the product they piled money into that... they have expanded the product range from three or four products to ten products”*.

Our analysis of primary as well as secondary data also showed that Tata Motors quickly realized the root cause of the declining sales of these brands specially Jaguar which led to massive investment into new product development.

Figure 9 shows the research and product development expenditure⁹ of Tata Motors in the pre- and post- acquisition years. The annual research and product development expenditure in the pre-merger years was USD15m in 2005; USD 16.2 m in 2006 and USD 18.9m in 2007. However, Tata Motors increased the product development expenditure dramatically, to USD 75.9 million in 2009, USD 105.1m in 2010, USD 214m in 2011, and USD 289.7m in 2012. In total, USD 684.7 was invested in product development in the four years post-acquisition (2009-2012). In the words of our interviewee: *“they employed a huge number of additional engineers.....they invested heavily in the engineering centre in Whitley”*.

Figure 9: Tata Research and product Development Expenditure (USD Million)

This increased spending led to the introduction of numerous new models, as summarised in Table 5 below.

In 2012, Tata Motors Land Rover embarked on a major new R&D plan with the objective of doubling the production of Land Rover to 600,000 vehicles by 2020. This R&D plan is a key part of the USD15 billion investment planned by Jaguar Land Rover over the next five years. Tata Motors is planning to introduce around 40 "new products" under Jaguar Land Rover by 2017. Land Rover's seven year plan includes a

⁹ Tata Motors reports product development expenditure data in Indian local currency which was converted to US dollar using the exchange rate for each individual year collected from the Form 20-F of Tata Motors

line-up of 16 different Land Rover variations including a family of six luxury Range Rovers, five leisure Discovery and Freelander models, and five iterations of the utilitarian Defenders. Land Rover is aiming to capture around 3 per cent of the global sports utility market which experts predict will reach 22 million by 2020.

It therefore appears that Tata Motors was determined to turn around these two brands, and adopted a multi-pronged approach through massive investment in marketing as a part of brand-building initiative as well as heavy investment in new product development. While under the previous owner, these two brands did not receive enough attention, either in terms of introduction of new products or in terms of marketing support, which further exacerbated the performance of these brands under cash-strapped Ford. Apparently, Tata Motors was aware of the cause of failure of these brands before the acquisition and took drastic measures to turn Jaguar and Land Rover around in a short span of time after the acquisition.

Table 5:Jaguar Land Rover Product Development under Tata Ownership

Year	Product development and product improvement
2009	<ul style="list-style-type: none"> • New XF and XKR including new powertrains in January 2009 • All new XFR from January 2009 • A new Freelander with stop-start technology in Sept 2008 • April 2009 comprehensive upgrades to the Range Rover, Range Rover Sport and Discovery 4 (LR4) • May 2009 Sales of Freelander 2 TD4_e, with intelligent stop-start, first vehicle to incorporate terrain technologies • New Gen II and Gen III petrol and diesel engines launched for 10MY all deliver more power and more performance with comparable or better fuel economy and emissions than the engines they supersede • April 2009 Defender 110 – new 5 seat commercial vehicle & June 2009 Defender ‘Fire and Ice’ special edition
2010	<ul style="list-style-type: none"> • New Jaguar XJ launched in May which received various international awards. • Launch of new Jaguar XK
2011	<ul style="list-style-type: none"> • Range Rover Evoque launched in September 2011 and has since garnered over 100 international awards
2012	<ul style="list-style-type: none"> • Jaguar XF 12 model year line-up included a new four cylinder 2.2-litre diesel version, with intelligent Stop- Start Technology, making

	it the most fuel efficient Jaguar.
	<ul style="list-style-type: none"> • In September, Jaguar XF Sportbrake was launched
2013	<ul style="list-style-type: none"> • Tata motors launched latest Jaguar model in 2012, the F-Type two seater sports car, thirty seven years after its renowned predecessor the E-Type went out of production in 1975. Auto industry expert dubbed the F-Type as the "Porsche-buster" and saw this move as "going back to its roots".

As part of the investment project, Jaguar and Land Rover have recently gone into a joint venture with China-based Chery Auto, investing \$555 million for a 50 percent stake. The joint venture--called Chery Jaguar Land Rover Automotive-- will build the carmaker's models in China which is expected to become the second largest market for Land Rover and third largest market for Jaguar. The joint venture is intended to build locally tailored cars.

It appears that Tata Motors is leveraging the two iconic brands by way of introducing new and attractive products under the Jaguar and Land Rover marques. And the company is forging ahead with this plan and investing heavily into new product development.

6.2.6.3 Improved Market Coverage

Tata Motors also improved the market coverage for both Jaguar and Land Rover following the acquisitions. **Figure 10** below demonstrates the total number of markets in which both Jaguar and Land Rover were sold in the pre and post-merger years. Ford was selling these two brands in 168 markets in 2005 which they increased to 268 markets in 2007. Tata Motors was selling these two brands in 176 markets in 2009-10 which they increased to 278 markets in 2011-12.

Figure 10: Market Coverage of Jaguar and Land Rover

Jaguar was sold in 68 markets in 2005 while under Ford's ownership. This rose to 93 markets in 2007 before the brand was sold off to Tata Motors. Subsequently, Tata Motors further increased the number of markets from 74 in 2009-10 to 101 markets in fiscal 2011-12. Conversely, while under Ford's ownership in 2005, Land Rover was sold in 100 markets, and this rose to 175 in 2007. In the post-merger years, the number of markets fell back to 102 in 2009-10, but recovered back to 177 in 2011-12¹⁰.

Tata Motors sell Jaguar and Land Rover in different markets through a global network of National Sales Companies (NSCs), importers, export partner as well as franchise sales dealers. It thus appears that Jaguar and Land Rover is represented in different markets not only through dealers and National sales companies but also other independent import and export partners. It may therefore be assumed that the number of markets for Jaguar and Land Rover fell to 102 in 2009-10 because of less export through import and export partners thanks to global credit crunch.

The map in **Figure 11** below shows Tata Motor's presence across the globe. In Form 20-F submitted to USA Securities and Exchange Commission in 2008, Tata Motors defended the acquisition of Jaguar and Land Rover, stating that "Our acquisition of

¹⁰Total number of markets in which Jaguar and Land Rover was reported by Tata for 2008-09. Data for individual brands could not be found.

Jaguar Land Rover would also significantly expand our geographical presence.” In 2010 Form 20-F submitted to USA Securities and Exchange Commission, “We have a two-fold strategy of expanding our operations into other geographic areas, through strategic acquisitions and by expanding our product range into select geographies.” It thus appears that Tata Motors was constantly trying to expand its sales network in addition to what Tata already had because of Jaguar and Land Rover acquisition.

Figure 11: Tata Motors Global Distribution

Three years after the acquisition, Tata Motors stated in its 2012 Annual Report that “Tata Motors has emerged as an automobile company of global repute, spanning 129 countries across six continents”. It can be concluded therefore that the acquisition of Jaguar and Land Rover gave Tata instant market access to geographic regions in which Tata Motors was absent before the acquisition, and the enhanced market coverage created an opportunity for Tata Motors to cross-sell its existing products including lower-end passenger vehicle as well as commercial vehicles. Moreover, following the acquisition Tata Motors expanded the existing market coverage.

6.2.6.4 Improved Sales (dealer) Network

Tata Motors also improved the sales network¹¹ following the acquisition. In 2007, under Ford's ownership, Jaguar and Land Rover were sold through 2,256 dealers. On top of increasing the size of the global dealer network, it has also been harmonised so as to give customers the same brand experience. Furthermore, the company decided to build and sustain a healthy business relationship with the dealers. As expressed by the

¹¹ Both Ford and Tata's dealer network includes overlapping dealers for Jaguar and Land Rover

interviewee: “a total revamp of dealer networkwe (the company) are 100% behind you”. In 2012, the dealer network for Jaguar and Land Rover consisted of 2,351 dealers¹². This increase ties in closely with the increased market coverage discussed above.

The analysis also revealed, however, that the increase in the dealer network was far greater than the increase in the number of markets. Tata Motors increased its sales network particularly in high potential markets. For instance, Jaguar Land Rover increased its dealer network in China by almost 200 per cent since 2010 (Tata Press Release, 2012). This implies that Tata Motors enhanced market penetration in major markets.

6.2.6.5 Revitalizing the Ailing Brands

Tata took a number of steps to turn Jaguar brand around. In 2012, four years after the acquisition from Ford, Tata took a major step with a new global brand direction called *Alive*. The campaign locked in to Jaguar's visceral connection with buyers by "positioning Jaguar as animate, seductive, emotional, unique, energetic and high-performance – while asking consumers, *"How alive are you?"*

As part of the brand revitalization program, the Jaguar logo was altered; both the Leaper icon and the typeface were reworked. As shown in **Figure 12**, the icon got a metallic fill and shadow, the type got wider and shorter, while its metallic look matched the livery on vehicles like the XJ. One Jaguar official said that "the dramatic alteration, including significant changes to the brand symbols of the 'leaper' and 'growler,' was the most extensive change Jaguar had made to its visual identification in 40 years" (Bloomberg, 2012).

¹²Excludes 17 national sales companies, 82 importers and 63 export partners

Figure 12:Old and New Jaguar Logos

6.3 Comparison of Pre- and Post-merger performance of Tata Motors following acquisition of Jaguar and Land Rover

After the acquisition in 2008, Mr Ratan Tata, the Chairman of Tata Group commented "I feel strongly that in later years we can look back on the JLR acquisition and say to ourselves that this was a very worthwhile strategic acquisition and one which has brought us considerable technology and global presence" (Financial Express, 2009). Ralf Speth, Chief Executive Officer, Jaguar Land Rover commented "What Tata Group then did was phenomenal. They not only paid for us, but also invested in us. We owe them everything and are trying to pay back for the trust they had in us" (Banerji, 2013). These statements by the heads of both the acquiring and the acquired firms sum up the level of commitment towards the future of these two brands.

Performance was measured and compared for pre-merger and post-merger years, using the performance variables explained in the methodology chapter. The merger year coincided with the 2008 global credit-crunch which adversely affected nearly all industries, including the automobile industry. It should be noted here that Ford uses the calendar year as their financial year while Tata Motors' financial year is from June to June, and the acquisition was completed in June 2008.

6.4 Impact of Acquisition on the Marketing Performance of Tata Motors

In the next sections, the financial performance of Tata Motors is analysed to detect whether there was any evidence of synergistic effects on the performance of marketing variables resulting from the addition of Jaguar and Land Rover to its brand portfolio.

6.4.1 Sales Volume

Figure 13 below shows the number of cars sold by Tata Motors in the pre- and post-merger years. The graph demonstrates that sales volume grew steadily in both pre-merger and post-merger years. The number of cars sold in 2005 stood at 399,566 units which rose to 597,197 units in 2008, the year Jaguar and Land Rover was acquired. The increasing sales trend gained momentum following the acquisition with sales volume of 672,747 units in 2009 rising to 1,269,482 units in 2012.

Figure 13: Consolidated Sales volume of Tata Motors

Figure 14¹³ below demonstrates that Tata Motors performed better than the industry average both in the pre and post-acquisition years. The average global automotive industry sales volume growth rate in the three years (2006-2008) before the merger was 1.4% whereas Tata Motors grew by 14.9%. The average global automotive industry growth rate in the three years after the merger (2010-2012) was 7.8% whereas Tata Motors sales volume grew 23.7%. The difference in the three year average sales growth rate between the global auto industry and Tata Motors was 13.5% in the pre-merger years, and this rose to 15.9% in the post-merger years. It may be assumed that the higher growth rate of Tata Motors was because of merger synergies. This

¹³. The average global automotive industry sales growth rate has been calculated from data collected from <http://www.oica.net/> that reports the yearly global sales volume.

clearly demonstrates that the acquisition of Jaguar and Land Rover helped Tata Motors to enhance its sales performance.

Figure 14: Sales volume growth Rate-Tata Motors compared to Global Industry

Figure 14 illustrates that Tata Motor's sales volume growth rate was above the industry average in the pre-merger as well as post-merger years. Interestingly, however, the graph demonstrates different growth patterns in the pre- and post-merger years. Tata Motors sales growth in the pre-merger years fluctuated by a big margin compared to that of the global automotive industry. The reason was that, before acquisition of JLR, the market for Tata Motors comprised mainly of India and a few other countries. The fluctuation in Tata Motors' sales growth rate in the post-merger years was on a par with that of the global industry, the reason being that the acquisition transformed its regionally-focused product portfolio into a globally-focused product portfolio. It can be concluded therefore that Tata Motors has become a global player by adding global brands and by having access to different country markets after the merger. This was a benefit in that it fundamentally increased the scale and reach of its business, but it also exposed it to the vagaries of the global auto market.

6.1.5 Land Rover and Jaguar under BMW, Ford and Tata

Figure 15 below shows the sales volume of Land Rover under its different owners in the past two decades. The graph illustrates that the sales volume of Land Rover grew steadily under BMW ownership. Sales volume grew from 90,100 units in 1994 to 178,000 units in 1999, an aggregate increase of 98%, or 20% per annum. Sales volume continued to grow under Ford's ownership, but at a lower rate, and there were considerable fluctuations over the years. Sales went from 169,492¹⁴ units in 2000 to 226,395 units in 2007, an increase of 36% over the 7 years, or an average of 5% per year.

Not surprisingly, sales fell sharply in 2008, with the onset of the global financial crisis, ending the year at 120,291¹⁵ units. Under the new ownership of Tata Motors, sales recovered somewhat in 2009, to 157,177 units, and increased rapidly after that, to 316,043 units in 2012-13. Sales increased by 163% from 2008 to 2013, or by an average of 41% per annum, despite the intervention of the global economic crisis.

In sum, sales grew faster under Tata's ownership than under either of the previous owners, suggesting a greater degree of success under this latest owner. However, the strong sales under previous owners suggests the possibility of a momentum effect, i.e. a strong brand continues to be strong over time, irrespective of ownership (Tuch & O'Sullivan, 2007; Halebian, et al., 2009). The introduction of new models and the intensified marketing support supplied by Tata Motors accelerated the growth rate, but it is likely that this brand would have continued to grow anyway because of the momentum that was already there.

¹⁴The sales volume for 2000 contains sales under both BMW and Land Rover ownership.

¹⁵Sales volume for 2008-2009 contains sales only for 10 months and thus is not directly comparable. Tata acquired Land Rover and Jaguar in June 2008. Tata's financial year is from April to March.

Figure 15: Land Rover Sales under BMW, Ford and Tata Ownership

In contrast, sales of Jaguar, a far weaker brand, showed a very different pattern under successive owners. **Figure 16** below shows Jaguar sales volume under Ford and Tata's ownership. The graph shows that sales volume was quite good under the early years of Ford's ownership, at 90,031 units in 2000, 100,791 units in 2001, 130,330 units in 2002. However, Jaguar's sales volume plummeted from 2003 onwards. Sales volume was 120,570 units in 2003, but dropped to 118,918 units in 2004 and 89,802 units in 2005, then down to 74,953 units in 2006 and 60,485 units in 2007. In sum, Jaguar's sales performance was dismal, down by more than half from 2002 to 2007, and was on a constant decline averaging -11% every year.

Figure 16: Jaguar sales Volume under Ford and Tata Ownership

The trend reversed slightly under Tata's ownership, although sales have remained at a relatively low level. The lowest point came in the year 2008-09 when sales reached 47,057¹⁶ units, down from 60,485 the previous year, but this was largely the result of the global financial crisis. Sales recovered slightly in 2009-2010, to 51,020 units, and upwards again to 58,626 units in 2011-12. This represented some improvement (15%) but could hardly be called a turnaround. Sales in 2012-2013 were still below the 2007 level which, itself, was a low point. However, Tata's success with Jaguar lies in the fact that sales volume stabilized and started to register slow but steady growth as opposed to the continuous decline in the years before the acquisition. Nonetheless, Jaguar is yet to achieve its full potential, mainly due to lack of enough good products. As stated by our interview respondent: *"Jaguar still has a long way to go"*.

6.4.2 Sales Revenue

Sales revenue for Tata Motors in the pre-merger years stood at USD 4,548.1m in 2005, increasing to USD 7,692m in 2007, an increase of 69%, as shown in **Figure 17**. This indicated that Tata was already on a rapid growth trajectory before it took over Jaguar/land Rover. This trend continued in the post-merger years with sales revenue

¹⁶2008-2009 sales volume contains sales of only 10 months and not directly comparable.

growing exponentially, from USD 14,250.9m in 2009 to USD 32,724.3m in 2012.¹⁷ The average rate of growth in the three years pre-acquisition (2005-2007) was 34.4%. The average rate of growth in the three years, post-acquisition (2009-2012) was 38.3%, indicating just a slight acceleration, from the addition of Jaguar/land Rover to the product line.

Figure 17: Tata Motors Consolidated Revenue (USD Million)

6.4. 3 Contribution of Geographic Market Mix towards Revenue

Before the acquisition of Jaguar and Land Rover, the main focus of Tata Motors was on the Indian automotive market. As shown in **Figure 18**, more than 80% of revenue came from the Indian market while only 17% of revenue was generated from the rest of the world. This is not surprising given the fact that Tata Motors' brand portfolio mainly consisted of organically grown brands which had little or no profile outside the Indian subcontinent.

¹⁷ The combined revenue for 2009 includes Jaguar and Land Rover's revenue for 10 months only and thus is not directly comparable. Tata Motors acquired Jaguar and Land Rover in June 2008.

Figure 18: Tata Motors Geographic Distribution of Revenue Pre-Acquisition

The pie chart in **Figure 19** shows that the acquisition of Jaguar and Land Rover turned Tata Motors into a global company by way of adding global luxury brands to its brand portfolio. The revenue contribution from outside India grew and Tata's dependence on the Indian market lessened after the acquisition. The average revenue contribution from the Indian market was only 37% in the four years after the acquisition, while revenue from other global markets stood at 63%.

It can be concluded therefore that the addition of Jaguar and Land Rover brands benefited Tata in two ways. Firstly, the merger gave Tata exposure to new geographic markets and, second, inclusion of Jaguar and Land Rover helped Tata to fill out its brand portfolio with two complimentary brands. More importantly, the acquisition helped Tata to lessen its dependence on one single market, i.e. India.

Figure 19: Tata Motors Geographic Distribution of Revenue Post-Acquisition

6.4.4 Ratio of marketing expenditure to Sales Revenue

The graph below shows the ratio of marketing expenditure to sales revenue for Tata motors in the pre and post-merger years.

Figure 20: Tata Motors marketing Expenses to sales revenue ratio

The four year average ratio of marketing expenses to sales revenue in the pre-acquisition years (2005-2008) was 0.84%, which rose to an average of 3.45% in the post-acquisition years (2009-2012). This increase is not unexpected given the fact that,

before the acquisition, Tata Motors' selling activities were predominantly focused on one single market i.e. India. After the acquisition the company became a global company because of the addition of two global brands to the brand portfolio.

There was a sharp increase in the ratio in 2009, to 4.03%, which can be attributed to two factors. Firstly, revenue did not grow as expected due to the global financial crisis. In fact, automobile sales dropped significantly across the globe. Like the USA, the global automobile sales dropped significantly in the last recession compared to recessions in 1982 and 2001 owing to three 'rough waves', namely, high gasoline prices, the credit crunch, and the job losses (Chu & Su, 2010).

Secondly, there was a dramatic increase in marketing expenses following the acquisition of Jaguar and Land Rover. The marketing expenditure of Tata Motors stood at a mere USD 77.3 million in 2008 but skyrocketed to USD 574.8 million in 2009, a growth of over 644%. This exponential increase in marketing expenditure is not surprising, however, given Tata Motors' determination to recoup the lost equity of these brands as well its ambition to become a global auto manufacturer from a local player. Furthermore, our analysis revealed that, after the initial boost in the marketing expenditure in 2009, the overall expenditure for marketing activities stabilized and grew at an average rate of 26% in the subsequent years (2010-2012).

In comparison to the exponential increase in marketing expenditure in 2009, revenue grew at a modest rate of 56.15% over the previous year. The average revenue growth rate in the subsequent years (2010-2012), however, was 32.38% as compared to the average increase in marketing expenditure of 25.97%. After 2009, however, the ratio of marketing expenditure to sales revenue dropped again which indicates better selling cost management on the part of Tata Motors as well as an increase in revenue.

6.4.5 Profitability of Tata Motors

In order to measure the impact of acquisition on the overall profitability of Tata Motors, we computed and compared three measures of profitability namely, gross profit margin, operating margin and net income margin.

Figure 21 below shows how the gross profit margin of Tata Motors evolved over time before and after the acquisition. The chart demonstrates that gross profit margin of Tata Motors, defined as gross profit (total revenue minus cost of goods sold¹⁸) divided by total revenue, improved considerably in the post-acquisition years. The gross profit margin hovered between 20% to 21% in the pre-acquisition years (2005-2008) but rose to between 32% and 37% in the post-acquisition years (2009-2014). The improvement of gross profit margin is particularly interesting given that fact that Tata Motors expenditure for cost of goods increased considerably in the post-acquisition years. However, revenue in the post-acquisition years improved at a far greater rate than that of cost of goods which resulted in improvement of gross profit margin.

Figure 21: Gross profit margin of Tata Motors

Figure 22 below shows the operating margin of Tata Motors defined as EBITDA (earnings before interest, tax, depreciation and amortization) divided by sales revenue. The chart demonstrates that the yearly mean operating margin of Tata Motors in the pre-acquisition years (2003-2008) stood at 13.65% but dropped slightly to 12.07% in the post-acquisition years (2009-2014). Nevertheless, it is worth noting that in recent years the operating margin has picked up again and reached its highest level

¹⁸Cost of goods sold has been calculated as sum of the cost for purchase of products for sale and cost of raw material and consumables

of 16.06% in 2014. Furthermore, the decline in average operating margin in the post-acquisition years was mainly because of a sharp decline in 2009 caused by the global recession and credit-crunch. The poor performance in 2009 dragged down the average operating margin which otherwise was increasing on a yearly basis.

Figure 22: Operating Margin of Tata Motors

Figure 23 below shows another measure of profitability -- net income margin-- defined as net income divided by sales revenue. This chart shows how the net income margin of Tata Motors evolved in the pre and post-merger years. It is evident from the graph that the net income margin in the pre-merger years was gradually declining, culminated in the worst performance in 2009, thanks to global financial crisis. The net income margin during the period 2005 and 2008 ranged between 6% and 5% with the lowest performance in 2008 at 3.89%. The net income margin hit the lowest point in 2009 at -8.05%. The performance started to improve again from 2010. The net income margin rose to 5.98% and 6.99% in 2011 and 2012 respectively before dipping slightly to 5.23% in 2013, but rising again to 5.60% in 2014.

Figure 23: Net income margin of Tata Motors

It therefore appears that, while Tata Motors was able to increase both its sales volume and sales revenue following the acquisition of Jaguar and Land Rover, the increased sales performance did not result in increased profitability in the immediate years after the acquisition. As discussed above, Tata Motors spent significant sums of money in marketing and product development to turn around these two ailing brands, and this increased expenditure might have led to the poor performance in terms of profitability in the years right after the acquisition. In the years (2005-2008) leading up to acquisition of Jaguar and Land Rover, Tata Motors's yearly marketing and product development expenditure averaged USD 55.28 and USD 16.63 million respectively. However, following the acquisition, the average annual marketing and product development expenditure during the period from 2009-2012 rose to a staggering USD 809.28 and USD 684.7 million respectively. It therefore appears that increased marketing and product development partially contributed to the deterioration in return on sales despite considerable improvement in sales revenue.

However, it stands to reason that the marketing and product development expenditure alone was not responsible for decreased profitability performance. Expenditure in other aspects of the business might also have contributed to this worsening profitability

performance. Manufacturing expenses¹⁹ are one of the largest cost components, so it seemed plausible that this might have contributed to the decreased profitability. This turned out to be true; our analysis showed that the Tata Motors expenditure for manufacturing and other expenses in proportion to its revenue increased as shown in the Figure 24 below increased dramatically after the acquisition of Jaguar and Land Rover. The yearly manufacturing and other expenses as a percentage of turnover ranged around 11% in the pre-acquisition years but rose to around 18% in the post-acquisition years. It thus appears that Tata Motors manufacturing expenditure in the post-acquisition years increased considerably. One possible explanation for the increased manufacturing expenditure could be to the better quality products launched by Tata Motors after the acquisition of Jaguar and Land Rover.

Figure 24: Manufacturing and other expenses as percentage of turnover

6.5 Looking Ahead—Tata Motors

It appears from the above analysis that Tata Motors successfully turned around the ailing JLR brands and was able to increase sales in a very short span of time. Tata Motors has reported double-digit top-line growth for the past four consecutive years. **Figure 25** below shows Tata Motors revenue growth rate over the years and it appears that the average yearly revenue growth rate in the pre-acquisition years (2006-2008)

¹⁹ Tata Motors reports manufacturing and other expenditure data in Indian local currency which was converted to US dollar using the exchange rate for each individual year collected from the Form 20-F of Tata Motors

was around 26% as against 28% in the post-acquisition years (2009-2014). Continuing the momentum, Tata has enjoyed an excellent start to 2014-2015, with Q1 consolidated net revenue growing by 38%. Revenue growth has also substantially outpaced any increase in expenses, helping drive the bottom-line higher. It therefore appears that Tata Motors was not only able to increase revenue in absolute terms but was also able to maintain a double-digit revenue growth in the post-acquisition years. It is worth noting that before acquisition of Jaguar and Land Rover Tata Motors was predominantly a local Indian automaker and much of its revenue came from Indian market. After the acquisition, however, Tata Motors by and large became a global auto manufacturer and competed with other global auto giants such as Ford, BMW etc. Despite being up against other formidable global competitors, Tata Motors was able to maintain its double-digit revenue growth rate.

Figure 25: Tata Motors recent Performance

Tata Motors splendid performance seems to be continuing thanks to introduction of new models and heavy investment in brand building initiatives. In the first quarter of the financial year 2014-2015 Jaguar Land Rover's performance continued to surge. The Retail volumes of JLR were 115,596, up 22% from Q1 FY14 with Jaguar up 12% and Land Rover up 24%. The revenue for these two brands in this quarter was £5.4 billion, up £1.3 billion, EBITDA was £1,087 million, up £440 million with EBITDA margin of 20.3%, up 4.5ppt and profit before tax was £924 million, up £509 million.

The increase in sales reflects the continued success of the XF and F-Type for Jaguar and the Range Rover, Range Rover Sport, Range Rover Evoque and Freelander for

Land Rover. The strong sales growth has been across almost all markets, most notably China which is the largest market. The Company continues to invest significantly in capital expenditure and R&D, spending £682 million in Q1 FY15, up £124 million compared to Q1 FY14. The Company has indicated capital spending, including R&D, will be in the region of £3.5 - 3.7 billion in FY15.

Table 6²⁰ below shows that China is the biggest market for Jaguar and Land Rover. Performance of these two brands, nonetheless, is also on the up across other markets as well. To sustain the continued growth, Tata Motors is planning to launch new Discovery Sport, Jaguar XE, Ingenium family of 2l engines in new engine plant and new China JV manufacturing plant. Apart from introduction of new models, the company plans to continue to invest in more new products and new technologies to meet consumer and regulatory requirements and build manufacturing capacity in the UK and internationally.

Table 6: Jaguar and Land Rover recent performance

Three months ended 30 June (£ millions)	2014	2013	Change (%)
China	32,912	20,427	61.1%
Europe (excluding UK)	22,622	19,950	13.4%
UK	18,884	16,392	15.2%
North America	18,536	16,195	14.5%
Asia Pacific (excluding China)	6,442	5,416	18.9%
All other markets	16,200	16,339	-0.9%
Total JLR	115,596	94,719	22.0%

In the first quarter (Q1) of the financial year 2014-2015, the consolidated performance of Tata Motors is showing strong performance when compared to the performance of the first quarter of last year. Despite the fact, the global sales volume declined by 7.8%, the net revenue shot up by 38.2%, EBTIDA increased by 73.5% and net profit increased by a staggering 212.7%.

Our analysis showed that the operating margin of Tata Motors stood at 13.2% one year before the acquisition, but dropped to 9.5% in 2010, two years after the acquisition, chiefly due to heavy investment in marketing and R&D. However, the operating margin has risen significantly in the recent years, with 16.6% in 2014. We found quite similar results for net profit margin which stood at 5.5% one year before the acquisition and dipped to 4.0% in 2010, two years after the acquisition. The net profit

²⁰ Source: Tata Motors Annual Report

margin has picked up in recent years, however, at 5.6% in 2014. Tata Motors performance in terms of gross profit margin has been particularly noticeable. The gross profit margin stood at 20.5% in 2007 one year before the acquisition which rose to 32.2% in 2010 and a staggering 37.1% in 2014.

Tata Motor's net debt stands at about \$800 million in 2014 giving a debt/equity ratio of 0.07 which is the lowest in the industry. Moreover, Tata has substantially decreased debt since 2011, giving it room for future leverage. Inventory days remain virtually unchanged over the years, another sign of efficiency as Tata was able to convert increased volumes into sales at the same rate.

Figure 26 below provides a comparison of performance between Tata Motors and its peers.

Figure 26: Tata Motors Performance compared to its peers (%)

	Tata Motors	Ford	Toyota	Honda	Daimler
Gross Margin	36.5	12.7	19.2	26	22
Operating Margin	10.2	3.3	9	6.3	7.5
Pre-tax Margin	8.1	4.4	9.6	6.3	7.2
Net Profit Margin	6	4.5	6.5	4.1	5.6
Sales Growth (5 Years)	26.4	0.5	4.6	3.4	3.7

From a revenue standpoint, Tata Motors looks very attractive. Five-year revenue growth average stands at 26%. Net profit margin is also among the top two. Tata's high gross product margin compared to its peers is impressive and could boost net margins higher as the company matures and becomes more cost-effective.

According to one survey done by Bloomberg News (2012) the value of Jaguar and Land Rover brands now stands at USD 14bn. This compares to the USD 2.3 bn that Tata Motors paid for the businesses just 3 years before, although it must also take into account the money invested by Tata in R&D and marketing since then, which has amounted to nearly USD 4 billion.

6.6 Summary

Our extensive literature review, described in earlier chapters, provided numerous insights to help develop a marketing perspective on mergers and acquisitions and, in particular, to try to establish a link between the motivations for merger and the subsequent performance. An exploratory case study seemed like a natural next step in helping to understand this complex phenomenon, to help in identifying the relevant parameters involved in this type of transaction, and the possible cause and effect relationships for later empirical testing.

Our case research combined quantitative and qualitative data analysis gathered from a wide variety of secondary sources, reports and opinion of the auto industry experts as well as a primary source through in-depth-interview. These sources were both from the company and from independent analysts. The quantitative data were necessary to provide factual evidence of the company's performance both before and after the acquisition of Jaguar/Land Rover, and with and without the additional brands. The qualitative data provided supplementary comments to add explanation and critique to the numbers. These primary and secondary sources combined to provide a deep and rich understanding of both the underlying strategy and the performance that it yielded.

Our analysis revealed that the motivations for Tata's acquisition of Jaguar and Land Rover were two-fold: firstly, to extend the brand portfolio of Tata Motors, and secondly to extend its market coverage. Acquisition of Jaguar and Land Rover transformed Tata's brand portfolio, allowing it to raise its prices by serving premium segments instead of the low price segments it had served before which were mainly focused on the Indian market. The second motivation for the acquisition was to extend the market coverage of Tata Motors and this it did in dramatic fashion. Tata Motors went from having 80% of its sales in India pre-acquisition, to having 85% of its sales outside of India this year.

These combined benefits allowed the sales volume and revenue of Tata Motors to grow significantly in the post-acquisition years. Tata Motors has reported double-digit top-line growth for the past four years, averaging 26% per annum. This compares to low

single digit growth for other leading car manufacturers such as Toyota (4.6%), Honda (3.4%) and Daimler Benz (3.7%) Thus, it seems that the first measure of marketing performance—increased sales revenue—was achieved by means of the Jaguar/Land Rover acquisition.

Tata Motors increased its expenditure on sales and marketing by a very substantial amount resulting in an increase rather than a decrease in this ratio. The four year average (including merger year) ratio of selling, general and administrative expenses to revenue in the pre-acquisition years (2005-2008) was 10.98% which rose to an average of 20.31% in the post-acquisition years (2009-2012).

Tata Motors capitalized on these two iconic brands by embarking on a massive plan for new product development through heavy investment which resulted in the introduction of a number of new models into the market. Ford did not have enough cash to support these two ailing brands. In the words of our interview respondent: *“Tata saw that opportunity.....they had the resources.”* Our analysis of both primary and secondary data revealed that these new models --such as the Land Rover Evoque-- were hugely successful and gave a major boost to sales and to brand equity. The success of these new products was also influenced by a heavy investment in advertising and marketing which gave them worldwide visibility. Our analysis also showed that there was no problem in the post-acquisition years as Tata Motors kept the newly acquired company separate from its existing operation. According to our interviewee: *“it really is two totally independent companies”*

These marketing successes, however, came at a high cost, which went all the way to the bottom line of Tata Motors. The ratio of marketing expenses to sales revenue increased dramatically in the post-acquisition years because of greatly increased spending needed to accelerate sales of the newly acquired brands. This annual average ratio of marketing expense to sales revenue went from 0.84% before the acquisition to 3.45% afterwards, with a total marketing expenditure of USD 3,237.1 million in the four years post-merger. Data from recent years indicates that the ratio decreased slightly to 3.43% in 2014 suggesting that Tata Motors is still investing in marketing activities

so as to completely regain the lost stature of these two brands while revenue is increasing on a yearly basis.

Finally, our analysis of three measures of profitability showed that even though the two profitability measures declined immediately after the acquisition of Jaguar and Land Rover, they recovered and increased several years on. Profitability as measured by gross profit margin in fact improved right after acquisition. The other two profitability measures, namely net income margin and operating margin, declined for two years post-merger, but recovered in recent years. Our analysis has shown that profitability as measured by net income margin stood at 5.6% in 2014 which recovered from a -8.1% in 2009 which is indeed a remarkable achievement. Furthermore, profitability as measured by operating margin peaked at 16.1% in 2014 which is the best performance of Tata Motors in the last decade. The data also showed, however, that a great deal of investment was required to re-ignite the growth of the Jaguar /Land Rover brands, and this placed a drag on Tata's profitability for at least four years after the acquisition.

Thus, it seems that the drag on profitability was a temporary effect that have started to turn around in the recent years and profitability will presumably improve further if the company has a strong enough resource base to be able to weather the temporary slowdown. As a huge, diversified industrial company, the Tata Group was especially well-placed to be able to provide the time and resources necessary to stage a turnaround in the fortunes of Jaguar and Land Rover. Admittedly, Land Rover was an easier task than Jaguar, and the latter still has a long way to go in its revival.

Our analysis further indicated that variables which earlier M&A research found to have an impact on post-merger performance did not negatively affect the post-acquisition performance of Tata Motors. Variables such as the price paid for the acquisition, the method of payment, the mood of the acquisition, and post-merger integration were examined. With regard to price paid, Tata Motors bought these two brands at a bargain price which was below the book value of these two brands. Tata Motors got off to a good start therefore by buying two global brands at a bargain price, avoiding the risk of failure because of overpayment. Tata Motors not only successfully

turned around Jaguar and Land Rover, they also have reaped the benefit by way of transferring resources and capabilities from Jaguar and Land Rover. As expressed by our respondent: *“there are some technology transfers.....they are owned by the same people, so they certainly should be helping.”*

6.7 Conclusion

The case study was conducted with the objective to examine how mergers and acquisitions affect marketing performance of the combined company. The case study on Tata Motors demonstrated that marketing performance is a multi-dimensional construct and more than one performance variable should be used to measure such a multi-faceted construct. Selection of such performance variable should however be guided by the research objective. The objective of this study was to measure marketing efficiency and marketing effectiveness dimensions of the marketing performance construct. The following chapter develops a set of hypotheses based on the findings of the case study as well as in light of the existing literature on mergers and acquisitions. The hypotheses are subsequently tested through a quantitative study.

6.8 Limitations of the Case Study

It is possible that this example may not be representative, however, because of several unique features. First of all, this was a very unequal acquisition, with a very large, successful broad-based industrial company taking over a much smaller, distressed car business. This was clearly a turnaround situation, needing major investment rather than providing an opportunity for cost savings, as might happen in a more equal merger. Secondly, the purchase of such high profile, iconic brands by a company from an emerging economy means that the strategic stakes are very high, imposing a pressure to succeed, more or less at any cost. The enormous spending on marketing and R&D was probably undertaken without any expectation of short-term profit.

Secondly, Tata Motors paid in cash for the acquisition. Our findings of improved post-merger performance are in line with other studies which showed that cash acquisitions lead to better performance improvement in the post-merger years, as compared to stock

acquisitions. Moreover, Tata bought these brands on a cash-free and debt-free basis which means that it avoided the legacy debt burden, and this gave it considerable leeway for future investment in these two brands.

Thirdly, the mood of the acquisition was friendly which is borne out by the positive attitude of JLR's stakeholders including employee, importers, distributors and dealers. The employees of JLR and dealers welcomed the acquisition which made it easy for Tata Motors to put the two firms together despite huge cultural differences between the two firms. Moreover, because of being a friendly takeover, the post-merger integration was smooth which facilitated performance improvement post-acquisition. Such a harmonious transition is likely to enhance performance more than might occur in a hostile or indifferent situation, leading to an upward performance bias.

Despite these concerns, we believe that Tata Motors provided a good example of a major acquisition of important global consumer brands, and the fact that this acquisition was well documented meant that it was possible to examine in detail how the acquisition was implemented and the performance that followed. This transparency was a major benefit that allowed us to gain considerable insight into how this acquisition played out, and this insight has provided a valuable foundation for the next stage of the research.

CHAPTER SEVEN
**THEORETICAL MODEL, HYPOTHESES AND
METHODOLOGY OF THE QUANTITATIVE STUDY**

Chapter Outline

- 7.1 Introduction
- 7.2 Antecedents of marketing performance
- 7.3 Marketing Performance
- 7.4 Marketing model of the current study
- 7.5 Methodology of the quantitative study

Chapter Seven

THEORETICAL MODEL, HYPOTHESES AND METHODOLOGY OF THE QUANTITATIVE STUDY

7.1 Introduction

This chapter sets out the theoretical model underpinning the quantitative study. The proposed model has been developed from the review of literature on M&A discussed in earlier chapters, and is expanded by reference to the literature on the construct *marketing performance* discussed below.

7.2 Antecedents of marketing performance: Marketing capabilities and assets

The resource based view (RBV) theory posits that firms are a bundle of resources and capabilities (Wernerfelt, 1984; Hart & Dowell, 2011) and firms differ in terms of their resource-base which are semi-permanently tied to them. (Barney 1991). The extant literature on the resource-based view (RBV) defines capabilities as the managerial skill-sets and knowledge garnered through the years of deployment of existing assets to create a competitive advantage in the market place (Greenley, Hooley, & Rudd, 2005; Vorhies & Morgan, 2005; Morgan, Vorhies, & Mason, 2009; Day, 2011).

Marketing capabilities have received extensive research attention and various conceptualizations of marketing capabilities have been proposed in the extant literature. Broadly speaking, the literature on marketing capabilities has identified two interrelated areas: capabilities concerning individual 'marketing mix' processes, for example, innovation and management of new product, pricing, selling, marketing communications, and channel management, and capabilities pertaining to the processes of marketing strategy development and implementation (Vorhies & Morgan, 2005; Morgan et al 2009). Day (1994) identified three types of marketing capabilities; *Outside-in capabilities* have been identified as those capabilities that help companies to understand and participate in markets. For instance, understanding customers' needs

and wants and creating relationships with various stakeholders of the companies. *Inside-out capabilities* have been identified as those capabilities that contribute to the market participation effectively, for example, finances, human resources and marketing management. Furthermore, *Spanning capabilities* have been identified which are those capabilities that integrate inside-out and outside-in capabilities of the companies. For instance, new product innovation and internal communications.

In contrast,, the asset base of a firm comes from the resource endowments that have been accumulated over time, and firms deploy the asset-base to create a competitive advantage in the market place (Amit & Schoemaker, 1993; Srivastava, Fahey, & Christensen, 2001; Greenley et al 2005). Various types of marketing assets have been identified and investigated in the marketing performance literature. In their extensively cited and influential study, Hooley, Greenley, Cadogan, & Fahy (2005) commented that “a great many factors may be considered market-based resources. No listing will ever be exhaustive and none can claim completeness.”

Srivastava, Shervani, & Fahey (1998) identified relational and information assets as marketing assets. Hooley, Broderick, & Möller (1998) investigated four types of marketing assets, namely customer-based assets, for example brand equity and reputation of the firm; internal assets, such as information and cost control systems; supply chain assets, such as relationships with distribution partners; and alliance-based assets, such as access to market, and shared technology. (Doyle, 2001) identified market knowledge, brands, customer loyalty and strategic relationships as marketing assets of a firm.

In a relatively recent study, Jalkala & Salminen (2010) identified the portfolio of customer references as a marketing asset which encompasses a relational element, in the form of long-standing relationships with the existing clientele, and an intellectual element which stems from the knowledge garnered from the value-creating initiatives carried during the relationships. Broadly, the multifarious assets that have been investigated in the marketing literature can be categorised under tangible and intangible marketing assets.

A stream of marketing literature has investigated the link between marketing assets and capabilities and firm performance. It found a link between the marketing assets and capabilities and firm performance. Hooley et al. (2005) demonstrated that market-based resources, such as customer-linking capabilities, reputational assets, market innovation capabilities, and human resource assets directly affected the performance of companies. Krasnikov & Jayachandran (2008) conducted a meta-analysis of 114 articles that investigated the relationship between marketing capability and firm performance and found the evidence to indicate that marketing capability does affect firm performance. Likewise, Morgan et al. (2009) found that companies' market-based knowledge assets such as market orientation and their marketing-related capabilities complement each other and also affect firm performance.

Literature on marketing capability has traditionally used subjective measures captured through surveys whose accuracy has been debated. However, a stronger test utilizing DEA (Data Envelopment Analysis), Nath, Nachiappan, & Ramanathan (2010) also found that the marketing capabilities of companies affected their business performance. The balance of evidence does seem to suggest therefore that marketing assets and capabilities do in fact affect business performance. The existence of such a relationship is a fundamental assumption underpinning this study, and the next section examines issues concerned with measuring marketing-related dimensions of business performance.

7.3 Measurement of Marketing Performance

It is widely acknowledged that there is a dearth of research on how to measure marketing performance (Eusebio, Andreu & Belbeze, 2006), leading the Marketing Science Institute to suggest "Assessing Marketing Productivity (Return on Marketing) and Marketing Metrics" as its highest research priority for 2002–2004 (Rust, Lemon & Zeithaml, 2004). This effort has been further hampered by a lack of unanimity on how to define and measure marketing performance. There are a few aspects of marketing performance measurement upon which there is agreement, however, which provide a reasonable starting point for this study.

First of all, marketing researchers agree that *marketing performance* is a multidimensional construct similar to overall firm performance (Morgan, et al., 2002). Literature on *firm performance* defines it as the process of quantifying outcomes and the two most fundamental dimensions are efficiency and effectiveness (Neely, et al., 1995). In simple terms, effectiveness means doing the right things while efficiency means doing things right. Put simply, efficiency refers to an input-output ratio or comparison and effectiveness refers to an absolute level of either input acquisition or outcome attainment (Ostroff & Schmitt, 1993).

These same two fundamental principles can also be applied to marketing performance. *Marketing effectiveness* may be defined as the degree to which companies marketing goals are achieved, in other words, it may be viewed as “doing the right things” and when companies do the “right things”, it not only can keep the current customers satisfied but also may attract new customers which may lead to increased sales and enhanced financial performance. In contrast, *marketing efficiency* may be defined as the relationship between outputs and the inputs necessary to achieve them—it may be viewed as “doing things right” (Sheth & Sisodia, 2002b). When companies “do things right”, they are able to utilize less resources to achieve the desired goals, thus lowering costs and achieving better financial returns.

The study reported here is concerned with measuring both marketing effectiveness and marketing efficiency. It is focused on the relationship between the goals and objectives pursued via a merger and the degree to which they are achieved. This is the area in which there is least research, and that therefore seems to provide an opportunity to advance knowledge.

Secondly, researchers agree on the fact that marketing performance measures could be broadly classified as either “financial performance measures” or “non-financial performance measures” (Rust, et al., 2004; Eusebio, et al., 2006; Stewart, 2009). Financial measures still remain the fundamental management tool in most companies, even though non-financial measures are used quite extensively (Clark, 1999; Pont & Shaw, 2003). Stewart (2009) has argued that marketing will do itself a disservice as a

discipline if it fails to link the marketing activities to financial performance. A wide range of financial measures have been examined in the literature including sales revenue, sales growth, share of value-added, marketing productivity (sales divided by marketing cost), return on sales, and return on investment (Pont & Shaw, 2003).

The study reported in the following sections of this paper uses the financial performance measures as opposed to non-financial measures of marketing performance and tries to investigate *marketing effectiveness and marketing efficiency*. For our purposes, marketing effectiveness is defined in relation to the strategic goals of the merger, and the degree to which they are achieved. Practitioner surveys indicate that growth is the primary motive for M&A deals. This has been a consistent finding in successive bi-annual surveys of executives behind large numbers of global M&A deals (KPMG Transaction Services Surveys). In a 2010 survey by KPMG (2011), for example, respondents cited general revenue growth (39 percent), expansion of customer base (37 percent), expansion of geographic reach (36 percent), entering new lines of business (26 percent), and introducing new products (17 percent), as the primary reasons driving their acquisitions. In contrast, cutting costs was mentioned as a motivation by only 15 percent, and enhancing intellectual property was mentioned by only 13 percent.

For the purposes of our study, sales growth is assumed to be the main evidence of marketing effectiveness, in that it provides demonstrable evidence of the achievement of a number of intermediate goals such as expansion of the customer base, expansion of geographic reach, and adding new lines of business or new products. Increased sales also suggest the possibility of increased profits, the realisation of which will depend on the degree of marketing efficiency among other things.

Marketing efficiency refers to the relationship between inputs and outputs, a measure of marketing productivity. For our purposes, increased efficiency would be demonstrated if marketing expenditure were to be reduced in relation to a given level of sales, or if sales were increased for a constant level of marketing expenditure. In a survey of 273 executives involved in large M&A deals in the US, Capron (1999) found that 43% of respondents claimed to have cut back more than 10% of employees

involved in manufacturing, 37% in administrative activities, 25% in sales networks, and 21% in distribution. The percentages were very similar for asset disposals (34% in manufacturing, 36% in administration, 24% in sales, and 17% in distribution). If these claims followed through into cost reductions, then there should be evidence of significant improvement in financial results, even if sales stayed the same. Whether that is borne out is of course an empirical question, which is addressed in the study reported here.

Researchers have been urged to use multiple measures rather than a single measure to evaluate marketing performance (Sheth & Sisodia, 2002a), and that is the approach followed here. Hence, in addition to using sales revenue as a measure of marketing effectiveness and the ratio of marketing and selling expenditure to sales revenue as a measure of marketing efficiency, this study also investigated return on sales as an overall performance measure over which marketing activities has an indirect impact.

Finally, there is unanimity among the researchers that marketing activities have both short term and long term effect (Eusebio, et al., 2006) which indicates that there should be short-term as well as long term marketing performance measures to gauge the impact of marketing activities. The study reported here examines performance over a seven year period, three years pre-merger, a transition year during which the merger occurs, and three-year post-merger. It is believed that this lengthy period should be sufficient to capture both short-term and long-term effects from the merger.

7.4 Marketing Model of the Current Study

As a way of summarising the literature discussed in this chapter as well as previous chapters and to help formulate a set of hypotheses for our study, we have developed a model of post-merger marketing performance that brings together the traditional concept of synergy with the concept of marketing performance. This model is shown in **Figure 27**.

Figure 27: A marketing model of post-merger performance

Economies of Scope--Marketing Effectiveness

Economies of scope may be defined as the cost advantages that result when firms provide a range of products rather than specializing in the production or delivery of a single product or service (Panzar, 1981). Economies of scope can arise from the sharing or joint utilization of inputs and lead to reductions in unit costs.

In theory, mergers/acquisitions can increase market coverage through geographic expansion, by entering new country markets, and/or by access to additional market segments. This wider market coverage should allow the merged firm to sell existing products to a larger body of consumers, thus enhancing sales revenues (Srivastava, et al., 1998; Ficery, et al., 2007). In other words, the market complementarity as well as customer complementarity of the target and the acquiring firm will create an opportunity to sell each other's products following the merger (Clemente and Greenspan 1996; Capron 1999). Moreover, complementary marketing capabilities and assets of the target and the acquiring firms should also engender multifarious benefits. For instance, combining the marketing capabilities of the newly-merged firms might enhance their market-sensing capability, new product innovation capability as well as customer relationship capability, and this synergistic effect might to greater scope economies and thus improved marketing effectiveness following mergers (Lubatkin

1983; Morgan et al 2009). However, there is little empirical evidence on the extent to which merged firms actually manage to increase their market coverage, or whether or how much this contributes to better market and financial performance.

Economies of scope might also be created from broadening a company's products and services to provide needed bundling or a more complete offering to the market. In theory, the addition of new products acquired by acquisition should enable the acquirer to grow its sales revenues and operating profits, with a once-off gain in the short-term when the newly acquired products are added to the portfolio and, ideally, sustained incremental growth over the longer term adding value to the combined entity.

Revenue gains may also come from cross-selling products or services through complementary (non-overlapping) sales organizations or distribution channels that serve different geographic regions, customer groups or technologies (Schweiger & Very, 2003). This can mean selling to one another's existing customers (cross-selling), or by selling their combined products to entirely new customers in new markets (Clemente & Greenspan, 1996). In other words, product/brand portfolio complementarity of the target and the acquiring firm, one of the most important marketing assets, should result in increased scope economies i.e. marketing effectiveness.

In sum, these points suggest the following hypothesis:

H₁: *Mergers and acquisitions will have a positive impact on the marketing effectiveness of the combined firm as measured by sales revenue.*

Economies of Scale –Marketing Efficiency

Economies of scale may be defined as the cost advantage that arises with increased output of a product (Silberston, 1972). Economies of scale arise because of the inverse relationship between the quantity produced and per-unit fixed costs. In other words, the greater the quantity of a good produced, the lower the per-unit fixed cost because these costs are shared over a larger volume of products and services. Economies of

scale may also reduce variable costs per unit because of operational efficiencies and synergies.

The second key measure of marketing performance is marketing efficiency which, in the context of mergers and acquisitions, may be equated with the achievement of cost savings as a result of economies of scale through combining firms post-merger. The potential for cost savings arises from the presence of overlap of assets between the target and acquirer firms with the potential for elimination of costs through sale of surplus assets, as well as cost savings in personnel and other resource from reducing duplication (Seth, 1990). Cost reduction in production, distribution, marketing, and other costs, as well as elimination of overlapping facilities are often cited as a source of gains (Fee & Thomas, 2004).

From a marketing perspective, economies of scale may be realised from a number of sources such as in media buying, and in joint promotion of the acquirer's and target's brand. Capron (1999) certainly found a considerable level of asset sales post-acquisition attesting to this phenomenon. 35-45% of his respondents claimed to have made asset disposals and staff cutbacks in manufacturing and administration of more than 10% of total combined costs, while 20-25% claimed to have made similar reductions in distribution and sales networks. Brands are subject to divestiture along with other assets. In sum, overlapping of target and the acquiring firm's marketing assets should engender the possibility of cost reduction mainly through asset disposals.

This leads us to the second hypothesis:

H₂: *Mergers and acquisitions will have a positive impact on the marketing efficiency of the combined firm as measured by the ratio of selling and marketing expenditure to sales revenue.*

Post-merger profitability

Assuming that the two previous hypotheses are supported-- that sales growth is achieved through enhanced market coverage and a broader product portfolio as well as enhanced marketing capability through the combination of complimentary marketing capabilities of the merging firms, and that this is matched by the realization of cost

savings as a result of increased scale, then, it seems logical to expect these benefits to follow through into an improvement in the return on sales (ROS)—the final test of post-merger marketing performance. This logic leads to the third hypothesis which is:

H₃: *Mergers and acquisitions will have a positive impact on the both marketing efficiency and marketing effectiveness leading to a positive impact on the overall profitability of the combined firm.*

7.5. The Methodology of the Quantitative Study

There is no such thing as a best measure of firm performance (Richard, et al., 2009). Richard, et al. (2009) suggested that “researchers should not view the choice of subjective measures as a second-best alternative but, instead, should weigh the trade-offs between subjective and objective measures against the research context to determine which is more favourable under the circumstances.” That is what this study tried to do with the selective application of both quantitative and qualitative methods.

7.5.1 Quantitative study: Accounting-based Performance Measures

This research measured the impact of mergers and acquisition on post-merger marketing performance. For this purpose, an accounting-based methodology would be most suited to the research objective for a number of reasons. Firstly, the unit of analysis is at the firm level rather than at the shareholder level which ties in with our focus. Secondly, the research objective was to get insight into the internal performance of the firm following M&A transactions, and the shareholders may not have enough private information, hence an accounting methodology is preferable over an event methodology. Thirdly, the objective of the research was to measure actual performance rather than expected performance and that is what accounting information provides.

7.5.2 Selected Accounting-based Performance Measures

Many accounting studies of post-merger performance used a single measure such as return on assets (ROA), or cash flow return. Moreover, the performance measure in existing studies has usually been chosen arbitrarily and without any test for validity which is somewhat questionable (Carton & Hofer, 2010), particularly since firm financial performance is a multidimensional construct and a single measure captures at

best a single dimension of the construct. This study, therefore, used multiple measures of performance to try to reflect the multidimensional nature of performance.

The validity of a measurement instrument refers to the extent to which it truly captures the theory or construct which the researcher intended to measure. Where measures used in a discipline have not been proven to have a high degree of validity, that discipline is not considered a science (Peter, 1979). Most existing studies of M&A performance compared the pre- and post-merger performance without any specific underlying theoretical framework. These studies implicitly tried to test theories of synergy but these were rarely elaborated.

This study set out to examine whether mergers and acquisitions lead to any change in the marketing performance of the merging firms. As explained earlier, marketing performance is a multi-dimensional construct that includes two main dimensions: *effectiveness and efficiency*. In simple terms, effectiveness means doing the right things while efficiency means doing things right. These same two fundamental principles can be applied to marketing performance. *Marketing effectiveness* may be defined as the degree to which companies marketing goals are achieved, in other words, it may be viewed as “doing the right things” which means not only keeping the current customers satisfied but also attracting new customers leading to increased sales and enhanced financial performance. In contrast, *marketing efficiency* may be defined as the relationship between outputs and the inputs necessary to achieve them—it may be viewed as “doing things right” (Sheth & Sisodia, 2002a). When companies “do things right”, they are able to utilize less resources to achieve the desired goals, thus lowering costs and achieving better financial returns.

The focus of this study was on measuring both *marketing effectiveness* and *marketing efficiency*. *Marketing effectiveness* was focused on the relationship between the goals and objectives pursued via a merger and the degree to which they were achieved. This was the area in which there is least marketing research, and that therefore seemed to provide an opportunity to advance knowledge. For this study, *marketing effectiveness* was defined in terms of performance outputs, in particular, sales revenue, and sales

revenue growth. *Marketing efficiency* was defined in terms of costs, in particular, selling and marketing costs, and the ratio of those costs to revenue.

As detailed in earlier sections, the few empirical studies on similar topics usually employed only one performance measure, either market share or sales. In contrast, the present study employed three measures to investigate the impact of M&A on marketing performance, as follows:

1. Sales revenue defined as the dollar amount in each fiscal year.
2. The ratio of selling, general and administrative expenditure (SGA) to sales revenue for each fiscal year. SGA includes advertising and other marketing costs, as well as selling, distribution, research and development, and general administration costs.
3. Return on Sales (ROS) defined as EBIT (Earnings before tax and interest) divided by sales revenue.

7.5.3 Measurement and Comparison of Pre and Post-merger Performance Variables

We computed and compared the values of each of the three marketing performance variables between the pre-merger years and post-merger years. Computation of the pre and post-merger values of the four variables facilitated the detection of any change that may have occurred in each of four marketing performance variables so as to draw a conclusion as to the impact of M&As. We computed the values of the three years before and three years after the merger and left the merger year as a transition period.

Since there were two firms before the transaction, i.e. acquirer and target firm, we calculated the pro-forma performance of the two firms for the pre-merger years based on the sum of the actual performance of the two firms for all four marketing performance variables. This method of calculating the pro-forma performance has been used extensively by earlier studies (e.g. Ghosh, 2001; Sharma & Ho, 2002). Following Healy, Palepu & Ruback (1992), the study combined the pre-acquisition data of each of the four performance variables of the acquired and acquiring firms to compute the yearly aggregate of the four marketing performance measures for the combined firms. This method was applied to compute the pre-merger values of each of the four marketing performance variables for each of the three pre-merger years. Furthermore,

the three years average of the performance variables was also computed for the pre-acquisition years as well post-merger years. A comparison of the post-acquisition values of the performance variables with those of the pre-acquisition values facilitated identification of the impact of the acquisition on the performance of the combined firm.

7.5.4 Sampling Frame and Sample Selection

A sample frame represents the population of interest and it is one of the most critical elements of the sampling procedure (Malhotra & Grover, 1998). This research used the Thomson One Banker database as the sampling frame which is a comprehensive database for global Mergers and Acquisitions and has been widely used by earlier studies for data relating to M&A deals. Utilization of such comprehensive database greatly reduced the possibility of *sample frame error*.

Given the fact that M&A is a complex organization strategy, achieving a clean sample is necessary to be able to identify the potential impact of M&A transactions on the firm. Extant M&A studies that measured post-merger performance employed a number of criteria to selection of sample to achieve a *clean* sample (e.g. Campa & Hernando, 2006; Healy, Palepu & Ruback, 1997) because having a clean sample is a *sine qua non* to be able to detect change in performance between pre and post-merger. This study also applied a number of criteria to select sample discussed underneath.

In view of the sample construction procedure of similar studies, the following criteria were applied in choosing deals to be included in the sample for the current study:

1. The M&A deal must be horizontal (similar 4-digit SIC code).
2. Both the target and acquirer had to share common SIC codes at least at the four-digit level. This criterion is applied to ascertain the industry relatedness of the target and the acquirer.
3. The M&A deal must take place during the following period: 1990-2010
4. Both the target and acquiring firm had to be public companies.
5. The acquirer must acquire at least 75% the target company.

6. The accounting data of both the target and acquiring firm also had to be available for the three years prior and three years after the deal on COMPUSTAT.

7.5.5 Sample Size

The sample for this study was 45 M&A deals from a wide range of US industries. Since the focus of the current study is post-merger marketing performance of domestic mergers and acquisitions, the sample for the study was drawn from M&A deals wherein both the target and acquirer were located in the same country. Since the USA is the biggest market for M&A, all sample deals for the study was drawn from the USA.

The sample size was dictated by the need to obtain detailed data on both companies involved in the transaction, which required detailed study of the published records, and considerable manual data collection. However, this sample size is quite consistent with a number of previous studies, such as 38 M&A deals (Clark & Ofek, 1994); 46 M&A deal (Ramaswamy, 1997); 50 M&A deals (Healy, et al., 1997); 36 M&A deals (Sharma & Ho, 2002), 83 M&A deals (Fraser & Zhang, 2009); 81 M&A deals (Carline, Linn & Yadav, 2009).

Other studies have used much larger cross-sectional samples, such as 315 M&A deals by Ghosh (2001), over 2,000 M&A deals by Andrade, et al. (2001); 2704 M&A deals by Gugler, et al. (2003). However, these were much more superficial and sample firms were selected based on a 2 digit SIC level which is likely to suffer from aggregation bias (Capron, 1999). Furthermore, in order to increase sample size some earlier studies included firms in their sample that acquired multiple firms during the analysis period which has the potential to influence the results. For example, Gugler, et al. (2003) rationalized their large sample stating “we have attempted to make our samples as large as possible and thus do not limit ourselves to balanced panels, companies making only one merger or the like.”

We restricted our sample to M&A deals where both the target and acquirer shared a common four-digit SIC code as opposed to two-digit SIC code utilized by other studies

(e.g. Ghosh, 2001; Gugler, et al., 2003). Earlier studies that used two-digit SIC code to operationalize relatedness produced mixed and at times conflicting results. To the best of our knowledge no study has so far gauged the post-merger performance using four-digit SIC code. Four digit SIC code has been utilized for this studies because as discussed in the review greater relatedness has the potential for better improved performance.

7.5.6 Sample Period

We restricted our sample period from 1990 to 2010 because it is believed that M&A which happened during this period were predominantly motivated by value enhancement i.e. achieving cost/revenue synergy, rather than other value-destroying motives such as managerial hubris, empire building etc. which characterised other periods (Roll, 1986; Trautwein, 1990; Seth, Song & Pettit, 2000).

7.5.7 Data Collection Procedure

Data for the study were collected in two stages. In the first stage, data were collected on the M&A deals themselves, such as deal year, deal value and so forth. In the second stage, financial data relating to four selected marketing performance variables was collected on the deals selected in the first stage.

Data for the purpose of sample construction were collected from the Thomson One Banker database. This is a comprehensive database for global Mergers and Acquisitions which is widely used for data relating to M&A deals. All M&A deal related data were collected from this database. This included data on the year of the merger, the industry of both acquirer and target (SIC codes), home country of both acquirer and target, percentage of the target acquired, and the deal value.

Financial data for the sample firms were collected for the three years before and after the merger, from COMPUSTAT, which is a widely used database for data relating to company financials. All accounting data were collected from this database which is extensively used by M&A researchers (e.g. Hitt, Hoskisson, Ireland & Harrison, 1991; Ghosh, 2001; Megginson, Morgan & Nail, 2004).

The following three types of accounting data of the target and the acquiring firms were collected from the COMPUSTAT for each M&A deal:

1. Pre and post-merger sales revenue.
2. Pre and Post-merger EBIT (Earnings before interest and tax).
3. Pre and Post-merger selling, general and administrative expenditure.

7.5.8 Analysis of Data of the Quantitative Study

A wide spectrum of statistical analysis has been adopted by existing studies to measure post-merger performance and not surprisingly has produced mixed results. In a bid to overcome the shortcomings of any single statistical tool, this study utilized three kinds of statistical analysis to detect changes between the pre-merger and post-merger values of the four marketing performance variables.

The following tests were conducted to detect performance change: paired sample t-tests, effect size analysis, and regression analysis.

Paired Sample T-Test

The paired sample t-test was conducted as a preliminary test to uncover any statistically significant performance difference between the pre and post-merger years. A paired sample t-test is usually utilized to identify whether there is a significant difference between the average values of the same measurement made under two different conditions or in two different time period. Both measurements are computed on each firm in the sample, and the test is based on the paired differences between these two values for each firm in the sample. A paired sample t-test has been utilized by a number of similar studies to detect performance change between the pre-merger and post-merger years (e.g. Ghosh, 2001). Paired sample t-test can only detect statistically significant performance change between the two time periods; it cannot identify the extent to which the difference was due to merger itself. It was therefore necessary to utilize other analytical tools to gauge the extent of impact of the M&A on the performance change between the pre-merger and post-merger periods.

ANCOVA (Analysis of covariance)

Analysis of covariance (ANCOVA) is an extension of analysis of variance that allows us to explore the difference between groups while controlling for an additional continuous variable. Analysis of covariance is used to test the main and interaction effects of categorical variables on a continuous dependent variable, controlling for the effects of selected other continuous variables which co-vary with the dependent (Rutherford, 2001). The control variable is called the "covariate."

ANCOVA is used when the researcher has a two-group pre-test/ post-test design. At least three variables are involved in one way ANCOVA:

1. One categorical independent variable with two or more levels (e.g. sample firms belonging to various industry types)
2. One continuous dependent variable (e.g. Post-merger sales performance)
3. One or more continuous covariates (e.g. Pre-merger sales performance)

Since the goal of the study was to detect any difference in the marketing performance of the merged firms in the pre and post-merger, the present study utilized one way ANCOVA to examine whether or not the post-merger performance of the sample firm varied depending on their industry membership. In this study, the industry membership of the sampled firms was used as the independent variable (categorical), the post-merger marketing performance was used as the dependent variable (continuous), and the pre-merger marketing performance was used as the covariate (continuous).

The one way ANCOVA helps to decipher whether the post-merger mean marketing performance for the various industry types is statistically different after controlling for the pre-merger marketing performance.

Analysis of Effect Size

Even though statistical tests of significance tell us the likelihood that experimental results differ from chance expectations, statistical testing cannot evaluate the importance of the results (Vacha-Haase & Thompson, 2004). *Statistical*

significance based on a t-test provides information on the possibility of finding the observed relationship by chance alone (sampling error). Small differences between two observed values might be statistically significant just because of large sample size (Olejnik & Algina, 2000).

It therefore requires an analysis of effect size to help researchers to determine the extent of impact on an event/experiment. A simple definition of effect size would be the magnitude, or size, of an effect. Hence, we calculated the effect size to further investigate the impact of merger on the post-merger marketing performance. We used eta squared (η^2) to calculate effect size using the following formula.

$$\eta^2 = \frac{t^2}{t^2 + df}$$

It is worth mentioning that, to the best of our knowledge, effect size has not been utilized by any other existing studies on post-merger performance.

Regression Analysis

While analysis of effect size helps to understand the magnitude of impact of M&A on the post-merger performance, it does not differentiate the extent to which the post-merger performance change was due to the M&A and the persistence of performance from the pre-merger period. Utilization of intercept model (regression) first used by Healy, et al. (1992) help to dissect and understand the degree of performance change in the post-merger years caused by M&A itself as opposed to continuation of performance from the pre-merger years.

We conducted regression analysis (intercept model) for the sales performance measures as follows:

$$\text{Sales}_{\text{post}} = \alpha + \beta \text{Sales}_{\text{Pre}} + \varepsilon \quad (1)$$

The slope coefficient β measures the persistence in sales performance. In other words, β measures the extent to which post-merger sales performance is a continuation of the pre-merger sales performance rather than a step change in performance. A significant β will indicate persistence of pre-merger performance into the post-acquisition

period. The intercept (α) coefficient captures the acquisition-induced improvement in sales performance. These interpretations follow Healy, et al. (1992). Likewise, we have the following three models for three other measures of marketing performance.

$$SGA_{\text{exToSR}}_{\text{post}} = \alpha + \beta SGA_{\text{exToSR}}_{\text{Pre}} + \varepsilon \quad (2)$$

$$ROS_{\text{post}} = \alpha + \beta ROS_{\text{Pre}} + \varepsilon \quad (3)$$

7.6 Validity of the Study

The concept of validity was originated by Campbell & Stanley (1966) and has a substantial impact upon how researchers think about their research. The three main dimensions of validity are construct validity, internal validity and external validity. The validity of the current research is discussed below.

7.6.1 Construct Validity

Construct validity has been defined the degree to which the operationalization measures the concept it is supposed to measure (Bagozzi, Youjae & Phillips, 1991). The construct this study measured was *post-merger marketing performance*. Similar studies of marketing performance used either subjective measures or objective measures of performance, but rarely both. The threat to validity of subjective measures comes from potential errors such as random error; for example, a manager may not remember the accounting figures correctly (Wall et al., 2004). The possibility of such error occurring in this study was much reduced because the subjective commentaries were augmented with objective accounting measures which are a matter of fact.

While accounting measures have been widely used in studies of firm performance, most of these studies did not report the validity of the measures utilized (Carton & Hofer, 2010). This study utilized three measures i.e. sales revenue, ratio of selling, general and administrative expenses to sales revenue, and return on sales to examine marketing performance and all these measures have been proposed as valid measures of marketing performance in previous research (Clark, 1999; Sheth & Sisodia, 2002a; Seggie, et al., 2007; Ambler & Roberts, 2008; Carton & Hofer, 2010).

7.6.2 Internal Validity

Internal validity is defined as the approximate validity with which we infer that a relationship between two variables is causal, or that the absence of relationship implies the absence of cause (Calder, Phillips & Tybout, 1982; Chan, Landry & Troy, 2011). Achieving high internal validity is relatively easy in experimental research as the researcher can establish control over extraneous and confounding variables that might potentially impact the relationship between the dependent and independent variables (Keele, McConnaughy & White, 2012). However, control of extraneous and confounding variables is relatively difficult in research conducted in a natural setting such as we were dealing with.

The existing body of research on post-merger performance applied a broad spectrum of sample selection criteria to enhance the internal validity of the findings. This present research also adopted a wide range of sample selection criteria discussed in the preceding sections to lessen the impact of extraneous variables and to enhance the internal validity of the study. For example, the acquiring firm have to acquire 75% of the target firm because the extant research has shown that partial acquisition (less than 50%) often trigger clash between two firms and that has detrimental effect on the performance. We therefore think that adoption of such rigorous sample selection criteria increased the internal validity of the study.

7.6.3 External Validity

External validity deals with the generalizability of the findings and examines whether or not an observed causal relationship should be generalized to and across different measures, persons, settings, and times (Calder, et al., 1982; Calder, Phillips, & Tybout, 1983). Calder, Phillips, & Tybout (1981) classified research into two types, namely, effects application (EA) research and theory application (TA) research. They argued that in effects application research, the researchers are interested in generalizing the findings to other settings or populations whereas, in theory application research, the researchers are interested in generalization of the theory rather than the particular effects of the empirical results. In other word, external validity should be of little concern for the research which is of theory application type (Calder, et al., 1981).

This current study falls somewhere between the theory application (TA) category and effects application (EA) research, and the objective of this research was not just to test a theory but also to examine the *effects* of M&A on marketing performance. Though the attainment of external validity for both *theory* and the *effects* is rather difficult, this study strived to achieve that through adoption of rigorous sample selection criteria discussed in the earlier part of this chapter. For instance, the sample firms for the study were drawn from a wide array of industries, and M&A deals spanned a wide range in terms of size. Adoption of such criteria helped to increase the generalizability of the study.

7.7 Summary and Conclusion

This study utilized a mixed method research strategy to test the conceptual model explained in earlier chapters, given the complex and multifaceted nature of phenomenon under investigation. The first stage used an exploratory case study with twin objectives. Firstly, it provided a preliminary test of the theoretical model and a setting for refining the hypotheses; secondly, it allowed us to triangulate the findings of the quantitative study done in the second stage of the research. The objective of the quantitative study was to enhance the external validity of the research based on a sample of 45 M&A deals drawn from a wide spectrum of industries.

CHAPTER EIGHT

FINDINGS OF THE QUANTITATIVE STUDY

Chapter Outline

8.1 Sample Characteristics: Descriptive Statistics

8.2 Findings of the Study: Hypotheses Testing

8.2.1 Results of Paired Sample T-test

8.2.2 Results of Analysis of Effect Size

8.2.3 Results of Regression

8.3 Summary and Comparision with Previous Studies

Chapter Eight

FINDINGS OF THE QUANTITATIVE STUDY

As delineated in earlier chapter, the second stage of this dissertation i.e. quantitative study investigated the following three hypotheses.

Hypotheses	
H₁	<i>Mergers and acquisitions will have a positive impact on the marketing effectiveness of the combined firm as measured by sales revenue.</i>
H₂	<i>Mergers and acquisitions will have a positive impact on the marketing efficiency of the combined firm as measured by the ratio of selling and marketing expenditure to sales revenue.</i>
H₃	<i>Mergers and acquisitions will have a positive impact on the both marketing efficiency and marketing effectiveness leading to a positive impact on the overall profitability of the combined firm.</i>

The results of some preliminary investigations are reported below before explaining the findings of the hypotheses testing.

8.1 Sample Characteristics: Descriptive Statistics

Companies in the sample came from a wide range of industries, with no one industry dominating. The mean number of industry cases in the sample was 1.5, with a range from 1 M&A deal to maximum 4 M&A deals. **Appendix 1** shows the full list of industries from which the sample deals were drawn.

The transactions chosen for study all came from the years 1992 to 2009, and were quite evenly spread across these years, as can be seen from **Appendix 2**. This time frame was deliberately chosen for reasons explained in the sample selection section.

Unlike previous studies (e.g. Healy, et al., 1997), no minimum deal size criterion was imposed in selecting M&A deals, which resulted in inclusion of large as well as small M&A deal values. This decision was made to avoid a possible upward performance

bias; focusing only on large M&A deals undertaken by large firms which usually perform better than the industry average (Ghosh, 2001; Powell & Stark, 2005). The minimum deal value was USD 3.2 million and the maximum deal value was USD 4,124 million. The mean deal size of the sample firms was USD 581 million. **Appendix 3** shows the deal size of the sample firms.

8.2 Findings of the Study: Hypotheses Testing

A wide variety of methodological approach has been utilized by previous studies to measure post-merger performance and not surprisingly have produced mixed results. In an effort to overcome the shortcomings of any single methodology, we decided to utilize a range of relevant statistical analysis to detect changes between the pre-merger and post-merger values of the three marketing performance variables. The following analyses were conducted to detect performance change: paired sample t-tests, effect size analysis, and regression analysis.

The paired sample t-test was carried out as a preliminary test to detect any statistically significant performance difference between the pre and post-merger years. The analysis of effect size and regression analysis were completed to determine the extent to which the pre- and post-merger performance, if any, are direct effects of the merger as opposed to a continuation of pre-merger performance. It is noteworthy that, to the best of our knowledge, effect size has not been used by any other earlier M&A studies.

The initial statistical analysis was carried out on the raw data, the results of which have been reported below. Subsequently, however, statistical analysis was also conducted on the log-transformed data and the results of log-transformed data have been reported in the latter part of this chapter.

8.2.1 Results of Paired Sample T-test

We computed and compared the values of each of the three marketing performance variables between the pre-merger years and post-merger years. Computation of the pre and post-merger values of the three variables facilitated the detection of any change that may have occurred in each of four marketing performance variables so as to draw

a conclusion as to the impact of M&As. We computed the values of the three years before and three years after the merger and left the merger year as a transition period.

Since there were two firms before the transaction, i.e. acquirer and target firm, we calculated the pro-forma performance of the two firms for the pre-merger years based on the sum of the actual performance of the two firms for all four marketing performance variables. This method of calculating the pro-forma performance has been used extensively by earlier studies (e.g. Ghosh, 2001; Sharma & Ho, 2002). Following Healy, Palepu & Ruback (1992), the study combined the pre-acquisition data of each of the four performance variables of the acquired and acquiring firms to compute the yearly aggregate of the four marketing performance measures for the combined firms. This method was applied to compute the pre-merger values of each of the three marketing performance variables for each of the three pre-merger years. Furthermore, the three years average of the performance variables was also computed for the pre-merger years as well post-merger years. A comparison of the post-acquisition values of the performance variables with those of the pre-acquisition values facilitated identification of the impact of the acquisition on the performance of the combined firm.

As an initial investigation of post-merger performance as measured by the three performance variables, the paired sample t-test was conducted for all three performance variables on the raw data. Rather than arbitrarily selecting and comparing one year from the pre and post-merger years, the three year average of the four performance variables for pre-merger and post-merger years was compared through a paired sample t-test. **Table 7** below illustrates the findings of the paired sample t-test.

Table 7: Results of paired sample t-test

	Sales Revenue (USD million)	Return on Sales (ROS)	Ratio of Selling, General and Administrative expenses to Sales Revenue
3 year pre-merger mean	3,186.23	14.73%	46.64%
3 year post-merger mean	3,985.36	8.70 %	20.22%
Pre and post-merger mean difference	799.13	-6.03%	-26.42%
<i>Sig. (two tailed)</i>	.000	.001	.000
N	45	41	42
T (df)	3.940 (44)	-3.615 (40)	-6.55(41)

Unlike previous studies (e.g. Ghosh 2001) that investigated the sales revenue “growth rate”, the current study examined sales revenue growth in absolute terms. In other words, while previous studies investigated whether or not a merger has any impact on the sales revenue growth rate in percentage terms, the current study measured sales revenue growth in absolute money terms. It is noteworthy that even though the sales revenue growth rate of a firm might decline, the sale revenue might still increase in absolute terms.

The results of the paired sample T-test conducted on the raw data show that the 3 year average sales revenue in the post-merger years increased considerably compared to the 3 year average sales in the pre-merger years. The 3 year average sales in the pre-merger years were USD 3,186.23 million which increased to USD 3,985.36 million following the merger. The sales revenues of the sample firms (n= 45) increased by USD 799.13 USD million following the merger and this result is statistically significant ($p < .05$).

We therefore found preliminary support for our first hypothesis (H_1) which was that “*Mergers and acquisitions will have a positive impact on the marketing effectiveness of the combined firm as measured by sales revenue*”. It seems therefore that the merging firms were able to realize economies of scope which enhanced sales in the post-merger years.

This increase in sales in the post-merger years may be attributed to a number of factors. The acquisition may have attracted new customers to the combined firm which led to increased sales performance by the combined firm in the post-acquisition years. The merger may also have resulted in a more balanced and fuller product portfolio that created opportunities for cross-selling to target and acquiring firm's existing customers. Moreover, the increased sales might also have been caused by the increased market power of the combined firm which helped the combined firm to charge a higher price for its products.

The results of the paired sample t-test conducted on the raw data found that the ratio of selling, general and administrative expenditure to sales revenue dropped significantly in the post-merger years compared to the pre-merger years. The three year average ratio of selling, administrative and general expenses to sales revenue was 46.64% in the pre-merger years but dropped to 20.22% on average in the three years after the merger. The difference between the value of pre and post-merger years (-26.42%) was statistically significant ($p < 0.05$)

We found support, therefore, for our second hypothesis (H_2) which was that *"Mergers and acquisitions will have a positive impact on the marketing efficiency of the combined firm as measured by the ratio of selling and marketing expenditure to sales revenue."* Hence, it may be concluded that the merging firms did realize economies of scale in selling, general and administrative expenditure.

In contrast, however, our results show that the return on sales (ROS) of the sample firms ($n = 41$) dropped considerably from the pre-merger to the post-merger years. The 3 year average return on sales (ROS) dropped from 14.7% in the pre-merger years to 8.7 % in the post-merger years. The difference between the pre- and post-merger years return on sales (ROS) was -6.0% and this is statistically significant ($p < 0.05$).

We did not, therefore, find support for our third hypothesis (H_3) which was that *"Mergers and acquisitions will have a positive impact on the both marketing efficiency*

and marketing effectiveness leading to a positive impact on the overall profitability of the combined firm”.

This suggests that, although sales revenue increased and the ratio of selling and administrative costs to revenue fell over the six year period from pre-to post-merger, other costs must have risen disproportionately to produce a net reduction in return on sales.

One possible explanation for the reduction in return on sales (ROS) could be that the merging companies failed to achieve scale economies in production costs which is usually the largest cost component for manufacturing firms. Investigation of production related costs is beyond the scope of this paper. However, our finding is consistent with that of studies that have examined plant productivity following acquisition, which have reported a reduction of plant performance. For example, Harris & Robinson(2002) examined the performance of U.K. plants acquired by foreign-owned companies during 1987–1992 and found that the productivity of those plants declined, even though the acquired plants had been the most-productive plants previously. It may be deduced from their findings that a reduction in plant productivity may have led to a failure to realize economies of scale so that the cost of production might have increased.

8.2.2 Results of Analysis of Effect Size

Even though statistical tests of significance tell us the likelihood that experimental results differ from chance expectations, they cannot evaluate the magnitude of the effect (Vacha-Haase & Thompson, 2004). In contrast, effect-size measurements tell us the relative magnitude of the performance effect. One of the most important characteristics of effect size is that it is independent of sample size (Xuehua & Zhilin, 2008).

To the best of our knowledge, no earlier studies of M&A performance have utilized effect size to measure the impact of M&A on performance. Hence, we calculated the effect size to further investigate the impact of merger on the post-merger marketing

performance (Cohen, 1965; Olejnik & Algina, 2000). It should be noted that the effect size was calculated based on the raw data.

We used eta squared (η^2) to calculate effect size using the following formula.

$$\eta^2 = \frac{t^2}{t^2 + df}$$

The results of eta squared (η^2) are shown as in **Table 8**.

Table 8: Results of Effect Size

Performance Variable	Eta Squared (η^2)
Sales Revenue	0.2
Return on Sales (ROS)	0.2
Ratio of Selling, Administrative and General Expenses to Sales Revenue	0.5

Our analysis shows that the eta squared (η^2) values for all four marketing performance measures are above 0.14. We can therefore conclude that mergers and acquisitions had a considerable influence on all of the performance measures. In other words, sales revenue, and the ratio of selling, general and administrative expenditure to sales revenue, improved significantly post-merger, while return on sales (ROS) declined in the post-merger years.

8.2.3 Results of Analysis of Covariance (ANCOVA)

Analysis of covariance (ANCOVA) is an extension of analysis of variance that allows us to explore the difference between groups while controlling for an additional continuous variable. Analysis of covariance is used to test the main and interaction effects of categorical variables on a continuous dependent variable, controlling for the effects of selected other continuous variables which co-vary with the dependent (Rutherford, 2001). The control variable is called the "covariate."

ANCOVA is used when the researcher has a two-group pre-test/ post-test design. At least three variables are involved in one way ANCOVA:

1. One categorical independent variable with two or more levels (e.g. sample firms belonging to various industry types)
2. One continuous dependent variable (e.g. Post-merger sales performance)
3. One or more continuous covariates (e.g. Pre-merger sales performance)

Since the goal of the study is to detect any difference in the marketing performance of the merged firms pre and post-merger, the present study utilized one way ANCOVA to examine whether or not the post-merger performance of the sample firm varied depending on their industry membership. In this study, the type of industry of the sampled firms (industry membership) was used as the independent variable (categorical), the post-merger marketing performance was used as dependent variable (continuous), and the pre-merger marketing performance was used as the covariate (continuous).

The one way ANCOVA helps to decipher whether the post-merger mean marketing performance of the various industry types are statistically different after the pre-merger marketing performance is controlled for. To investigate whether or not the post-merger marketing performance of our sampled companies as measured by three performance variables was different based on their industry membership (type of industry based on at four-digit SIC code), we conducted a one way ANCOVA on the raw data. The table below illustrates the results of ANCOVA.

Table 9: Results of one-way ANCOVA

	F Value (<i>p</i>)	
	Pre-merger performance	Industry
Sales revenue	116 (.005)	.594 (.88)
Return on Sales (ROS)	.188 (.67)	3.66 (.014)
Ratio of Selling, General and Administrative expenses to Sales Revenue	.123 (.73)	.925 (.59)

The results of our ANCOVA show that the post-merger sales revenue performance of the sample firms belonging to various industries is not significantly different. Put another way, the post-merger sales revenue of the sample firms improved irrespective of their industry membership after controlling for the pre-merger sales performance. Furthermore, our results show that there is a significant relationship between the pre-merger and post-merger sales performance. In fact, 89% of the post-merger sales performance variance is explained by the pre-merger sales performance. In other words, the results of the ANCOVA show that the post-merger sales performance improvement is mostly a continuation of strong sales performance in the pre-merger years.

With regard to the Return on sales (ROS), our findings show that post-merger performance of the sample firms did differ based on their industry membership ($p < .05$). In other words, industry membership (types of industry) had a significant impact on the post-merger performance of the sample firms as measured by return on sales (ROS) after controlling for the pre-merger performance (covariate). Interestingly, our results from the ANCOVA analysis did not find any significant relationship between the pre-merger ROS and post-merger ROS.

Our results from ANCOVA carried out on the raw data for the ratio of the selling and marketing expenditure to sales revenue show that there is no significant difference among the sample firms based on their industry membership (industry type at four-digit SIC code). Put differently, performance measured by the ratio of the selling and marketing expenditure and sales revenue improved regardless of the industry membership of the sample firm.

While the results of the paired sample t-test conducted on the raw data showed that performance measured by sales revenue and the ratio of selling and marketing expenditure to sales revenue improved in the post-merger years but that ROS performance declined following the M&A, it is not plausible to conclude that this performance change was solely because of M&A. In other words, it was not possible to disentangle whether this performance change was because of M&A, or was a continuation of the pre-merger performance, or a combination of both. Therefore

weutilized the intercept model (regression) as popularized by Healy, et. al. (1992) to try to establish the extent to which the performance change in the post-merger years was because of the M&A, rather than merely a continuation of the pre-merger performance, or a combination of both.

8.2.4 Results of Regression Analysis (*Intercept model*)

Below we have reported the results of regression analysis (intercept model). It is notable that regression analysis was conducted on the raw data. To measure the extent to which the post-merger sales performance was influenced by the merger rather than representing a continuation of pre-merger performance, we examined all four marketing performance measures using the intercept model first used by Healy, et al. (1992), and subsequently by other studies measuring post-merger performance (e.g. Ghosh, 2001; Sharma & Ho, 2002; Powell & Stark, 2005). We conducted regression analysis for the sales performance measures as follows:

$$\text{Sales}_{\text{post}} = \alpha + \beta \text{Sales}_{\text{Pre}} + \varepsilon \quad (1)$$

The slope coefficient β measures the persistence in sales performance. In other words, β measures the extent to which post-merger sales performance is a continuation of the pre-merger sales performance rather than a step change in performance. A significant β will indicate persistence of pre-merger performance into the post-acquisition period. The intercept (α) coefficient captures the acquisition-induced improvement in sales performance. These interpretations follow Healy, et al., (1992). Likewise, we have the following three models for three other measures of marketing performance.

$$\text{SGAexToSR}_{\text{post}} = \alpha + \beta \text{SGAexToSR}_{\text{Pre}} + \varepsilon \quad (2)$$

$$\text{ROS}_{\text{post}} = \alpha + \beta \text{ROS}_{\text{Pre}} + \varepsilon \quad (3)$$

Table 10 shows the results of the regression. The results from the first *regression (1)* on sales performance revealed that mergers and acquisitions have a statistically significant, positive effect on the sales performance in the post-merger years. The intercept coefficient (α) is statistically significant. We found that the sales revenue of

the merging firms improved by USD 536.17 million in the three years after the merger. Sales increased following the acquisition and this increase is attributable to the merger as distinct from a persistence of the pre-merger sales performance.

Table 10:Regression Results

Regression	Performance Variable	A	Sig	B	Sig	R ²
Regression 1	Sales Revenue	536.174	.030	1.083	.000	.93
Regression 2	Ratio of Selling, general and administrative expenditure to Sales Revenue	6.56	.001	.293	.000	.67
Regression 3	Return on Sales (ROS)	6.687	.001	.137	.217	.039

We also found, however, that the pre-merger sales performance has a statistically significant strong influence on the post-merger performance. The slope coefficient (β) is also statistically significant which indicates that pre-merger performance also contributed to the post-merger improved performance. In other words, firms that were already performing well before the merger were more likely to continue to perform well afterwards. In sum, the post-merger improved sales performance is a combined effect of strong pre-merger performance and the synergy realized due to the merger itself.

The results from *regression (2)* on performance measured by the ratio of selling, general and administrative expenditure to sales revenue, revealed that mergers and acquisitions have a statistically significant effect on the ratio of selling, general and administrative expenditure to sales revenue in the post-merger years. The intercept coefficient (α) is statistically significant. We found that ratio of selling, general and administrative expenditure to sales revenue dropped by 6.56% in the three years after the merger. The ratio dropped following the acquisition and this change in performance is attributable to the merger.

We also found that the pre-merger trend has a statistically significant strong influence on the post-merger performance as the slope coefficient (β) is also statistically significant. We may conclude that the improvement in the post-merger years is a combined effect of both continuation of pre-merger performance and the synergy achieved because of merger.

The results from *regression (3)* on Return on Sales (ROS) performance revealed that mergers and acquisitions have a statistically significant effect on the return on sales performance in the post-merger years. Return on sales dropped following the acquisition. As indicated by the intercept coefficient (α) which is statistically significant. We found that the return on sales dropped by 6.69 % in the three years after the merger. We did find support for the fact that return on sales (ROS) declined as a result of the merger, but we did not find any statistically significant (insignificant β) evidence that this drop in ROS was a continuation from the pre-merger period.

The main reason for using three kinds of test i.e. t-test, regression (intercept model) and effect size was to examine whether different methodological approaches produce different results. Overall, our conclusion from the various statistical analyses carried out on the raw data is that mergers and acquisitions do have an impact on marketing performance. It should also be noted that the performance change in the most merger years was not just a result of M&A alone, but is in fact a combined effect of pre-merger performance and the M&A itself. In sum, sales revenue increased due to the merger, the ratio of selling, general and administrative expenses to sales revenue reduced, but return on sales declined, resulting in a weak overall performance from the merger.

Thus far, we have conducted statistical analysis on the raw data. To examine whether or not our data are normally distributed, we conducted a normality test on all three performance variables for both pre-merger and post-merger data. We ran the Shapiro Wilk test to examine the normality of our data relating to the pre-merger and post-merger performance variables (Royston, 1982). The table below shows the results of our Shapiro-Wilk test for normality of data.

Table 11: Results of Normality Test

Variables	Sig
Three year pre-merger sales revenue mean	.000
Three year post-merger sales revenue mean	.000
Three year pre-merger ROS mean	.075
Three year post-merger ROS mean	.175
Three year pre-merger ratio of selling and marketing expenditure to sales revenue mean	.000
Three year post-merger ratio of selling and marketing expenditure to sales revenue mean	.013

It appears from our Shapiro-wilk test of normality that most of our data are not normally distributed. However, some of the data are normally distributed as demonstrated by the level of significance in the above table. It is noted that while a significant test ($p < .05$) indicates that data are not normally distributed, an insignificant test ($p > .05$) indicates that data are normally distributed.

Since the normality test of our data show that most of the data are not normally distributed, we log-transformed our data and carried out further statistical analysis on the log-transformed data. The log transformation is usually utilized to make a highly skewed dataset less skewed. Log transformation is of significance for making the dataset more interpretable as well as for helping to meet the assumptions of inferential statistics. Log transformation can be done using natural logarithm, log base 10 or log base 2. Natural logarithm is usually utilized by social science researchers.

Hypotheses testing on the log-transformed Data

The data for all three performance measures have been log-transformed using natural logarithms and a paired sample t-test has been conducted to examine whether or not the results vary from analysis that have been carried out on the raw data as explained in the preceding sections.

Table 12: Results of paired sample t-test after log- transformation of data

	Sales Revenue (USD million)	Return on Sales (ROS)	Ratio of Selling, General and Administrative expenses to Sales Revenue
3 year pre-merger mean	7.13	2.6%	3.6%
3 year post-merger mean	7.38	2.05 %	2.8%
Pre and post-merger mean difference	.25	-.55%	-.82%
<i>Sig. (two tailed)</i>	.000	.000	.000
N	45	35	42
T (df)	4.0 (44)	-4.36 (34)	-15(41)

Table 12 shows the results of the paired sample t-test conducted on the log-transformed data. The results show that the log-transformed data produced similar results to those of the raw data. The log transformed data also showed that sales revenue significantly improved in the post-merger years while performance measured by return on sales (ROS) declined. Furthermore, the ratio of the selling and marketing expenditure to sales revenue declined which indicates an improvement in performance. As explained earlier, unlike previous studies that investigated sales revenue “growth rate” (e.g. Ghosh 2001), the current study examined sales revenue growth in absolute terms. In other words, while previous studies tried to detect whether or not a merger has any impact on the sales revenue growth rate in percentage terms, the current study measured sales revenue growth in absolute money terms.

The results of the paired sample T-test conducted on the log-transformed data show that the 3 year average sales revenue in the post-merger years increased compared to the 3 year average sales in the pre-merger years and this result is statistically significant ($p < .05$). We therefore found additional support for our first hypothesis (H_1) which was that “*Mergers and acquisitions will have a positive impact on the marketing effectiveness of the combined firm as measured by sales revenue.*” It seems therefore that the merging firms were able to realize economies of scope which enhanced sales in the post-merger years.

We also found that the ratio of selling, general and administrative expenditure to sales revenue dropped significantly in the post-merger years compared to the pre-merger years and the findings are statistically significant ($p < .05$). We found support, therefore, for our second hypothesis (H_2) which was that *Mergers and acquisitions will have a positive impact on the marketing efficiency of the combined firm as measured by the ratio of selling and marketing expenditure to sales revenue*. Hence, it may be concluded that the merging firms did realize economies of scale in selling, general and administrative expenditure.

In contrast, however, our results show that the return on sales (ROS) of the sample firms ($n = 41$) dropped from the pre-merger to the post-merger years and this is statistically significant ($p < .05$). We did not, therefore, find support for our third hypothesis (H_3) which was that *Mergers and acquisitions will have a positive impact on the both marketing efficiency and marketing effectiveness leading to a positive impact on the overall profitability of the combined firm*.

To further investigate the sales revenue performance of the combined firms, we conducted the regression analysis (intercept model) on the log-transformed data and we incorporated two control variables, namely gross national product (GNP) and inflation²¹ in our model. **Table 13** below shows the results of the regression with the two control variables.

Table 13: Regression of sales revenue with control variables

Regression	Betas	Sig
Constant	.031	.992
Log Pre-merger sales performance	1.034	.000
GNP	-.005	.987
Inflation	.028	.931
Adjusted R ²	.92	

²¹ GNP data were collected from the economic research website of Federal Reserve Bank of St. Louis, while inflation data was collected from www.usinflationcalculator.com

The results of the regression analysis show that pre-merger sales revenue (in absolute terms) performance is significant ($p < .05$), indicating that the post-merger sales performance improvement is a continuation from the pre-merger years. In other words, sales revenue of the merged firms improved in the post-merger years after controlling for inflation and gross national product (GNP). Interestingly, in our regression without the control variables in the preceding section (analysis on raw data), the constant turned out to be significant indicating the positive impact of the merger itself on the post-merger sales performance.

However, with the inclusion of control variables in the regression analysis, the constant turned out to be insignificant which implies that the post-merger sales performance improvement was just a continuation of the pre-merger performance. In other words, companies that performed well pre-merger continued to perform well post-merger, but this was most likely a momentum effect rather than any effect of the merger. This is consistent with the results of Mueller (1980) who also observed the occurrence of a momentum effect.

As explained earlier, this study utilized three types statistical analysis to investigate post-merger marketing performance, unlike previous studies which typically used just one variable. Our main objective was to find out whether different analytical approaches produce similar results. Overall, we can conclude that all three types of analysis demonstrated that combined firms were able to improve both marketing effectiveness and marketing efficiency following acquisition, while overall profitability as measured by return on sales declined.

In conclusion, our analysis of paired sample t-test on both raw data and log-transformed data produced similar results. Both the log-transformed data and raw data showed that sales performance (marketing effectiveness) improved in the post-merger years and hence we found support for our first hypothesis. Moreover, both the log-transformed data and raw data supported our second hypothesis by showing that the ratio of selling and marketing expenditure to sales revenue declined indicating an improvement in performance (marketing efficiency). Finally, we did not find support

for our third hypothesis with both the log-transformed data and raw data because we found that ROS declined in the post-merger years.

8.3 Summary and Comparison with Previous Studies

This study employed three marketing performance measures to examine post-merger marketing performance, namely, sales revenue, selling, general and administrative expenditure as a percentage of sales revenue, and return on sales. Our investigation found that sales revenue grew following the merger, and that the ratio of selling and administration costs to sales revenue reduced, suggesting an improvement in marketing productivity. In other words, combining companies through merger or acquisition yielded economies in scope and in scale, at least on some measures.

However, these did not translate into an improvement in return on sales, leaving us with a perplexing problem to understand. One possible explanation could be while marketing performance improved, a deterioration in production costs, which account for a far higher percentage of the total, wiped out the benefit from the gain in sales and marketing.

Our results indicate that firms can indeed get a growth dividend from merging with or acquiring another firm in their industry. The sample firms benefitted not only from the increased scale resulting from combining the two firms, but also from increased sales revenue in the post-merger years. This finding supported our hypothesis that synergistic benefits from wider market coverage and an extended product portfolio ought to result in increased sales. It is also consistent with the findings of Ghosh(2001) that sales grow in the first three years following merger, although he found the rate of growth declining year by year -- 8% growth in year 1, but 1% in year 2, and -2% in year 3. It should be noted, however, that the Ghosh (2001) study is not directly comparable to ours as we examined sales revenue growth in absolute value terms whereas he measured the sales growth rate.

Our result for sales performance contrasts with that of Gugler, et al.(2003) who reported declining sales performance following mergers. The explanation for this difference may be due to sample construction. We used four-digit SIC codes to select

our sample while Gugler, et al.(2003) used two-digit SIC code. Firms grouped on the basis of two digit SIC codes are from very loosely defined industry categories, containing a lot of variation in market characteristics, competitive conditions and cost structures. The degree of relatedness among the individual firms is questionable and so therefore is the likelihood of any real synergies in products or markets.

Firms grouped on the basis of 4 digit SIC codes are definitely in the same or closely related industries, and mergers among these firms are truly horizontal, with a shared focus and a high degree of relatedness, and therefore, higher potential for economies of scale and scope post-merger. For instance, studies examining post-merger performance with samples from the banking industry found that highly focused mergers, i.e. similar product or geographic focus, enhanced performance more in the post-merger years compared to non-focused mergers (DeYoung, Evanoff& Molyneux, 2009). Our findings provide some additional support therefore to the banking studies that showed that focused mergers are more productive compared to-non-focused mergers.

Our study also provided evidence of the realisation of economies of scale in selling, administrative and general expenses post-merger. The ratio of these expenses to sales revenue declined by more than half in the three years' post-merger which seems to provide quantitative validation of the claims companies make about the extent of their asset and staff reductions post-merger, as found by Capron (1999). One possible explanation for this finding could be that since the sampled firms were in a very closely related industries (i.e. four digit SIC code), the mergers led to overlapping of brands and distribution channels of the target and the acquiring firms, and the merged firms were able to improve cost effectiveness through rationalization.

Our findings also showed, however, that performance measured by return on sales (ROS) declined in the post-merger years. It is much more difficult to understand why the economies of scale in selling and administration, resulting in a halving of this ratio, did not translate into a higher return on sales. We can only surmise that other costs, especially production costs, must have increased significantly to actually cancel out this gain, and to result in a decline in ROS.

Other findings from our study concern the momentum from pre-to post-merger years, and how this affects performance. The importance of historical growth rates of both the acquirer and the target as a predictor of future performance has already been flagged in several studies (Goldberg, 1973; Mueller, 1980). If the acquirer has a low rate of growth historically, as may be the case in many mature industries, then it is looking to acquisitions to produce the growth that shareholders are expecting (Haleblian, et al., 2009). If, however, it acquires other businesses in the same mature industry, as in the typical horizontal acquisition scenario, it is likely that they might be experiencing low growth too, with little reason to expect that they would perform any better than the industry norm. In this case, a serial acquirer may become bigger with the addition of successive acquisitions, resulting in sales growth, but not better, in the sense of improving its return on sales at a level better than its previous history, or than the industry norm.

The results of our regression analysis showed that post-merger performance was a continuation of the pre-merger trend to a significant extent, although there was also a definite impact from the merger. It seems that companies which were doing well before the merger continued this trend after the merger, but the occurrence of the merger also caused a step function in their performance pattern. In other words, the post-merger performance improvement as measured by sales revenue growth and a reduction in selling, general and administrative expenditure represents the joint effect of a continuation in the pre-merger performance trend together with the synergistic benefits produced as a result of the merger itself. Our findings of improved performance in the post-merger period as a combined effect of both the pre-merger performance continuation and the merger itself are consistent with those of (Andrade, et al., 2001).

We included two control variables, namely, GNP and inflation, in our regression analysis for the sales revenue performance variable. The results of the regression analysis show that pre-merger sales performance is significant, indicating that post-merger sales performance improvement is a continuation from the pre-merger years. Interestingly, in our regression without the control variables in the preceding section,

the constant had turned out to be significant indicating the positive impact of merger itself on the post-merger sales performance.

With the inclusion of control variables in the regression analysis, however, the constant turned out to be insignificant which implies that post-merger sales performance improvement was a continuation of the pre-merger strong performance. Both of our control variables also turned out to be insignificant which indicates that there is no significant relationship between the post-merger sales performance and our control variables, namely, GNP and inflation.

The results of our ANCOVA show that the post-merger sales revenue performance of the sample firms belonging to various industries is not significantly different. Our results show that there is a significant relationship between the pre-merger and post-merger sales performance. With regard to our findings for Return on sales (ROS), our findings show that post-merger performance as measured by ROS of the sample firms did differ based on their industry membership ($p < .05$). In other words, industry membership had a significant impact on the post-merger performance. Our results for the ratio of the selling and marketing expenditure to sales revenue show that there is no significant difference among the sample firms based on their industry membership.

Our results of paired sample t-test conducted on the log-transformed data show that the log-transformed data produced similar results as those of raw data. The log transformed data also found that sales revenue significantly improved in the post-merger years while performance as measured by return on sales (ROS) declined. Furthermore, the ratio of the selling and marketing expenditure to sales revenue declined which indicates an improvement in performance.

CHAPTER NINE
**DISCUSSION, MANAGERIAL IMPLICATIONS,
LIMITATIONS AND FUTURE DIRECTION**

Chapter Outline

- 9.1 Discussion
- 9.2 Implications for Management Practice
- 9.3 Limitations and Directions for Future Research

Chapter Nine

DISCUSSION, MANAGERIAL IMPLICATIONS, LIMITATIONS AND FUTURE DIRECTION

9.1 Discussion

The objectives of this dissertation were three fold: firstly, to understand the role of marketing in the context of mergers and acquisitions; secondly, to identify the relevant parameters of post-merger marketing performance and to develop a model and hypotheses concerning the cause and effect relationships; and thirdly, to test the model of post-merger marketing performance on a cross-section of firms that had completed M&A transactions.

The first objective of the study was fulfilled through a comprehensive review of M&A literature drawn from multiple disciplines. Fulfillment of the first objective led to the development of a comprehensive model identifying the numerous dimensions of this complex phenomenon, as well as a set of endogenous and exogenous variables that might have an impact on post-merger performance. The second objective was implemented through a review of literature on marketing performance, and by integrating the marketing performance literature with that of the wider M&A literature. The juxtaposition of these two distinct streams of literature led to the identification of a number of important parameters of post-merger marketing performance which were brought together in a theoretical model and a set of loosely defined hypotheses.

The research question that this dissertation endeavored to answer was: *Do mergers and acquisitions lead to improved marketing performance in the post-merger years?* The dissertation adopted a mixed method research strategy in a bid to answer the research question. The first stage of the research used a case study methodology based on the acquisition of Jaguar and Land Rover by the Indian company, Tata Motors. This case analysis was undertaken to provide a preliminary review of the theoretical model and to help refine our hypotheses. A quantitative study was carried out in the second stage of the research to test the hypotheses.

The use of mixed methods such as in this study has become increasingly popular because of the perception that several methods combined are likely to give a more robust result than any one method used alone. In fact, mixed methods have been described as a *third methodological movement*, with the quantitative being the first and qualitative being the second methodological movement (Venkatesh, et al., 2013). Researchers have recommended this methodological pluralism for a number of reasons. First of all, mixed methods have been suggested as especially appropriate for examining a complex phenomenon such as that which this study dealt with (Venkatesh, et al., 2013). Secondly, mixed methods provide triangulation of qualitative and quantitative data allowing deeper insights into the research phenomenon under investigation (Jick, 1979).

The results of the exploratory case study found that the acquisition of Jaguar and Land Rover has produced mixed results for Tata Motors. Sales volume and sales value improved dramatically in the four years after the acquisition, indicating a significant improvement in top line marketing performance. However, Tata Motors had to invest very large sums of money in marketing activities as well as for new product development. When this expenditure, together with expenditure in other areas of business, was factored in Tata Motors actually suffered a reduction in marketing and selling productivity. Performance as measured by profitability produced mixed results. While gross profit margin improved considerably in the post-merger years compared to the pre-merger years, both net income margin and operating margin declined.

However, performance picked up again in recent years. This suggests that the reduced performance in the years immediately following merger may be temporary, resulting from the extra investment needed to turn around an ailing business, with the real benefits coming in the longer-term. Our analysis showed that the operating margin of Tata Motors stood at 13.2% one year before the acquisition but dropped to 9.5% two years after the acquisition, in 2010, chiefly due to heavy investment in marketing and R&D. However, the operating margin has risen significantly in recent years, up to 16.6% in 2014.

We found quite similar results for net profit margin, which stood at 5.5% one year before the acquisition and dipped to 4.1% in 2010, two years after the acquisition. The net profit margin in the recent years, however, has picked up again to 5.6% in 2014.

It is possible that this example may not be representative, however, because of several unique features. First of all, this was a very unequal acquisition, with a very large, successful broad-based industrial company taking over a much smaller, distressed car business. This was clearly a turnaround situation, needing major investment rather than providing an opportunity for cost savings, as might a more equal merger. Secondly, the purchase of such high profile, iconic brands by a company from an emerging economy means that the strategic stakes are very high, imposing a pressure to succeed, more or less at any cost. The enormous spending on R&D and marketing are long-term strategic investments, probably undertaken without any expectation of short-term profit.

Interestingly, however, the findings of the quantitative study were very similar to the Tata case. The firms in the larger quantitative study were also able to augment sales revenue following the acquisition. However, they also suffered a decline in return on sales (ROS) in the post-acquisition years, however, suggesting that the sales gain did not follow through to the bottom line. The reasons for the reduction in ROS may have been different in the two studies.

In the Tata case study, the ratio of selling and marketing to sales revenue increased as a result of intensive investment in the post-merger years. In contrast, the quantitative study found a reduction in this ratio indicating that cost savings were made, perhaps by cutting out duplication in some parts of these activities. It appears that the firms in the sample did manage to derive economies of scale in marketing, selling, R&D and general administration costs as a result of the merger.

It is important to note, however, that both the case study and the quantitative study were consistent in the finding that the return on sales of the merged firms declined after the merger. This reduction in profitability is entirely consistent with the large body of research in accounting which has shown that profitability rarely improves

following mergers and acquisitions. One possible explanation for these findings might be that difficulties in implementing the merger may have raised other costs to cancel out the marketing gains. It is also possible that the merging firms had to invest in other areas of the business such as production facilities which might have led to the deterioration of performance. The nature of these other costs was not captured in this study but clearly needs to be investigated in future research.

9.2 Implications for Management Practice

Our findings have significant implications both for marketing managers and top management. Companies engage in M&A for a wide variety of motives but the most common are revenue growth and cost savings and, ultimately, profit growth, to satisfy the demands of shareholders. Consistent with evidence from other disciplines, our study showed that the realisation of such benefits is the exception, rather than the norm. Our study found that a significant growth in sales revenue was delivered in the three years post-merge, and this was accompanied by cost savings in marketing, selling and general administration, but it did not follow through into an increase in return on sales.

Our evidence suggests that companies need to think much harder about the merits of potential acquisition targets, and need to do a lot more work in the due diligence phase, in order to quantify the likely benefits and costs that might follow from the transaction. Without a very strict and realistic assessment of this kind, it seems almost a foregone conclusion that the merger will fail to deliver the hoped for improvement in results.

The risk of failure will be even greater if the acquirer pays too much, a common occurrence, particularly in strong stock market conditions, such as experienced in the last merger wave, prior to 2007. The results of this study suggest that managers of acquiring firms, and their advisers, need to be far more realistic in valuing acquisition targets, and set themselves limits on what they are willing to pay. They also need to pay great attention to the implementation phase to ensure that the anticipated benefits,

both in revenue growth and cost savings are actually realised, and can be demonstrated by an increase in the real return on sales.

9.3 Limitations and Directions for Future Research

Even though the sample size of this study was quite similar to many other studies on post-merger performance, we believe a bigger sample size would have enhanced the generalizability of the findings. Furthermore, even though the sample for the study was drawn from the world's most active market for M&A deals, i.e. the USA, we believe that a large sample drawn from multiple countries would add further insight on the presence or absence of cross-border effects on post-merger marketing performance. It may not be plausible to generalize our findings to firms outside of the USA.

One of the most notable limitations of nearly all studies on post-merger performance, including the present study, is the application of a number of sample selection criteria to achieve a *clean* sample. As discussed in the methodology section, this study also adopted a set of sample section criteria. The general argument put forward in the M&A literature for the application of such criteria is to lessen the impact of exogenous variables that might potentially confound the findings. While such sample section criteria enhance the internal validity of the findings, the external validity of the study is sacrificed to an extent. While the sample section criteria for this study were based on earlier studies, we endeavoured to enhance the internal and the external validity through inclusion of a wide range of deals in terms of industry and size. We also felt that the sample was strengthened by excluding serial acquisitions.

Another limitation of the study was that the internal validity has been compromised to an extent due to not being able to incorporate the concentration ratios of the industries studied. This is one of the weaknesses of the study. Future studies should therefore incorporate the concentration ratio and examine as to how this affect performance in the post-merger years.

Another limitation of the study is that we did not consider some other merger-related variables that may potentially influence post-merger performance. For example,

several studies have shown that an important reason why firms fail to gain from mergers is because of over-valuation and over-payment for their acquisitions (Haleblian, et al., 2009; Rhodes-Kropf & Viswanathan, 2004). The nature of the merger deals -- friendly versus hostile, and the method of payment (cash versus stock or a combination) are also believed to have an impact on the post-merger performance.

There are also other variables such as the relative sizes of the acquirer and target (10-1 is typical according to several large studies (Andrade, et al., 2001), the acquisition experience of the acquirer (multiple past acquisitions), the ownership structure of both acquirer and target (public versus private), the relative pre-merger performance of both firms, and the degree of relatedness in terms of brand/product portfolio relatedness, distribution relatedness etc. of the firms involved in the M&A deals would be interesting to examine. Further studies are warranted to include some of these variables and to further enhance our understanding of this very complex phenomenon.

Another shortcoming of the study is related to one of the three performance measures employed. To measure marketing efficiency, the study utilized the ratio of selling, general and administrative expenses to sales revenue because that was the only ratio actually captured in the data base. It would have been preferable if we could have isolated marketing and selling expenses from general administration but that was not feasible. It would be helpful if future studies could collect more refined data for marketing and selling expenses. Moreover, while return on sales is extensively used as a measure of performance, it has its own limitations. While marketing activities have an impact on the return on sales, it is also influenced by other activities of the firm. Hence, future studies should attempt to develop and utilize more marketing-focused performance measures.

Finally, we have very little real evidence as to where the revenue growth came from -- the degree to which expanded market coverage or an extended product line, or some combination, produced the revenue growth. Furthermore, we do not know exactly what led to the increase in other costs that cancelled out the savings in selling and administration. One possibility is that problems in the post-merger integration process

may have reduced production efficiency (Krishnan, et al., 2007). The nature of these effects is yet to be researched in any depth and seems to offer fertile ground for future study.

CHAPTER TEN

CONCLUSION

Chapter Outline

10.1 Conclusion

10.2 General Contribution to Knowledge

Chapter Ten

CONCLUSION

10.1 Conclusion

This dissertation set out to advance our understanding of post-merger performance from a marketing point of view, as an addition to the wider literature on post-merger performance.

The research objectives of the dissertation were as follows:

1. To understand the role of marketing in the context of mergers and acquisitions.
2. To identify the relevant parameters of post-merger marketing performance, and to develop a model and hypotheses concerning the cause and effect relationships.
3. To test the model of post-merger marketing performance on a cross-section of firms that has completed M&A transactions.

The comprehensive review of the literature on M&A showed that this topic has received research attention from scholars in many disciplines, including Economics, Finance, Management, and, to a lesser extent, Marketing. Our review examined articles from all of these disciplines so as to bring together the existing knowledge in a systematic framework, to enable the identification of research gaps, and to help formulate a set of hypotheses on post-merger marketing performance. The literature review enabled us to integrate various aspects of this complex and multifaceted phenomenon which culminated in the development of a comprehensive model and set of hypotheses.

Juxtaposition of this M&A literature with the literature on marketing performance helped to identify the parameters of the concept of post-merger marketing performance which led to construction of a model showing how they are connected in a cause and

effect way. Initially, the proposed model was tested with the help of an exploratory case study based on the acquisition of Jaguar and Land Rover by Tata Motors. The case study helped to develop a rich understanding of post-merger marketing performance, the metrics involved in measuring that performance, the variables driving that performance, and the pattern of evolution over the period from pre- to post-merger.

Our case research combined quantitative and qualitative data analysis gathered from a wide variety of secondary sources as well as experts report on M&A in the auto industry and the Tata motors. In addition to secondary data, primary data was also collected through in-depth interview to complement the secondary data. These sources were both from the company and from independent analysts. The quantitative data were necessary to provide factual evidence of the company's performance both before and after the acquisition of Jaguar/Land Rover, and with and without the additional brands. The qualitative data provided supplementary comments to add explanation and critique to the numbers. These sources combined to provide a deep and rich understanding of both the underlying strategy and the performance that it yielded.

Our analysis revealed that the motivations for Tata's acquisition of Jaguar and Land Rover were two-fold: firstly, to extend the brand portfolio of Tata Motors, and secondly to extend its market coverage. Acquisition of Jaguar and Land Rover transformed Tata's brand portfolio, allowing it to raise its prices by serving premium segments instead of the low price segments it had served before which were mainly focused on the Indian market. The second motivation for the acquisition was to extend the market coverage of Tata Motors and this it did in dramatic fashion. Tata Motors went from having 80% of its sales in India pre-acquisition, to having 85% of its sales outside of India this year. These combined benefits allowed the sales volume and revenue of Tata Motors to grow significantly in the post-acquisition years. Tata Motors has reported double-digit top-line growth for the past four years, averaging 26% per annum.

Our theoretical model based on the resource based view (RBV) postulated that companies involved in horizontal mergers or acquisitions should be able to achieve

economies of scope through access to new markets and the addition of new products/brands, leading to increased sales revenue, over and above what might have been achieved by the two firms separately. With the resource based view (RBV) in the backdrop, we posited that the complementary marketing assets and capabilities of the merging partners should have a positive impact on the performance in the post-merger years. We argued that through the combination of *outside-in capabilities*, *Inside-out capabilities* and *Spanning capabilities* of the merging partners, the combined firms should be able to enhance its performance. Our initial investigation through the case study on Tata Motors' acquisition of Jaguar and Land Rover supported our proposition as measured by increased sales in the post-merger years, and there is little doubt that this enhanced sales performance could not and would not have been achieved without this acquisition.

Our model also posited that firms should be able to achieve economies of scale through merger, resulting in a reduction in the ratio of selling and marketing expenditure to sales for the combined firms for any level of sales. We did not find support for this proposition from our case analysis. Tata Motors increased its expenditure on sales and marketing by a very substantial amount resulting in an increase rather than a decrease in this ratio.

Tata Motors capitalized on these two iconic brands by embarking on a massive plan for new product development through heavy investment which resulted in the introduction of a number of new models into the market. Our analysis revealed that these new models --such as the Land Rover Evoque-- were hugely successful and gave a major boost to sales and to brand equity. The success of these new products was also influenced by a heavy investment in advertising and marketing which gave them worldwide visibility.

These marketing successes, however, came at a high cost, which went all the way to the bottom line of Tata Motors. Performance measured by the ratio of marketing expenses to sales revenue declined dramatically in the post-acquisition years because of greatly increased spending needed to accelerate sales of the newly acquired brands. The enormous spending on new product development and marketing are long-term

strategic investments, probably undertaken without any expectation of short-term profit.

Finally, our analysis of three measures of profitability showed that even though the two profitability measures declined immediately after the acquisition of Jaguar and Land Rover, profitability as measured by gross profit margin in fact improved in the post-acquisition years despite heavy investment in various aspects of the operations of the business.

All profit measures improved after year two as the benefits of the post-merger investment began to yield dividends in terms of increased sales. As explained in greater details in the preceding sections, our analysis showed that the operating margin of Tata Motors stood at 13.2% one year before the acquisition which dropped to 9.5% in 2010, two years after the acquisition, chiefly due to heavy investment in marketing and R&D. However, the operating margin rose significantly in recent years, with 16.6% in 2014. We found quite similar results for net profit margin which stood at 5.5% one year before the acquisition and dipped to 4.1% in 2010 two years after the acquisition. The net profit margin in recent years, however, has picked at 5.6% in 2014.

It is possible that this example may not be representative, however, because of several unique features. First of all, this was a very unequal acquisition, with a very large, successful broad-based industrial company taking over a much smaller, distressed car business. This was clearly a turnaround situation, needing major investment rather than providing an opportunity for cost savings, as might happen in a more equal merger. Secondly, the purchase of such high profile, iconic brands by a company from an emerging economy means that the strategic stakes are very high, imposing a pressure to succeed, more or less at any cost. The enormous spending on marketing and R&D was probably undertaken without any expectation of short-term profit.

Thus, it seems that the drag on profitability is a temporary effect that have started to turn around in the recent years and profitability will presumably improve further if the company has a strong enough resource base to be able to weather the temporary

slowdown. As a huge, diversified industrial company, the Tata Group was especially well-placed to be able to provide the time and resources necessary to stage a turnaround in the fortunes of Jaguar and Land Rover. Admittedly, Land Rover was an easier task than Jaguar, and the latter still has a long way to go in its revival.

Our analysis further indicated that variables which earlier M&A research found to have an impact on post-merger performance did not negatively affect the post-acquisition performance of Tata Motors. Variables such as the price paid for the acquisition, the method of payment, the mood of the acquisition, and post-merger integration were examined. With regard to price paid, Tata Motors bought these two brands at a bargain price which was below the book value of these two brands. Tata Motors got off to a good start therefore by buying two global brands at a bargain price, avoiding the risk of failure because of overpayment.

Tata Motor's sales volume growth rate was above the industry average in the pre-merger as well as post-merger years. Interestingly, however, we analysis found different growth patterns in the pre- and post-merger years. Tata Motors sales growth in the pre-merger years fluctuated by a big margin compared to that of the global automotive industry. The reason was that, before acquisition of JLR, the market for Tata Motors comprised mainly of India and a few other countries. The fluctuation in Tata Motors' sales growth rate in the post-merger years was on a par with that of the global industry, the reason being that the acquisition transformed its regionally-focused product portfolio into a globally-focused product portfolio. It can be concluded therefore that Tata Motors has become a global player by adding global brands and by having access to different country markets after the merger. This was a benefit in that it fundamentally increased the scale and reach of its business, but it also exposed it to the vagaries of the global auto market.

Secondly, Tata Motors paid in cash for the acquisition. Our findings of improved post-merger performance are in line with other studies which showed that cash acquisition leads to better performance improvement in the post-merger years, as compared to stock acquisition. Moreover, Tata bought these brands on a cash-free and debt-free

basis which means that it avoided the legacy debt burden, and this gave it considerable leeway for future investment in these two brands.

Thirdly, the mood of the acquisition was friendly which is borne out by the positive attitude of JLR's stakeholders including employees and dealers. The employees of JLR and dealers welcomed the acquisition which made it easy for Tata Motors to put the two firms together despite huge cultural differences between the two firms. Moreover, because of being a friendly takeover, the post-merger integration was smooth which facilitated performance improvement post-acquisition.

The case study helped to develop a theoretical model of the study. Subsequently, a quantitative study based on a sample of 45 merger and acquisitions deals involving ninety companies was conducted. The quantitative study provided a test of post-merger marketing performance across a range of industries and company types. It also facilitated utilization of multiple performance measures as opposed to the single performance measures utilized by the extant studies. The study employed three marketing performance measures to examine post-merger marketing performance, namely, sales revenue, selling, general and administrative expenditure as a percentage of sales revenue, and return on sales, and utilization of multiple measures produced some insightful findings with regard to the multi-dimensional *post-merger marketing performance* construct.

The quantitative study tested the following three hypotheses.

Hypotheses	
H₁	<i>Mergers and acquisitions will have a positive impact on the marketing effectiveness of the combined firm as measured by sales revenue.</i>
H₂	<i>Mergers and acquisitions will have a positive impact on the marketing efficiency of the combined firm as measured by the ratio of selling and marketing expenditure to sales revenue.</i>
H₃	<i>Mergers and acquisitions will have a positive impact on both marketing efficiency and marketing effectiveness leading to a positive impact on the overall profitability of the combined firm.</i>

Overall, we found support for the first two hypotheses (H₁ and H₂). We however did not find support for our third hypothesis (H₃)

The analysis found that sales revenue grew following the merger, and that marketing productivity as evidenced by a drop in the ratio of selling and administration costs to sales revenue reduced. In other words, combining companies through merger or acquisition yielded economies in scope and in scale, at least on some measures. With the resource based view (RBV) in the backdrop, we hence found support for our augmentation that combination of complementary marketing assets and capabilities will have a positive impact on the post-merger performance. However, these did not translate into an improvement in return on sales. Why performance improved along some dimensions and declined along others opens up new avenues of research in the context of M&A.

The results of the paired sample T-test show that the 3 year average sales revenue in the post-merger years increased considerably compared to the 3 year average sales in the pre-merger years. The 3 year average sales in the pre-merger years were USD 3,186.23 million which increased to USD 3,985.36 million following the merger. The sales revenues of the sample firms increased by USD 799.13 USD million following the merger, an increase of 25% on average. This increase in sales in the post-merger years may be attributed to a number of factors. The acquisition may have attracted new customers to the combined firm which led to increased sales performance by the combined firm in the post-acquisition years. The merger may also have resulted in a more balanced and fuller product portfolio that created opportunities for cross-selling to target and acquiring firm's existing customers. Moreover, the increased sales might also have been caused by the increased market power of the combined firm which helped the combined firm to charge a higher price for its products.

We also found that the ratio of selling, general and administrative expenditure to sales revenue dropped significantly in the post-merger years compared to the pre-merger years. The three year average ratio of selling, administrative and general expenses to sales revenue was 46.64% in the pre-merger years but dropped to 20.22% on average in the three years after the merger. The difference between the value of pre and post-merger years was -26.42%. In contrast, however, our results show that the return on sales (ROS) of the sample firms dropped considerably from the pre-merger to the post-

merger years. The 3 year average return on sales (ROS) dropped from 14.7% in the pre-merger years to 8.7 % in the post-merger years. The difference between the pre- and post-merger years return on sales (ROS) was -6.0%.

The results of our ANCOVA show that the post-merger sales revenue performance of the sample firms belonging to various industries is not significantly different. Put differently, post-merger sales revenue of the sample firms improved irrespective of their industry membership. With regard to our findings for the Return on sales (ROS), our findings show that post-merger performance as measured by ROS of the sample firms differed based on their industry membership. Interestingly, our results from the ANCOVA analysis did not find any significant relationship between the pre-merger ROS and post-merger ROS. Our results for the ratio of the selling and marketing expenditure and sales revenue show that there is no significant difference among the sample firms based on their industry membership. Put differently, performance as measured by the ratio of the selling and marketing expenditure and sales revenue improved regardless of the industry membership of the sample firm.

The results from the *regression* on sales performance revealed that mergers and acquisitions have a statistically significant, positive effect on the sales performance in the post-merger years. Sales increased following the acquisition and this increase is attributable to the merger as distinct from a persistence of the pre-merger sales performance. We also found, however, that the pre-merger sales performance has a statistically significant strong influence on the post-merger performance.

The results from *regression* on performance measured by the ratio of selling, general and administrative expenditure to sales revenue, revealed that mergers and acquisitions have a statistically significant effect on the ratio of selling, general and administrative expenditure to sales revenue in the post-merger years. The ratio dropped following the acquisition and this change in performance is attributable to the merger. We also found that the pre-merger trend has a statistically significant strong influence on the post-merger performance.

The results from *regression* on Return on Sales (ROS) performance revealed that mergers and acquisitions have a statistically significant effect on the return on sales performance in the post-merger years. Return on sales dropped following the acquisition. We did find support for the fact that return on sales (ROS) declined as a result of the merger, but we did not find any statistically significant evidence that this drop in ROS was a continuation from the pre-merger period.

To further investigate the robustness of our regression model with regard to the post-merger sales revenue performance, we incorporated two control variables namely gross national product (GNP) and inflation in our model. The results of the regression analysis shows that pre-merger sales performance is significant indicating the fact that post-merger sales performance improvement is a continuation from the pre-merger years. Interestingly, in our regression without the control variables in the preceding section, the constant turned out to be significant indicating the positive impact of merger itself on the post-merger sales performance. However, with the inclusion of control variables in the regression analysis, the constant turned out to be insignificant which implies post-merger sales performance improvement is a continuation from the pre-merger years. Both of our control variables also turned out to be insignificant which means that there is no significant relationship between our control variables and the post-merger sales performance (dependent variable).

To further investigate the robustness of our results for all three performance variables, we log-transformed our data and carried out paired sample t-test. The data for all three performance measures have been log-transformed using natural logarithm and subsequently paired sample t-test has been conducted to examine whether or not the results vary from analysis that have been carried out in the preceding sections. The log transformed data also found that sales revenue significantly improved in the post-merger years while performance as measured by return on sales (ROS) declined. Furthermore, the ratio of the selling and marketing expenditure to sales revenue declined which indicates an improvement in performance.

As explained in earlier chapter, this study utilized three types statistical analysis to investigate post-merger marketing performance and the main objective was to find out

whether different analytical approaches produce similar results. Overall, we can conclude that all three types of analysis demonstrated that combined firms were able to improve both marketing effectiveness and marketing efficiency following acquisition, overall profitability as measured by return on sales declined.

In conclusion, our analysis of paired sample t-tests on both raw data and log-transformed data produced similar results. Both the log-transformed data and raw data showed that sales performance improved in the post-merger years and hence we found support for our first hypothesis. Moreover, both the log-transformed data and raw data supported our second hypothesis and showed that the ratio of selling and marketing expenditure to sales revenue declined indicating an improvement in performance. Finally, we did not find support for our third hypothesis with both the log-transformed data and raw data because we found that ROS declined in the post-merger years.

We think that more theoretical development is necessary to disentangle this complex phenomenon. While post-merger performance has been an interesting research topic among scholars of diverse discipline for the past three decades, the advancement of understanding of this elusive phenomenon has been rather slow. We therefore call for more theoretically grounded research with a multi-disciplinary approach on post-merger marketing performance.

10.2 General Contribution to Knowledge

The study made several contributions to the both M&A literature and marketing performance literature some of which are relatively more insightful than others. The contributions of this study may be divided into theoretical and methodological contributions.

From theoretical perspective, with the resource based view (RBV) in the backdrop, this study developed a simple but effective model integrating various parameters that might impact post-merger marketing performance. Using the resource based view (RBV), the model showed how the combination of complementary marketing assets and capabilities of the merging partners may have a positive impact on the post-merger performance through achievement of scale and scope economies. Most existing studies

measuring post-merger performance focused more on methodological improvement or refinement as distinct from theoretical development. This theoretical model based on resource based view (RBV) therefore is a significant addition to the post-merger performance literature. Furthermore, the model proposed here also provides insights into the factors that affect marketing performance of companies and thus is also a contribution to the marketing performance literature in addition to the M&A literature

From a methodological standpoint, this study demonstrated the necessity to apply multiple measures for performance measurement as opposed to a single measure. The findings of the study showed that adoption of single performance measure to gauge a multi-dimensional construct might be a perilous research strategy because any single measure does not produce a definitive conclusion. Furthermore, the study showed that effect size might also be utilized as a measurement tool in post-merger performance measurement research. To the best of our knowledge, no study has so far utilized effect size as a measurement tool in the M&A literature. Utilization of effect size helps to disentangle the extent of impact of M&A on performance.

This study also showed that using four-digit SIC codes to select firms for the sample provides better and deeper insight for M&A performance measurement, as compared to the more widely used two digit-SIC codes. This more refined sampling model is another methodological contribution of the study.

In addition, this study developed a comprehensive conceptual model integrating significant exogenous and endogenous variables that might affect post-merger marketing performance. This model is also an addition to the M&A literature.

10.3 Reflexivity

While post-merger performance has received extensive research attention, mainly from Accounting and Finance scholars, advancement of theory development has been inadequate given the enormous body of research. This dissertation developed a comprehensive conceptual model integrating significant exogenous and endogenous variables that might affect post-merger marketing performance. However, it is recognised that this model is only a first step and that much further work is needed to

refine and strengthen this model. Further work would benefit from exploring the management literature, in particular, the resource dependence model (Barney, 1991) as a source of additional insight into motivations and decision making involved in M&A transactions.

This dissertation adopted mixed methods, commencing with an exploratory case study with the objective of getting deep insights into the factors that affect post-merger marketing performance. This objective was only realised to a limited extent mainly because of inadequate data. Even though this study drew both qualitative and quantitative data from several sources, the findings could have been richer had it been possible to collect primary data. For instance, the real motive of of Tata Motors acquisition of Jaguar and Land Rover could not be uncovered due to inaccessibility of primary sources such as top company executives.

The case analysis did demonstrate, however, Tata Motors was successful in turning around Jaguar and Land Rover through heavy investment in brand building initiatives as well as new product development. It was not possible to find out what specific brand building and new product development activities were carried out that led to the successful turnaround of these two ailing brands from the secondary data analysis. More importantly, it was not possible to ascertain why Tata Motors' activities turned out to be fruitful while these brands' previous owners' turnaround initiatives failed?

Moreover, our case analysis showed that successful integration of the acquired brands also played a pivotal role for the success of Tata Motors after the acquisition of Jaguar and Land Rover. It was not possible, however, to uncover the specifics of post-merger integration strategy adopted by Tata Motors following the acquisition. Collection of primary data would have shed better light on these important aspects of the case study.

Data for the quantitative study was collected from US-based firms only, based on availability. It would have been more interesting if data could have been collected from multiple countries. In particular, it would have been interesting to collect data from both developed and emerging country markets. Furthermore, the study focused mainly on domestic mergers while cross-border M&A is increasingly common across diverse

industries. It therefore would have been interesting to collect data of M&A deals which are both domestic and cross-border in nature.

The quantitative study used two control variables, namely, gross domestic product and inflation. Inclusion of more control variables would have shed a better light on the performance consequence following M&A. For instance, past acquisition experience, deal mode (friendly vs hostile), method of payment (cash, stock or mixed), pre-merger strategic similarity (market oriented vs customer oriented) of the merging firms would have shed better light on the post-merger performance.

Endogeneity bias could have been further reduced, had the industry adjusted performance been calculated, but this was not possible due to lack of industry data for the performance variables such as return on sales and the ratio of selling and marketing expenses to sales revenue.

In sum, like all research, this study was limited in what it could achieve. To make it tractable, the phenomenon of M&A had to be narrowed in focus to a relatively few variables, in this case, variables of interest to marketing scholars. Furthermore, the relationship between M&A behaviour and marketing performance had to be simplified to allow it to be studied. Such modelling always implies a sacrifice in richness but such is inevitable in the interests of constructing a workable research plan. This narrowing of focus is driven further through data selection which is influenced by access, timing and location. Our choice of case study and quantitative sample was subject to all of these constraints.

Despite these limitations, however, we are satisfied that this research has made a worthwhile original contribution to the marketing literature, and to the wider M&A literature. First of all, it has cast a light on the topic of M&A for marketing scholars which was badly needed because this topic has been seriously neglected by academic researchers relative to its incidence and importance in the conduct of business. We hope that our highlighting of this topic will stimulate a new stream of research on this area, in which marketing scholars can play an active part.

From the point of view of the wider M&A literature, we feel that we have focused new attention on top line sales performance which has been largely neglected in previous research, relative to cost savings. We believe that redressing this balance is a valuable contribution and hope that our work will lead to a new focus on the expansionary motive of mergers and acquisitions, in contrast to the more usual emphasis on contraction and cost savings. Whether bigger is better, in terms of profit performance, remains a conundrum, but is an interesting empirical question that should whet the appetites of future researchers.

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APPENDICES

Appendix 1: Sample Industries and number of sample from each industry

Industries in Sample	Frequency	Percent
Perfume, cosmetics and other toilet preparation	1	2.2
Ice cream and frozen desserts	1	2.2
Wines, brandy and brandy spirits	1	2.2
Poultry slaughtering and processing	2	4.4
Speciality cleaning and polishing preparations	1	2.2
Computer storage devices	1	2.2
Motorcycles, bicycles and parts	1	2.2
Telephone and Telegraph apparatus	2	4.4
Meat packing plants	3	6.7
Canned fruits, vegetables, jams, and jellies	1	2.2
Biological products, except diagnostic substances	3	6.7
Pharmaceutical preparations	2	4.4
Motor vehicles and passenger car bodies	1	2.2
Motor vehicle parts and accessories	4	8.9
Women's, misses', & juniors' blouses and shirts	1	2.2
Men's and boys' work clothing	2	4.4
Women's, misses', & juniors' dresses	1	2.2
Broadwoven fabric mills, cotton	1	2.2
Men's and boys' separate trousers and slacks	1	2.2
Electric housewares and fans	1	2.2
Electronic components, nec	2	4.4
Semiconductors and related devices	1	2.2
Deep sea foreign transportation of freight	1	2.2
Railroads, line-haul operating	2	4.4
Soap & other detergents, except specialty cleaners	1	2.2
Carpets and rugs	1	2.2
Oil and gas field machinery and equipment	3	6.7
Service industry machines, nec	1	2.2
Construction machinery and equipment	1	2.2
Special industry machinery, nec	1	2.2

Industries in Sample	Frequency	Percent
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Speciality cleaning and polishing preparations	1	2.2
Computer storage devices	1	2.2
Motorcycles, bicycles and parts	1	2.2
Telephone and Telegraph apparatus	2	4.4
Meat packing plants	3	6.7
Canned fruits, vegetables, jams, and jellies	1	2.2
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Motor vehicle parts and accessories	4	8.9
Women's, misses', & juniors' blouses and shirts	1	2.2
Men's and boys' work clothing	2	4.4
Women's, misses', & juniors' dresses	1	2.2
Broadwoven fabric mills, cotton	1	2.2
Men's and boys' separate trousers and slacks	1	2.2
Electric housewares and fans	1	2.2
Electronic components, nec	2	4.4
Semiconductors and related devices	1	2.2
Deep sea foreign transportation of freight	1	2.2
Railroads, line-haul operating	2	4.4
Soap & other detergents, except specialty cleaners	1	2.2
Carpets and rugs	1	2.2
Oil and gas field machinery and equipment	3	6.7
Service industry machines, nec	1	2.2
Construction machinery and equipment	1	2.2
Special industry machinery, nec	1	2.2
Total	45	100.0

Appendix 2: The distribution of the M&A sample by year.

Deal year	Frequency	Percent
1992	1	2.2
1995	2	4.4
1996	2	4.4
1997	3	6.7
1998	5	11.1
1999	4	8.9
2000	3	6.7
2001	4	8.9
2002	1	2.2
2003	2	4.4
2004	2	4.4
2005	4	8.9
2006	3	6.7
2007	2	4.4
2008	2	4.4
2009	5	11.1
Total	45	100.0

Appendix 3: Deal Size of Sample

	Deal Value (USD Million)
Mean	581.4290
Median	268.8990
Minimum	3.20
Maximum	4124.00
Percentiles 25	94.4765
50	268.8990
75	623.1195