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MGMT-GB.3319.20(.30)

## MBA: STRATEGIES OF MERGERS AND ACQUISITIONS

SPRING 2012 SYLLABUS (subject to change: version 02/28/12)

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### COURSE DESCRIPTION

This MBA course explores the various modes of Mergers and Acquisitions (M&A) strategies available to firms to create and capture economic value. The objectives of the course are (1) to equip students with a set of analytical and qualitative tools to assess the *drivers* and *consequences* of different types of M&As, and (2) to provide insight into the successful management of M&As covering *the whole process from conception to action*. While more emphasis is given to large, established firms, the course also deals with entrepreneurial ventures to the extent that they face analogous competitive, financial, and organizational challenges. Students enrolling in the course will draw from various sources of knowledge about M&As ---cutting-edge academic research, real-world experience from the strategy work of the instructor and other students in class, and case discussions illustrating the principles behind strategic decisions. This course is meant to be more technical than the core Strategy course (MBA). By examining the modes of growth and restructuring of the firm from a strategic management perspective, the course reinforces other offerings in the Strategy specialization; moreover, by focusing on the strategic management of M&As, the course also complements courses in Finance such as *Restructuring Firms and Industries* or *Mergers & Acquisitions*.

There are four blocks in this course. The first module lays out an M&A typology and depicts the evolution of M&As both historically and in the life cycle of industries and firms. The second module dissects specific M&A transactions, detailing the different strategic steps in the process as well as illustrating the complexities of the industry and corporate environment for each deal. The third module broadens the scope of the discussion to see M&As in the context of a firm's corporate strategy. The last module deals with the implementation of M&As, for example through turnaround efforts and other post-merger integration strategies.

## COURSE ORGANIZATION, MATERIALS, AND LEARNING

Our course consists of different components that will help us make progress with regard to the two objectives of assessing M&As and succeeding in M&As.

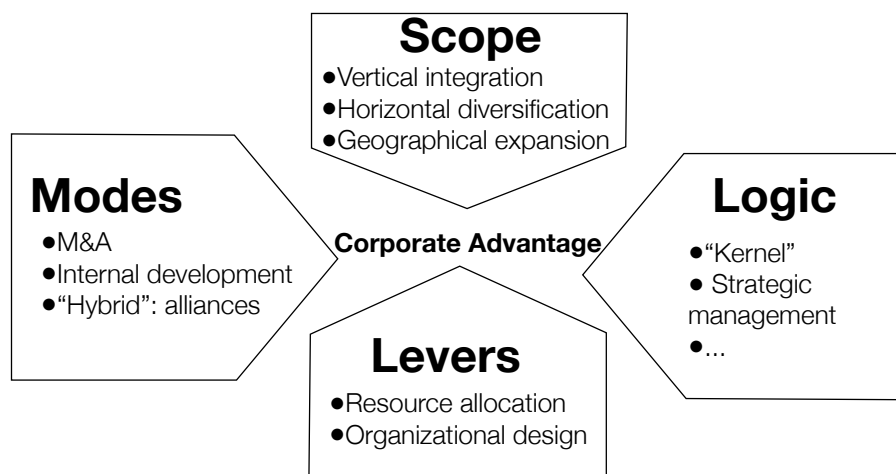
**Cases:** The essential material for this course. The genuine case discussion is not a repetition of facts but an in-depth analysis of a strategic problem and its potential solution. If you do not prepare carefully the facts, however, it would take us too long to get to the core problem, thereby diminishing your learning. To help you prepare, I provide preparation questions in advance, some of which typically require quantitative analysis that you will perform individually or in a group, depending on the assignment. I may ask you to write down your solution in class and turn it in as participation.

**Background reading:** You are strongly encouraged, though not required, to acquire and read Richard Rumelt's (2011) "Good Strategy Bad Strategy: The Difference and Why It Matters;" available on amazon.com. This is not a textbook: it is a book that CEOs and strategy experts are finding very useful.

**Module-Specific Readings:** Every module has specific readings tailored to the theme, typically drawing from top academic journals. You will be expected to turn in a total of two essays based on such readings in weeks of your choice. Readings are available on Blackboard.

**Lectures:** How will you apply abstract concepts to real problems? The lectures will provide you with the common thread, tying frameworks and examples to effectively address strategic problems of Mergers and Acquisitions.

The basic framework of corporate strategy to be employed in the course is:



- **Scope:** Vertical integration, diversification, and geographical expansion constitute the core of scope strategies.
- **Modes:** M&As, internal developments, and inter-firm collaboration. The first two are “pure,” the latter are hybrid because they admit many gradations between the pure ones.
- **Levers:** Resource allocation and organizational design. They are called “levers” because they help strategic managers exert power much beyond their numerical presence in the firm.
- **Logic:** Why (a combination of some of) the above components make sense. Managing synergies, enhancing SBU value, and others.

## COURSE GRADING

1. Participation	35%
2. Individual papers (2)	10%
3. Group paper	10%
4. Work-in-progress group presentation	10%
5. Group final project	35%

**1. Participation.** Your effort and contribution in case discussions, lectures, written exercises, email communication and any other voluntary submission will determine your participation score, which will be assessed through the last meeting of our course. I will evaluate the quantity and quality of your ideas not depending on whether you agree with me, but based on their relevance, accuracy and consistency. Please bring your name card to the classroom.

*-A note for quiet students.* I can understand two reasons for your being quiet in class. One is that you did not prepare the materials for a specific module; please let me know if this is the case at the beginning of a module so that I don't call on you then. Second, you have a preferred tendency not to speak in class; please participate through email or hard-copy write-ups *before* class.

*-Attendance:* I teach two sections (morning & evening); exceptionally, in order not to miss a class, you could come to my other section, letting me know in advance.

**2. Individual papers.** You will submit two essays based on required academic readings posted on Blackboard. There will be a broad pool of readings posted so you will have many options to pick two. Just make sure that one of the readings is “technical” and the other is “qualitative,” as both types will be available on the Blackboard site. Your essay should be no longer than two pages, single space, Times New Roman 12, answering the question: “What is the main idea, why is it convincing, and what is the most practical insight of this piece on my main business interests for the next 10 years?”

**3. Group paper.** You will team up in groups of maximum 3 students to solve an HBS case that will be due at the beginning of Session 5. This case will be handed out in class (it is *not* in the coursepack). The team for this paper may or may not be the one you will constitute for the Group final project.

#### **4. & 5. Group final project and Work-in-progress group presentation.**

The Group final project is an original paper in which you will apply ideas from the course to the case of a specific M&A deal of your own choosing (as long as no other group has chosen that firm in class). Your company of choice can be any firm that interests you outside the ones covered in the course cases —an established firm or entrepreneurial startup. If the firm or business unit has a significant history, your job is to critique its M&A decisions (or lack thereof), based on the concepts learned in this course; you can also propose an M&A deal that has not happened yet and justify your proposal. If the firm of your choice is still in its startup phase, your job is to lay out a plan of whether and why it should pursue an M&A or not. In grading the final paper, I will give much weight to the quality of your insights in linking our class discussions and course to the specific M&A situations you have selected.

You can team up in groups of up to three students. The length of the final paper should be 12 to 20 pages of text. Any additional exhibits do not enter this page count.

As a requirement for your group project, you will meet with me in advance during office hours to talk about your project. This should be done before your work-in-progress presentation.

During Sessions 10 and 11, that is, a few weeks before the deadline to turn in your group final project, you will be asked to give a short presentation in class and take questions from me and your classmates.

#### **COURSE COMMUNICATION**

The course syllabus, class objectives, materials, announcements, and surveys will be posted on the Blackboard site. I also encourage other channels of communication: office hours, email, phone calls, conversations before or after class.

#### **OTHER ISSUES**

***Laptop & e-Reader use in the classroom:*** Due to the nature of this course and the materials that will be used, you do not really need an electronic device during class time. If there is going to be a negative externality, I would like to minimize it by asking those students who are planning on using a laptop to sit in the last rows of the classroom. Flat e-readers are OK.

***Honor Code:*** Please remember that you are governed the MBA Honor Code. Moreover, every student is obligated to report any suspected violation of that code. You can find more information on the MBA Honor Code at

[http://www.stern.nyu.edu/cons/groups/content/documents/webasset/con\\_032511.pdf](http://www.stern.nyu.edu/cons/groups/content/documents/webasset/con_032511.pdf)

***Students with Disabilities:*** If you are having trouble in class, I want to know about it as soon as possible. I will do my best to help students who, despite a sincere and solid effort, are experiencing difficulty. If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 998-4980) and provide me with a letter outlining recommended accommodations by the end of our first class meeting.

We will follow all other *default policies for Stern courses*.

## IMPORTANT DATES

- **Individual papers (2):** due by the dates below depending on your choice of module-specific readings, through Turn-it-In (on BlackBoard), before the beginning of class.
  - **M&A Typology and Evolution:** February 13<sup>th</sup>.
  - **M&A Transactions:** March 26<sup>th</sup>.
  - **M&A and Corporate Strategy:** April 16<sup>th</sup>.
  - **M&A Work:** May 7<sup>th</sup>.
- **Group paper:** due on March 21<sup>st</sup>, Wednesday after Spring Break, at 11.59pm, through Turn-it-In. The case is related to a case we will have seen in Session 4 (March 5<sup>th</sup>).
- **Choice of firm (and team members) for Final Project:** by email, Monday April 9<sup>th</sup> (because different groups cannot choose the same firm, early submissions are advantageous).
- **Meeting with instructor to talk about Group Project:** before Work-in-progress group presentation (see below).
- **Work-in-progress group presentation:** April 23<sup>rd</sup> and April 30<sup>th</sup>.
- **Last Class:** Monday, May 7<sup>th</sup>, 2012.
- **Group final project due:** Wednesday, May 9<sup>th</sup>, through Turn-it-In (BlackBoard).

## COURSE SCHEDULE

See next page and Blackboard for specific dates and times.

**SCHEDULE** (DETAILS FOR EACH SESSION PROVIDED IN SUBSEQUENT PAGES)

<b>Module</b>	<b>Session Number and Topics</b>
<b>I</b>	<p><b><u>M&amp;A Typology and Evolution</u></b></p> <p><i>0. Introduction to M&amp;As: Strategy, Structure, and Value Creation</i></p> <p><i>1. M&amp;A-Centered Firms: Private Equity Strategies</i></p> <p><i>2. Initial M&amp;A Activity: Entry and Growth</i></p>
<b>II</b>	<p><b><u>M&amp;A Transactions</u></b></p> <p><i>3. The Merger Deal</i></p> <p><i>4. The Acquisition Deal</i></p> <p><i>5. The M&amp;A Activity of Industrial Conglomerates</i></p> <p><i>6. M&amp;As in Information and Media Markets</i></p>
<b>III</b>	<p><b><u>M&amp;As and Corporate Strategy</u></b></p> <p><i>7. Growth in New Industries: Build vs. Buy</i></p> <p><i>8. M&amp;As, Corporate Structure, and Coordination</i></p> <p><i>9. The Locus of Value in Corporate Strategy</i></p>
<b>IV</b>	<p><b><u>Making M&amp;As work</u></b></p> <p><i>10. Turnarounds and Strategic Restructuring</i></p> <p><i>11. Post-Merger Integration: Learning to Compete</i></p> <p><i>12. Post-Merger Integration: Strategic Organization</i></p>

**\*\*\*This schedule is a guideline only. The instructor reserves the right to change the schedule.**

## COURSE OUTLINE

0. *Introduction to M&As: Strategy, Structure, and Value Creation (January 30)*

\*\*\*Only morning section has this Session #0 on January 30<sup>th</sup>.\*\*\*

\*\*\*Both morning and evening sections have their own session #1 on February 6<sup>th</sup>.\*\*\*

**Background:** Rumelt's "Good Strategy Bad Strategy" book: (Introduction)

**Case:** Beatrice: A Study in the Creation and Destruction of Value (*link on Blackboard*)

**Synopsis:** We will introduce a number of issues in mergers and acquisitions strategies using the history of the Beatrice company from its founding in 1891 as a small creamery through its growth into a diversified consumer and industrial products firm and its subsequent leveraged buyout and sell-off in 1990.

### Preparation questions:

- 1) What was Beatrice's core competence under Karnes? And under Rasmussen / Dutt?
- 2) How can the acquisition and the divestiture of the same operating unit lead both to value creation in the stock-price sense?
- 3) "Diversification + Decentralization = Great Strategy." Comment.
- 4) Do operating units undergoing an LBO conduct better competitive strategies than those without an LBO?

1. *M&A-Centered Firms: Private Equity Strategies (February 6)*

**Background:** Rumelt (Chapters 1 & 2)

**Case:** Berkshire Partners

**Synopsis:** One of the largest leveraged buyout partnerships in the early nineties has invested about \$1.5 billion in companies ranging from beer distribution and footwear stores to underground storage tanks and polyethylene pipe products. While BP has been greatly successful, many other firms with similar capabilities have joined the contest for good targets.

### Preparation questions:

- 1) How attractive is the leveraged buy-out market in the early 1990s?
- 2) What is BP's business model? Does BP add value to its target companies? What does it know about light bulbs, wheelbarrows, or bakery?
- 3) What is BP's strategy? Has it been successful?
- 4) What are the main problems of the firm as of 31 December 1992?
- 5) What changes in BP's strategy would you suggest?

## *2. Initial M&A Activity: Entry and Growth (February 13)*

**Background:** Rumelt (Chapters 12 & 16)

**Case:** Bharti Tele-Ventures

**Synopsis:** An entrepreneurial company emerging as a leader in India's fast-growing mobile telephony market and becoming the 12<sup>th</sup> most valuable firm in market capitalization has grown largely through acquisitions, spurred by international partners. Despite having a first-mover advantage, the firm faces the threat from major business groups (Tata and Reliance).

**Preparation questions:**

- 1) How attractive is the telecom industry in India before 1995? How does it differ from the period 1995-1999? And 1999-2003?
- 2) What is Bharti's strategy? Has it been successful?
- 3) How is market segmentation critical to deal with competitors and consumers in the Indian telecom market?
- 4) Was Bharti's M&A-driven growth adequate? What role did Warburg Pincus play in it?
- 5) How should Bharti respond to Reliance's entry?

## *3. The Merger Deal (February 27)*

**Background:** Rumelt (Chapters 3 & 13)

**Case:** Hewlett-Packard---Compaq: The Merger Decision

**Synopsis:** Carly Fiorina has convinced HP's Board of Directors and half of shareholders that merging with Compaq is the best path to follow to value creation; however, shareholder Walter Hewlett and many financial market participants disagree.

**Preparation questions:**

- 1) Assess Compaq's strategy to deal with price competition in 1997. What does it reveal?
- 2) Assess Carly Fiorina's strategy for HP upon arriving to the firm. How do acquisitions fit in?
- 3) How are Carly Fiorina and Walter Hewlett fundamentally opposed, or in agreement, in their strategies for HP's future?
- 4) Assess HP management's actions between September 2001 and March 2002. Is the championing and roadshow process efficient?

#### *4. The Acquisition Deal (March 5)*

**Background:** Rumelt (Chapters 4 & 5)

**Case:** Cadbury Schweppes: Capturing Confectionery (A)

**Synopsis:** The global beverage and confectionery firm is considering a bid for Adams, the number two player in the worldwide gum business; after researching the acquisition for many months, it is not clear whether the acquiring team would be able to create enough value to justify an all-debt deal, thus endangering its original positioning.

**Preparation questions:**

- 1) Assess Cadbury Schweppes's corporate strategy in 2001.
- 2) What is strategically significant about the failed sale of Hershey in 2002?
- 3) Is Adams a good fit for Cadbury Schweppes? Is Cadbury Schweppes a good fit for Adams?
- 4) Was the process leading to the bid efficient?
- 5) Given the details of the deal (e.g., price multiples, debt financing, credit ratings, term to break even), is it a good idea for Cadbury Schweppes to acquire Adams?

#### *5. The M&A activity of Industrial Conglomerates (March 19)*

**Background:** Rumelt (Chapter 11)

**Case:** Danaher Corporation

**Synopsis:** A Washington DC-based conglomerate with sales over \$12 billion and operations in Europe, Asia, Latin America, and the Middle East has consummated over 50 acquisitions, and between 1987 and 2007, the compound annual growth rate of its share price was 23%. Going forward, there are concerns about growth and how it will fit its corporate strategy.

**Preparation questions:**

- 1) What is Danaher's corporate strategy? Does it lead to a corporate advantage?
- 2) Growth is a problem. How and why should Danaher grow? Be specific.
- 3) Is DBS good or bad for organic growth?
- 4) Should Danaher change its organizational structure to spur growth?

## 6. M&As in Information and Media markets (March 26)

**Background:** Rumelt (Chapters 6 & 7)

**Case:** News Corporation

**Synopsis:** The media conglomerate with compounded annual growth return in its stock price of over 30% between 1977 and 2002 is considering to acquire DirecTV at the same time when other conglomerates are looking to retrench in the face of internal difficulties and externally unfavorable conditions.

**Preparation questions:**

- 1) What was Rupert Murdoch's merger and acquisition pattern through 1999? What does it reveal about News Corp.'s strategy?
- 2) What is the strategic logic of the DirecTV deal?
- 3) What are the common attributes among the ongoing individual businesses of News Corp.?
- 4) What are the main internal and external risks facing News Corp. after 2001? How is the firm prepared to address them?

## 7. Growth in New Industries: Build vs. Buy (April 2)

**Background:** Rumelt (Chapter 18)

**Case:** LinkedIn Corp., 2008

**Synopsis:** By mid 2008, LinkedIn has proven to be a highly successful early entrant into online professional networking, maintaining a very clear vision; however, the company faces major strategic dilemmas going forward.

**Preparation questions:**

- 1) What kind of network effects exist in online professional social networking? Is there likely to be a winner-take-all outcome in professional networking?
- 2) What is LinkedIn's strategy? Has it been successful?
- 3) Is it a good idea for LinkedIn to turn down acquisition targets to focus on organic growth?
- 4) Should LinkedIn broaden its scope to compete in the general social networking arena?

## 8. M&As, Corporate Structure, and Coordination (April 9)

**Background:** Rumelt (Chapters 9 & 10)

**Case:** PepsiCo's Restaurants

**Synopsis:** The well-known provider of soft drinks, snack foods and fast food restaurants is considering the acquisition of two small restaurant companies, as well as their fit in the broader corporate organization. This deal raises the issue of how well PepsiCo has been managing its three restaurant chains –Pizza Hut, KFC, and Taco Bell--- and what degree of coordination is needed in the restaurant business.

### **Preparation questions:**

- 1) Should PepsiCo acquire Carts of Colorado and California Pizza Kitchen?
- 2) If so, where should CoC and CPK be placed in PepsiCo's structure?
- 3) Does PepsiCo add value to its restaurant business?
- 4) Is PepsiCo's current organizational structure for the restaurant business appropriate?

## 9. The Locus of Value in Corporate Strategy (April 16)

**Background:** Rumelt (Chapter 14)

**Case:** Rewiring: Cross Business Unit collaboration in multibusiness organizations (*Blackboard link*)

**Synopsis:** Much of M&A activity is based on the premise that companies will achieve synergies through cross-SBU collaboration; however, little is known about how managers actually perform such collaborations and succeed or fail. An in-depth collection of cases from six publicly-held software companies illustrates how "rewiring" among SBUs works.

### **Preparation questions:**

- 1) What is the most compelling evidence in favor of the BU-centric approach?
- 2) Does Figure 1 represent a causal relationship between rewiring and performance? Under what conditions does it hold?
- 3) If cross-BU value enhancement is largely BU-centric, what role is left for corporate?
- 4) How can M&A design plan for rewiring strategies?

*10. Turnarounds and Strategic Restructuring (April 23)*

**Background:** Rumelt (Chapter 8)

**Case:** Newell Company – Corporate Strategy

**Synopsis:** A diversified manufacturer and marketer with \$3.2 billion in sales seeks to achieve more growth through two corporate acquisitions that would give it a more attractive brand name but may also jeopardize its strategic and financial position.

**Preparation questions:**

- 1) How does Newell's acquisition strategy through 1997 match its corporate strategy?
- 2) Has Newell's focus on the large mass retailer been good or bad? Why?
- 3) What is the role of organizational structure in Newell's success in acquisitions so far?
- 4) Based on Exhibits 2, 4, 11, and 13, are Calphalon and Rubbermaid a good fit for Newell?

*11. Post-Merger Integration: Learning to Compete (April 30)*

**Case:** Kraft General Foods—The Merger (A)

**Synopsis:** Philip Morris acquired Kraft in the second largest takeover in U.S. history; Kraft was then combined with Philip Morris' existing General Foods subsidiary, which had also come as an acquisition. While many of the easiest steps in the integration have been successfully taken, a more fundamental reorganization is pending.

**Preparation questions:**

- 1) What is the logic of merging Kraft and General Foods, two non-overlapping companies?
- 2) What are the phases in the integration process and how efficiently have they been conducted?
- 3) Should KGF consolidate its sales forces and distribution networks?
- 4) Assess Philip Morris' corporate strategy.

*12. Post-Merger Integration: Strategic Organization (May 7)*

**Case:** Vermeer Technologies (D): Making Transitions  
and Vermeer Technologies (E): New Beginning

**Synopsis:** The small high-tech startup that brought about FrontPage is acquired by Microsoft. Can the giant absorb the small, agile start-up successfully?

**Preparation questions:**

- 1) What did Microsoft hope to get from acquiring Vermeer? What role did M&As play in Microsoft's strategy?
- 2) Compare the organization and culture of Microsoft and Vermeer.
- 3) Evaluate Peters' post-acquisition integration strategy. Was full integration desirable?
- 4) What was the importance of PMs in the strategic management of innovation?