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Largest Corporate Mergers or Buyouts in History

A corporate merger is when two companies come together to form one new larger company, and a corporate buyout is when one company purchases another company and the latter becomes integrated into the first. Mergers/buyouts have significant economic and legal implications, because the companies that emerge from these business practices could be very large and thus hold great weight and power within their industries. The purpose of the present sample essay provided by Ultius is to consider some of the biggest corporate mergers or buyouts in history. After going through a few examples, the essay will also turn to potential merger/buyouts coming up in the near future, as well as the legal implications or the ongoing use of this business practice.

**AOL and Time Warner**

One of the biggest corporate mergers in history happened between America Online (AOL) and Time Warner in the year 2001: the deal was worth $165 billion. As Ola Sanni of *Market Mogul* has indicated: "This merger was driven by a vision that the combined business" (paragraph 1). The general idea was that Time Warner would be able to provide digital content to its customers through the AOL interface, while AOL would be able to use Time Warner's cable systems to reach its own customers in a new way. This is a good example of the general rationale that underlies most mergers and acquisitions (or buyouts): two companies see that they have complementary capabilities, and that they would be more successful in the market if they combined their resources instead of competing with each other. the AOL–Time Warner merger was a case in point of this logic at work in the relatively early days of the Internet, and the logic admittedly did seem quite good on paper. However, the deal has gained what could only be called infamy over the course of the years.

This is because although the deal was just about the largest corporate merger in history, it also ended in unmitigated failure. This was because in the AOL–Time Warner merger, almost no attention was given to organizational culture, and the cultures of the two companies turned out to be radically different. According to Cortina, "Underestimating the importance of the cultural element is one of the key issues that may help explain the failure of many mergers and acquisitions" (paragraph 1). This proved to be very true of the AOL–Time Warner merger. Essentially, although the two companies integrated at the formal and legal level, at the level of actual practice, they remained two separate companies, with two different organizational cultures and the employees from each company not really trusting and often even resenting the employees of the other (Sanni, paragraph 2). In addition, the strategic vision underlying the merger was not executed in a coherent manner. The two companies re-separated in 2009, although not before both were financially devastated.

**Vodafone and Mannesmann**

Another huge corporate merger involved Vodafone's buyout of Mannesmann for a price of $183 billion. Vodafone is a British telecommunication company, and Mannesmann was a German telecommunication company. This happened in the year 2000, and Saigol has written for the *Financial Times,* this buyout "still marks the biggest hostile, cross-border takeover bid in history" (paragraph 3). A hostile takeover is when the acquiring company buys out the target company by not making a deal with the management of the target company but rather by appealing directly to the shareholders of the target company, even forcing out the management of the target company if this turns out to be required. This was the card played by Vodafone, and it successfully acquired Mannesmann. However, this was only the beginning of the story of this problematic buyout.

However, the buyout turned out to be not profitable for Vodophone in the end, as the company was at a loss of over $20 billion after the deal had settled. This was because Vodophone had actually paid more for the stock of Mannesmann than it was actually worth, and the whole deal was carried out under conditions of inflation. This is related to what was known at the time as the dotcom bubble, and it was part of why the AOL–Time Warner merger was not successful either. As *Investopedia* has indicated: "The dotcom bubble occurred in the late 1990s and was characterized by a rapid rise in equity markets fueled by investments in Internet-based companies. During the dotcom bubble, the value of equity markets grew exponentially, with the technology-dominated NASDAQ index rising from under 1,000 to more than 5,000 between 1995 and 2000" (paragraph 1). A lot of this growth was not sustainable but was rather based on speculation, and when the bubble burst and values went back to normal, a lot of companies, including Vodophone, lost a lot of money as a result.

**Exxon and Mobil**

The merger of Exxon and Mobil in 1998 was the biggest merger at the time, and it was valued at $81 billion. In order for this merger to happen, approval from the Federal Trade Commission (FTC) was required, and both Exxon and Mobil had to also sell several of their gas stations before the merger was approved. This was because Exxon and Mobil were in direct competition with each other before the merger. As FTC Chairman Pitofsky (qtd. *CNN Money*) said at the time: "Because Exxon and Mobil are such large and powerful competitors and because they now compete in several product and geographic markets in the United State, the commission insisted on extensive restructuring before accepting a proposed settlement" (paragraph 4). The issue was that if Exxon and Mobil and merged without the restructuring, then they would have been almost in a monopoly situation in many areas of service, because before the merger, they were the two main rivals for gas stations in many areas across the United States, and federal laws are in place to prevent monopolies from forming.

This merger shows how there is meaningful concern about whether the results of a merger would produce a fair business situation. If two leaders within an industry merge with each other, then not only would this minimize competition within the free market, the merged company may also become so powerful that it can control the entire market and potentially lock out new competitors. This is especially a problem when the merger occurs between two companies in the same industry. For example, if Exxon had decided to merge with (say) a telecommunication company, then this would not have been problematic, because there would still be rivals in both the gas industry and the telecom industry. But given that Exxon and Mobil were both gas companies, the merger raised some red flags with the FTC, although the merger was in fact eventually approved.

**Disney and ABC**

Disney's buyout of ABC occurred in 1995, and it was worth $19 billion. This may seem relatively small relatively to the huge numbers for the telecom mergers that have been discussed above, but it was in fact the second-largest merger at the time, so it is worth discussing here. As Fabrikant wrote in *The New York Times* ahead of the deal: "The combined company would bring together the most profitable television network and its ESPN cable service with Disney's Hollywood film and television studios, the Disney Channel, and its repository of well-known cartoon characters and the merchandise they generate" (paragraph 2). This was another example of a merger that occurred between two leading companies within a single industry, and raised some concerns from other parties who would be affected by the deal. Even then-President Clinton expressed concern about how media ownership was growing more concentrated in the modern age.

Disney's major gain from this acquisition was that it was as a result able to broadcast its shows on ABC in addition to its own channels. Young people may remember, for example, watching shows such as *House of Mouse* on Sunday mornings on ABC: this was made possible by Disney's buyout of ABC. Much of the effect, though, was behind the scenes. For example, the programming of ESPN was not disrupted, and most people today probably are not aware of the fact that Disney owns ESPN. The deal was very effective for Disney, and it was a form of vertical integration, insofar as Disney is primarily a content producer and had now acquired a premier network through which it would be able to broadcast its content. Vertical integration, while seemingly providing an unfair advantage to the company, is not the same thing as a monopoly, since the holdings of the company span different industries (in this case, content creation and content distribution).

**Amazon and Whole Foods**

Amazon's acquisition of Whole Foods was not huge in the grand scheme of things, but it was in fact huge for the grocery industry, so it may be deserving of some attention here. Amazon acquired Whole Foods for $13.7 billion last year (*Business Insider*). Again, while not huge in terms of the mergers between telecom companies discussed above, this was in fact huge for the industry under consideration, and it sent shockwaves throughout the industry. The merger means not only that Amazon immediately owns all Whole Foods stores, it also means that Amazon can integrate its own grocery services with the Whole Foods acquisition in ways that are still not quite foreseen. Many other grocery stores are now nervous about Amazon's capacity to disrupt the grocery industry in the same way that it already disrupted the bookselling industry.

This is also a good example of how cross-industry acquisitions do not generally raise red flags with the FTC. Amazon was already a huge company, but the Whole Foods merger constitutes the company's first major foray into the grocery industry, where there are still many competitors in play. It is true that Amazon may have a competitive advantage as a result of the magnitude of its company as well as the several other industries in which the company is involved, but this is generally considered to be fair play and not monopoly. It would only be a monopoly if Amazon also bought out several other grocery companies and thus held a position within the grocery industry that shut out potential newcomers from the industry. That would not be allowed under federal law, but cross-industry acquisitions like Amazon's acquisition of Whole Foods generally are allowed.

**Potential Mergers/Buyouts in the Near Future**

**Disney and 21st Century Fox**

One potential merger that is in the works right now is Disney's acquisition of 21st Century Fox movie and television studios. Thus far, these studios have been competitors. For example, Disney is responsible for the Marvel Cinematic Universe and the *Avengers* movies that have been set within that universe, whereas 21st Century Fox has been responsible for the X-Men and Wolverine movies. From the perspective of moviegoers, then, the most interesting thing about the proposed merger is that if it happen, then one could perhaps except to see Wolverine appear in an Avengers movie, because then all the intellectual property would be held by Disney. This is also a good example, however, of how mergers could get out of control and concentrate media and intellectual property ownership in very few hands in a way that may not necessarily be healthful for the industry as a whole.

**Time Warner and AT&T**

A potential upcoming merger is between Time Warner and AT&T, which would be worth $85 billion. However, President Trump's Department of Justice has sued to block the merger, on the grounds that the new merged company would be detrimental to American television viewers. This is because Time Warner owns a great deal of creative content, while AT&T owns the distribution platform DirecTV. So, if the companies were merged, then DirecTV could have exclusive, monopolized access to all the content owned by Time Warner, which would produce a monopoly situation where the merged company could charge exorbitant rates for access to Time Warner content (Overly and Gerstein). There have been some rumors, though, that the block of the merger has been at least partly motivated by Trump's ongoing animus against CNN, since Time Warner is in fact the parent company of CNN. That said, a rational case could in fact be made for the block irrespective of whatever political drama is going on behind the scenes.

**Legal Implications of Mergers/Buyouts**

When it comes to corporate mergers/buyouts, the main legal hurdle that must be cleared consists of antitrust laws, which are monitored by the FTC. The main idea is that if a merger would produce a monopoly, then it is illegal under federal law and can thus not be authorized. A monopoly is when a single company controls a huge share of the market for a given industry, such that the market is no longer free and it is not feasible for any new entrants or potential rivals to compete for market share in a meaningful way. This becomes an issue when two major companies within the same industry decide to merge within each other, because prior to the merger, those two companies would have in all likelihood been in strong competition with each other. This can be seen very clearly in the Exxon–Mobil merger, which is why before the merger could take place, both of the participant companies were required to sell off substantial numbers of their gas stations (*CNN Money*).

Two concepts to keep in mind here are *vertical* integration versus *horizontal* integration. Vertical integration refers to a single company acquiring other companies in other areas of the supply chain or in other industries order to boost overall performance. Amazon's acquisition of Whole Foods, for example, would be a kind of vertical integration, in that Amazon now not only has a grocery service but also actual grocery stores. In contrast, horizontal integration is when a single company consolidates and expands its control over one single level of the supply chain or one single industry. The merger of Exxon and Mobil is a great example of horizontal integration, because the merged company came into control of more of the gas industry than either company had by itself.

In general, vertical integrations have been considered legally unproblematic, whereas horizontal integration draws the attention of the FTC because it forms the basis for trusts and monopolies. For example, if Exxon and Mobil had not been required to sell off their holdings before the merger, then there may have been several areas within America that was only serviced by the single ExxonMobil company, and this would have created a monopoly situation. In the modern economy, though, vertical integration may also be coming under fire. For example, the merger of Time Warner and AT&T may not be horizontal integration per se insofar as one is conceptualized as a content provider and the other as a service provider; but all the same, the potential for collusion and market domination clearly exists, and this is a cause for concern for the FTC. Likewise, one can have some reservations about how enormous Amazon is becoming while nevertheless acknowledging that Amazon does not have monopoly control of any one industry in which the company is active.

**Conclusion**

In summary, the present sample essay has discussed some of the biggest corporate mergers/buyouts in history. The objectively biggest of the mergers have been in the telecom industry. The essay, though, has also considered mergers that were the biggest at the time that they happened, as well as mergers that have been huge within their own industries if not across all industries. From this discussion, it should be clear that mergers/buyouts are a major business strategy that is used by companies in order to further their interests. When pursuing this strategy, however, it is important for companies to ensure two things. Firstly, it is necessary to hang a coherent vision of how organizational cultural integration will proceed after the merger, so that the company will not just be formally merged with two separate companies still existing inside of it in practice. Secondly, it is also necessary to ensure that the proposed merger is congruent with federal antitrust laws.

In general, the FTC looks closely at mergers that occur within the same industry between major players in that industry, because there is a strong likelihood that such a merger would produce monopoly conditions unless the participant companies are significantly restructured prior to the merger. Mergers across industries are generally scrutinized less, but in this day and age, perhaps a case could be made for more closely monitoring such mergers as well.

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