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Strategy in Business Planning for Acquisitions and Alliances

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Abstract: This study investigates how companies view acquisitions and alliances in the context of both their internal and external factors when developing strategies for their own business development choices. By referring to a large volume of relevant literature and incorporating case studies of AT&T and Time Warner and Enterprise and Pioneer, this paper identifies the role of acquisitions and alliances in business development. It is widely known that while both acquisitions and alliances can be used to avoid barriers to entry into a new industry to the greatest extent potential for a company, mismanagement is still likely to cause conflicts affecting both the company and the acquired party. Thus, the results have shown that the company would be more successful with making an alliance with the other party at the right time and proceeding to the acquisition stage after obtaining to know each other slowly than if the company directly made the acquisition plans.

Keywords: acquisition, alliance, business strategy

1. Introduction

With the development of population and economy, business competition becomes more and more intense, and more and more new companies appear in the public eye. In this environment, many companies have chosen to respond to the fierce competition with different strategies, and two such strategies are corporate alliances and corporate mergers and acquisitions. So what are the different effects of M&A and alliances on companies? M&A can help companies expand into new industries by saving them a lot of time, lowering barriers to entry into new areas and risking the growth of the company, and facilitating cross-border growth. M&A also provides the opportunity to acquire undervalued companies. The main types of M&A are overall M&A, investment holding M&A, equity transfer with consideration, equity transfer without consideration, asset swap M&A and secondary market M&A. Although M&A may seem to be a one-off, there are also significant risks such as financial risk, asset risk, liability risk, financing risk, legal risk, etc. If a company is purchased for a large sum of money and the actual value of the company is not in line with the previous asset valuation, it will affect the subsequent operation of the company, and if a good company has strong com-

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petition, the acquisition cost will become high if other companies want to acquire the company. Strategic alliances were first proposed by JHopland, president of DEC, and Roger N. Nagel, a management scientist. Strategic alliances are characterized by blurred boundaries, loose relationships, flexibility and operational efficiency. It allows the company to expand its market share, acquire new technologies, reduce business risks, learn from each other's work experience and strengthen the company itself while the alliance between the two companies. However, strategic alliances can also be very risky, as the alliance of two companies can also be strengthening future competitors and make them lose their core competitive advantage. There is also a risk that the company will be acquired or merged by the other party, and a long period of cooperation may make the company dependent on each other for cooperation. At the same time, it is also very important to choose a suitable alliance partner, if the cooperation partner is not suitable, there may be an inability to synergize between allies or even generate management differences leading to the failure of the alliance. Thus, it can be seen that to decide what kind of strategy a company actually uses must be practically combined with the actual situation of the company and develop a specific strategy that fits your company.

2. Why do Firms Pursue Alliances and Acquisitions as Part of Their Corporate Strategies?

Business growth strategy as an overall strategy has three ways, namely external development, internal development and strategic alliances. First, M&A is a way for companies to enter new markets from external markets, avoiding industrial barriers and penetrating markets quickly. At the same time Mergers and acquisitions find opportunities for the market, avoiding the dangers that most other companies have encountered before. According to Porter's Five Forces theory, a company will encounter many barriers to entering an industry, while an M&A will greatly reduce any barriers that may arise during the M&A and can merge other companies with its own. process by allowing other companies to be merged with their own. The company can expand the scope and breadth of its knowledge based on strong property rights or use the acquired knowledge effectively under certain conditions to increase its financial capacity [1]. In addition, the merged two companies can utilize the superior resources of both parties to achieve the effect of 1+1>2.

An alliance is a stable cooperative relationship between two or more companies in order to reach a common strategic goal by helping each other to profit from each other through the company. From the point of view of the relationship between business organizations and enterprises, the establishment of strategic alliances by companies is a kind of "intermediate organization" between enterprises and the market, allowing the companies in the alliance to achieve an equal relationship of resource sharing and mutual advantage. In the rapidly changing business environment of today's society, companies need to continuously innovate and maintain their stable development, therefore, strategic alliances assist companies in achieving innovative technologies, avoiding business risks and reducing coordination costs.

In practice, the success rate of corporate mergers and acquisitions is not as high as expected, and many companies are unable to achieve their expectations because of their own lack of strength. A merger between companies is not necessarily a positive thing. It concerns many aspects of a company's strategy, organization, systems, and culture. Although acquisitions can be the best institutional means for companies to expand and develop the resources they have, there are still some elements that companies need to be aware of in order to acquire other companies, such as unfamiliarity with the surroundings and the acquired party, and lack of reciprocity between the target and the acquired company [1]. In order to avoid the various dangers that arise during the M&A process, then an alliance is the best option in an acquisition plan. While strategic alliances have the advantages of M&A, it has a looser relationship between strategic alliance companies compared to M&A, which can lead to relationship risks between partners if controls are not in place. Strategic control through legal and

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ethical constraints is imperative, and judicious selection of partners and the establishment of reasonable cooperative relationships are key to achieving the common goals of alliance partners.

3. How do the Resources and Capacities Inner a Firm Affect the Strategy that will be Employed by the Foundations?

For capital raising, both alliances and acquisitions are frequently employed tactics. An alliance consists of businesses that work together to accomplish common goals while staying legally independent. Unlike an acquisition, a takeover entails gaining power over another firm through the acquisition of shares or assets. As a result, even though both techniques enable the core company to expand on the outside, the effects on the participating enterprises are quite diverse. Many authors have tried to develop frameworks for deciding between the two based on various contextual criteria.

Resources and capabilities inside a company are the main drivers of revenue for every business and the competitive advantage sources [2]. A company's resources and capabilities enable it to grow its business and compete by providing clients with the goods and services they need. These two factors always offer the framework for developing solid capabilities that may ultimately lead to greater efficiency. The paper is going to analyze these two major factors from three aspects.

Firstly, business capacities are unquestionably one of the key factors that should be considered before any acquisitions or alliances actions. Both alliances and acquisitions are intricate organizational growth plans that require the execution of knowledgeable individuals. In order to boost the likelihood of accomplishment, it may be preferable to implement either one of the two tactics based on the company's present senior management and its background. Conversely, if there is minimal internal expertise in mergers or acquisitions, it is conceivable to enlist the help of an outside party, such as a financial institution or consultancy to provide upper executives with assistance. Moreover, In ISA situations, management capability is helpful for creating and preserving resource complementarity [3]. Managerially competent companies understand that substantial resource complementarities and synergies must exist at the commencement of the alliance endeavor in order to generate value in continuous interactions with their ISA partners.

Secondly, a corporation needs inner resources like monetary resources and management competencies to function effectively in order to expand externally [4]. Particularly alliances are frequently viewed as quick and reasonably priced strategies to expand outside. Acquisitions, however, involve additional capital because the firm must charge a premium price for the objective. Hence, a company's resource foundation plays a critical role in evaluating whether an acquisition can even be realized.

Consequently, companies with a rich foundation of resources are more likely to buy rival businesses. For instance, in January 2022, Microsoft revealed plans to pay $68.7 billion in cash to acquire Activision Blizzard, the publisher of popular video games like "Call of Duty," "World of Warcraft," and "Candy Crush." From this acquisition, Microsoft recognizes the resource and value Activision can offer when two firms merge, which Microsoft can boost its Xbox gaming sales.

Lastly, Environment-Related Features (Company culture, ambiance) also play a crucial role when it comes to possible mergers or acquisitions for firms. This indicates the idea that your working environment leaves an enduring and definite impression on past, current, and future staff by briefly indwelling. It is the emotional surroundings of the workplace, it is determined and defined by operative relationships among managers, employees, and customers, working together. Overall, it forges the infrastructure of an organization. According to many research, a lack of cultural integration is the main cause of merger and acquisition failure. If no steps are taken to meld the two cultures, even organizations with strong corporate characteristics may become chaotic after a merger.

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4. Are there any Extrinsic Elements that will Contribute Impact of the Measures the Firms Take?

Aside from the inner elements, there are also components outside the firms that can be influential in their decisions. The impact of external environment elements on business functions, workforce, and income can be both active and passive. An agreement will be terminated or strengthened depending on how frequently and uncontrollably the external environment of the business changes.

To begin with, governments always want to get involved in an acquisition or merger if they suspect the deal might be detrimental to consumers and the governments want to take control of these firms and prevent them from growing into gigantic and uncontrollable organizations. Nonetheless, Previously, when discussing the M&A (Merger and Acquisition) process and related hurdles, it was indicated that governmental clearance is one of the stages that must be taken in the pre-M&A stage and a struggle to confront the entire deal [5]. These approvals are critical in M&A transactions because if they are not received, the entire transaction would be halted.

And then, there are findings on the geographic distance that will affect M&A [6]. Alliance formation is less affected by geographic distance when companies are already connected, compete in the same market, or share similar technological expertise. For example, if two businesses are neighboring one another, there is a good probability that they are familiar with one another's facilities, human resources, and level of profitability.

5. Success of Alliances and Acquisitions

Enterprise, a car rental company, has grown its business and significantly increased its market share by acquiring competitors. At the same time, the company has significantly reduced possible market competition risks through alliances and acquisitions.

Before the acquisition, Enterprise was mainly engaged in the car rental business at the airport and had a leading market share in this market. Its main competitor comes from Vanguard, which has two sub-brands, National and Alamo. In addition, Dollar Thriffy is also a serious competitor in related businesses. These brands target at different levels of traveler segments and adopt different pricing strategies.

In 2007, Enterprise's biggest competitor, Vanguard, negotiated a merger with Dollar Thriffy. This was a threat to Enterprise at the time, so Enterprise decided to acquire Vanguard in order to continue to gain room for future market growth. The acquisition is a $3 billion all-cash transaction.

The acquisition decision was made urgently based on market changes. Although Enterprise does not have a strong desire to expand, it faces the threat of strong integration by competitors. Only by actively participating in the integration can it solve this competitive problem. Although this means a huge cash outlay and transaction risk for the acquirer, the acquisition has been proven to bring long-term benefits to the subsequent development and market expansion of Enterprise and Vanguard [7]. After the transaction is completed, Enterprise gained a larger market share and achieved a leading position over rival Hertz [8].

Vanguard is also obviously a very solid choice when it comes to choosing a partner. Although both operate in the same market, at the time of the acquisition, the two companies differed in a number of ways. The first is the field of market segments. Both Enterprise and Vanguard's Alamo emphasize price and offer regular promotions. National focuses on the high-end and business markets. Secondly, in terms of corporate culture, Enterprise emphasizes customer service and internal incentives, and operates mainly through direct sales. Vanguard has both direct sales and franchise stores, emphasizing operational efficiency and localized operations. Both businesses are family businesses, but clearly from different families [9]. Overall, the businesses of the two are complementary.

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In order to achieve a smooth transition after the acquisition and respect the interests of the acquired party, after this combination, Enterprise spent a long time integrating the two companies. Enterprise's management strives to create a unified and harmonious corporate culture, emphasizing the consistency of interests between the two. Enterprise learns its advanced management experience from Vanguard, and also imparts customer service experience to Vanguard. The brands of the two arrange the stores in the airport as close as possible, so as to leave more impressions on consumers. At the same time, the two removed the unique marks of the operating vehicles to be able to share the operating vehicles. This helped both brands save on operating costs. In terms of organizational structure, through argumentation, the two decided to adopt a regionalized decentralized headquarters and operate their business through regional subsidiaries. Some Vanguard executives have thus become involved in regional operations.

In conclusion, the success of this acquisition is inseparable from the complementary business of the two companies, the design of management solutions and the common needs of market expansion. We have also seen the benefits brought by the acquisition to the growth of these brands.

6. Failure of Alliances and Acquisitions

AT&T's acquisition of Time Warner was one of the largest M&A deals ever. AT&T is a giant in the telecommunications industry in the United States, mainly engaged in telecommunications infrastructure and traditional networking solutions, and has a monopoly position in the industry. Warner Bros., which owns companies such as Warner Bros., HBO, and CNN, is a media content production company that also has a leading position in the industry. This acquisition has been started in 2015, costing a total of more than 100 billion US dollars, and brought huge new debt to AT&T. However, after the completion of the acquisition, in 2021, AT&T finally decided to spin off the acquired Time Warner assets, which will be taken over by the Discovery Channel. This is equivalent to AT&T finally choosing to stop the loss, abandoning the combination formed by the previous acquisition and continuing to focus on the traditional telecommunications field. This also means that AT&T's previous attempt to enter the media industry through a joint venture with Warner failed.

From this case, there are many lessons of failure that can be summarized. The two parties involved in this acquisition are not from the same industry, but a combination of the traditional telecom operation field and the content production and media field [10]. Both companies had the opportunity to integrate distribution and production. However, in fact, the two did not achieve this goal after the acquisition.

At the time of the deal, AT&T and Time Warner both faced stiff competition from their respective industries. Platforms such as Warner's competitors Netflix and Disney are threatening this market. After the acquisition, Warner's competitiveness further declined, and in the face of competition in the streaming media industry, its market share continued to lose. AT&T. on the other hand, facing the upgrade of telecommunication technology requires a lot of investment in new infrastructure and technology research and development. In the years since the Warner acquisition, AT&T has lagged other telecom rivals in 5G. In the end, when the Warner assets were abandoned, AT&T's new asset valuation has fallen far behind competitors including Verizon and Comcast, as well as T-Mobile.

In addition, the deal itself faced antitrust scrutiny that lasted years, and the company paid huge compliance costs for it. The huge cash consideration and the debt formed for the financing of the acquisition also dragged down the further development of AT&T.

Compared with the experience of successful acquisitions, this failed acquisition was obviously affected by many factors. First of all, in terms of the choice of partners, if the kind of cross-industry alliance is not fully prepared, it is still difficult to achieve vertical integration when the upstream and downstream businesses are not closely integrated. In the face of fierce market competition and obvious market style transformation, such as the popularization of 5G technology and the rise of streaming media platforms, traditional industries should adjust their corporate strategies in a timely manner and concentrate resources on core businesses and assets.

7. Conclusion

This study provides assistance to practitioners and firms on how to choose between the two strategies. While both strategic alliances and M&A are important strategies for achieving growth in a company's economic power, the choice of these two options also needs to be realistic in relation to the company's own situation. This is because they require enormous resources, high risk and great uncertainty. Whichever strategy is chosen will have a significant impact on the company, and making the right choice and managing that choice successfully is critical. The study has some important limitations. One is limited by the size of the sample, as the examples, authors have consulted are well-known cases on the Internet. So if other practitioners or companies want to choose a strategy, they need to search for cases that fit their situation and make the best choice in relation to their own situation and market conditions.

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