



The Effect of Merger and Acquisition on Development of a Firm A Case of Migros and Tansaş Merger In Turkey

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ABSTRACT:

Over the last decades, mergers and acquisitions has played a crucial role in assisting industries to achieve their goals as well as increasing their financial performance, through the provision of platform to gain access other market outside their main locations, diversify their investment or gain management expertise.

The thesis establishes three main kinds of motives managers makes before taking decision on Merger and Acquisition. One of the motives in this dissertation is that deals with the instability of investors' worth or has unclear encroachment on investors' worth. The expansion intention has unverifiable impact on the investors' worth. This dissertation also examines the outcomes of participating in merger and acquisition (M&A) and these are explored more, using the approaches in the literature review. One of such outcome is that M&A multiplies shareholders worth for the targeted firm, and on the other hand reduces the shareholders worth for the purchasing firm or the newly joined firm. This study also comprises of quantitative research methodology; it is a gauge paper to ascertain the difference in the financial records of both the targeted firm and purchasing firm.

The hypothesis seeks to establish if company's profitability or performance improves as a result of engagement in mergers and acquisition. To establish this assumption the researcher tries to analyze some company's performance after their mergers and acquisition exercise by comparing their financial result before and after M&A exercise.

For the more clear understanding of this study, the effects on the M&A performance of the acquiring company will be compared with company before they engage in M&A. Nevertheless, a Turkish cases was chosen in this study and analyzed for a more clear understanding; the M&A activity between a supermarket called Migros Turk A.S. supermarket and Tansaş A.S supermarket. The findings entails that the companies are on a health performance before the merger and acquisition activity but experience a slight loss is wards before rising.

Keywords: Mergers, Acquisition, Retail market, Profitability, Performance, Investment, Investors

1. INTRODUCTION

In the organizational world today, merger and acquisition as a topic are of a great debate. Some argued that mergers increases efficiency and growth while on the other hand, opponents argued that it decreases consumer welfare by placing the market in a monopolistic state. This paper focuses on the efficiency and growth aspect of merger and acquisition to determine if merger and acquisition affects the increase in efficiency and growth of a firm. There are different types of organization and management, those that wish to work in segregation and face all difficulties and intended solving them single handedly and those that wish the assistance of others rather than falling in their cooperate objectives in most cases. It is the wish of every firm and its management to plan, execute and control business activities alone, share the profit and bear the loses, when faced with business factors they could not control such firms may still wish to attempt solving them single handedly irrespective of

the future consequences on the form and its management staff and economy as a whole.

In existence today, the world economies are groups of business organizations and managers who are aware that one firm cannot work in complete insulation on the competitive forces prevailing on the business organization; the alternative solution would be going into some optional survival and growth strategies.

Mergers and acquisitions (M & A) is a type of company's enlargement and development. As well known, merger and acquisition might not be the only factor affecting the development of a firm positively but it's an alternative and a great strategy to development by inward or even capital ventures. Deregulation in globalization has reduced trade hindrances and has introduced a competitive atmosphere all over the world, which now makes companies to compete not only with local companies now but with foreign companies



as well. Only the best companies will be able to survive in the long term. This situation will be definitely be of great advantage to companies, who successfully seize the opportunities of advancing by achieving market opportunities in foreign countries and achieving economies of scale and scope. To merge or acquire with another company is one of the ways of surviving and entering new market and by this gains full control of that company and its resource. Setting up a joint venture (JV) with a partner company and sharing the risks and control is another option.

Lots of studies have researched the implications of the former strategy; however the majority concerns North American data. The latter strategy has not received much attention in contemporary research. In the state of financial crisis, many companies' turns towards joint ventures because of the low risk and low capital compared to merger and acquisition (Yuk 2012).

The major motive of this study is to identify the reasons and consequences of engaging in M and A i.e. to review the motives resulting to these practice; and

There are some factors that affect the resolution of the administrator in engaging in M&A; and these factors are the synergy, agency problem, free cash flow, increasing market power, etc. Whereas, the basis reflects on; increase or decrease on the shareholders' worth or having undetermined effect on shareholder's worth to ascertain the effects these rationale has on companies.

In order to understand this point, an investigation was made on two cases that took place in different province at the early 21st century, for a clear outcome of firm's performance financial.

H₁: merger and acquisition have a positive effect on the profitability of a company.

H₀: merger and acquisition does not have a positive effect on the profitability of a company.

With expanding rivalry on today's worldwide markets, numerous organizations decide to consolidation with each other to have the capacity to make due in the worldwide business. Merger & obtaining happens on all business and in different sorts of commercial ventures. Verifiably we can see that in merger movement paying little mind to the business, one of the focuses of the stockholders is to be able to withstand the global markets and its threats. However, some other industries choose to merger to be able to compete internationally. In such industries, the shareholders

target abnormal returns, but this dissertation focused more on the question 'does merger and acquisition affect the performance of company?'

The methodology used in this study is quantitative approach- financial analysis. The pertinent statistics is been obtained from firms' financial yearly reports, journals, official websites and also publications. In specific tune, financial analysis is normally used to ascertain the reform or modification on a company's fiscal accomplishment before and after M&A activity and as well as to understand the effect (positive or negative) of M&A on the outcome of the company's result. In this area, the computing of the key ratios and any other factors that affects the firms' financial reports will be made, and also explore and compare between firms that participate in M&A and those that did not in the same field during a specific time. This is one of the many truthful ways to survey the outcome of merger and acquisition has on a firm because the financial report will be analyzed years before the merger and years after merger. The long-term analysis was chose in the dissertation in order to get the true fact after the company most have stabilized on the strategy.

2. THE EFFECTS OF MERGERS AND ACQUISITION ON FIRMS DEVELOPMENT

Measuring Market Power

One of the external legitimate variables which are in the focal point of this paper is the business structure and its impact on the M&A accomplishment. Over the whole deal, higher or lower viability as a turn up of an association's force is not solely the change's result and execution of indispensable activities, yet it in like manner depends on upon the business system, i.e., the confrontational hole in which associations fight. The business system is depicted by different associations in the business at a sure reason for time and also by size of these associations, and the business obsession extent is used as a measure of industry structure (Lipczynski and Wilson, 2009).

Organizational framework may run from a profoundly fragment to a solidly solidified industry. The divided business is not a type of inadequately focused industry with an expansive number of little or medium-sized ventures, none of which is in a predominant position, nor does it have the ability to shape the business occasions. Solidified industry is a manifestation of concentrated industry commanded by one organization or a little number of vast



organizations. The guideline contrivance of this kind of industry structure is the emphasized dependence of associations, which is reflected by the way that the exercises of one association impact the adequacy of others, and their bits of the pie. The more engaged the business, as demonstrated by some examination, the more likely it is for the associations in the business to see their affiliation and not to enable strong rivalry that can reduce everyone's additions.

To sum up, the study was that the profitability of associations in concentrated organizations is less enduring diverged from the advantage of associations in partitioned business endeavors (Keating, 1991:897). Ask about by Kandžija, Filipović and Kandžija coordinated on the sample of 43 associations that were accepted control in Republic of Croatia in period from 1998 to 2006 attested the proposed theory which communicates that chop down the inside degree of the focus on affiliation's industry; the more gainful is the focus on affiliation's execution after the takeover.

3. Measuring Effectiveness by Financial Performance

Finance studies analyze the progressions in fiscal accomplishment of the both companies joined as one. Financial ratio analysis focuses more on the activities on the company's progressions like the net revenue, net salary, return on values and assets, development costs e.t.c (Wang 2007). Besides, both companies focused around developing its business and as well with a mindset at the end goal to delineate whether the securing organization outflanks its rivals that did not engage in M&A (Bruner; 2002).

An accounting study, which is focused around the assessment of operation execution changes, gives an extra understanding into impact of M&A particularly at the circumstances when offer cost information is not accessible for analyst. Moreover, it specifically gives the effect of M&A on the securing and the procured firm or the joined association's expenses, incomes, gain, money stream and so on along these lines, a bookkeeping study has turned into a huge monetary execution of M&A.

To begin with, the outline of each organizational monetary highlights, accounting report, benefit and misfortune account in organizations' yearly reports. From the budgetary highlights and asset report, the key figures, for example, current holdings, inventories, current liabilities, complete stakes and value will be chosen. The critical figures, for example, net profit, working profit, turnover/income, and

expense of offers etc. might be gotten from profit and loss account. The reason of picking these key figures is that this bookkeeping information is essential for ascertaining monetary degrees which incorporate profitability ratios, liquidity ratios, activity ratio and key development rates. Distinctive monetary proportions are utilized to assets different parts of the organization's budgetary execution and have differing implications.

Table 1: Formulas of key financial ratios

Key Rates	Growth	Turnover
		Change in Turnover
		Net Profit
Profitability Ratios		Net Profit Margin= net profit after tax / sales
		Gross profit Margin= gross profit / sales
		Return on Assets = net profit before interest / total assets
		Return on Equity= net profit after tax / equity
Liquidity Ratios		Current Ratios= current assets – current liability
		Quick Ratio= current assts –inventories / current liability
Activity Ratios		Total assets turnover= sales / total assets
		Inventory turnover= cost of sales / inventories

Source: "Global financial accounting and reporting" Walton & Aerts (2006:237)



Turkey's to a great extent free-market economy is determined by the January 24th 1980 decisions. In the period 1980-2001, Turkey followed liberalization policies very strictly. Most of the industries adopted themselves to the free economic system perfectly. Feb. 19, 2001, is engraved on the awareness of the populace of Turkey as the beginning date of the best monetary dejection in the republic's history. The date has passed into history as "Dark Wednesday." The 2001 monetary emergency implied decimation to numerous however came as a help to some. Feb. 21, 2011, denoted the tenth celebration of the 2001 monetary emergency that handicapped the Turkish economy. Each Turkish resident can think back about destroyed banks, unemployed artisans, shops going bankrupt and Turkey's having bowed down to the International Monetary Fund (IMF).

A forceful privatization program has decreased state association in essential industry, keeping money, transport, and correspondence, and a rising unit of white collar class business visionaries is adding dynamism to the economy and growing creation past the customary materials and attire areas. After Turkey encountered extreme money related emergency in 2001, Ankara embraced monetary and

Table 3: Top five grocery retailers in Turkey 2010

Company	Country of origin	Number of outlets		Total sales Area	Average sales Area	Grocery retail banner sales (EUR)
BIM	Turkey (investors from USA and Saudi Arabia)	2,951	1,215,812		412	3,013,659,522
Migros T.A.S	Turkey (owned by British investment fond)	1,902	939,845		494	2,729,859,601
CarrefourSA (incl. DiaSA)	France and Turkey (joint venture)	1,138	579,360		509	1,276,416,890
Metro group	Germany	31	275,200		8,877	944,156,429
Tesco	UK	121	286,332		2,366	588,200,600

Source: Planet retail, 2011, 25

The above table shows the positions of the Turkish retail industries in the year 2010. It is shown that the turkey originated retail industry was the 1st on the list as the leader

financial changes as a major aspect of an IMF program. The changes reinforced the nation's financial basics and introduced a time of solid development averaging more than 6% every year until 2008. Worldwide financial conditions and tighter monetary approach brought on GDP to contract in 2009. However Turkey's recently directed money related markets and managing an account framework helped the nation climate the worldwide budgetary emergency and GDP bounced back firmly to around 9% in 2010-11, as fares came back to ordinary levels emulating the subsidence. Development dropped to around 3-4% in 2012-13. Turkey's open area obligation to GDP proportion has fallen beneath 40%, and two rating agencies overhauled Turkey's obligation to venture review in 2012 and 2013.

4. Turkish Retail Industries and the Case of Migros

Some retail industries in turkey will be discussed at this very point, and there are Migros, BIM and Carrefour. Turkey has a good number of retail industries but due the case study which was use in this dissertation (Migros T.A.S), only few of its rival industries was discussed.

of the retail industries in turkey followed by Migros T.A.S and afterward CarrefourSA and so on. Having officially sold Migros' rebate auxiliary SOK to Turkish nourishment titan



Ulker, So also, late proclamations by top Turkish consolidate Sabanci that it is considering leaving its joint wander with Carrefour recommends that the 247-store Carrefour chain could likewise be put discounted.

The Overview of Migros Ticaret A.S

Migros market was found in 1954, by Gottlieb Duttweiler even with developing populace of Istanbul. It pursued hole between Istanbul downtown area and encompassing neighborhoods and expanding average cost for basic items. In 1975, Koc holding, a standout amongst the most paramount gatherings in turkey assumed control over the greater part imparts of Migros in 1975 to the longing and course of the author. Migros who opened 4 stores in Izmir with the exception of Istanbul without precedent for 1988 propelled the base work for Aegean Region. By 1989, Migros store gives benefit in two (2) real urban communities thirty four (34) stores. It turned into a traded on an open market organization in 1991 and made the brand of "SOK" in 1995 which is the first rebate brand of Turkey.

Migros obtained Tansaş which is a retail network with a quantum jump in 2005 and bolted its initiative in the division and kept on selling to its clients with the brands varying with different organizations alongside the cooperative energy made with this merger. Migros, which presented with 505 stores altogether at home at the end of 2005, has arrived at to 566 stores altogether with the assistance of abroad partners. This number arrived at to 722 with the Tansaş stores. Migros Ticaret A.s., which got to its clients with Migros, Tansaş, Sok, Macrocenter and Kangurum brands after the merger with Tansaş, kept up the restrictiveness and uniqueness of each one organization with the ability to deal with the numerous organizations and reacted to distinctive desires and needs. Tansaş introduced 6 stores in the most recent 6 days in August. M-Jets took their spot in the part as the most down to earth and speediest type of general store. 3200 things of items were offered available to be purchased at M-Jets, the most diminutive of which secured 150 m2. Migros started the time of "Topical Shopping" without precedent for Turkey at the end of 2011. The primary topic was the "Wistfulness Campaign" of Migros by ideals of its 57th Anniversary. With this crusade, numerous established brands of the nation met the clients again with the outline and costs of 50 years prior.

The Motives Behind Migros And Tansaş Merge.

Migros is struggling to defend its foothold in the retail market after Turco-French joint venture Carrefour acquired Gima and Endi stores from Fiba Holding earlier this year. Migros was also in talks with Fiba regarding the two chains, but was rebuffed after a hostile takeover bid from Sabanci Holding.

"If finalized, this transaction will again put Migros in a leader position," brokerage said in an analysis. Migros and Tansaş hold around a 5 percent and 3 percent share in the food retailing market, respectively. Carrefour reached a similar market share after their acquisition.

The Effect of M&A on Migros Turk T.A.S

In order to ascertain the consequences on the merger between Migros and Tansaş, the overview of the financial annual report of Migros (before the merge) and the report of Migros T.A.S (after the merge) was analyzed. The profitability of the both annual reports was complied and showed as follows:

Table 4a Profitability ratio of Migro from 2002 to 2004

	ROA	ROE	NPM	GPM
2002	6.2%	8.6%	2.1%	22.6%
2003	5%	13.3%	3.8%	24.2%
2004	8%	11.4%	3.2%	20.3%
Average	19.2%	33.3%	9.1%	67.1%

Source: compiled from Migros annual report 2002 to 2004

Table 4b: Profitability ratio of migros from 2006 to 2010 (After Merging)

	ROA	ROE	NPM	GPM
2006	5.5%	8.5%	18%	25.3%
2007	22.5%	3.7%	12%	24.9%



2008	11.1%	1.6%	5%	25.7%
2009	2.3%	7.3%	2%	25.1%
2010	1.4%	3.1%	0.5%	24.9%
Average	42.8%	24.2%	37.5	126.5%

Source: Compiled from Migros annual report 2006 to 2010

The table 4a and 4b above are the comparing ratio of Migros Turk before and after the merger with Tansaş. It is seen from figure 9 that the average of ROA and ROE are 6.4% and 11.1% respectively, that is to say that before engage in M&A Migros was a profitable company. Whereas, after the M&A activity, the ROE was lesser than when the company was alone with 6.26%. That implies that M&A strategy didn't give an abnormal positive returns instead it comes with its strength and also its weakness.

Figure 1: Chart of Changes in Migros T.A.S. Stock from 2005 to 2014



Source: <http://www.morningstar.com/invest/stocks/327643-mgros-migros-turk-tas.html>

The Figure 2 above shows the value of Migros stock as from the year it went into M&A. From the diagram, it can be seen that the value of Migros stock was not stable and the curve was not steadily increasing or decreasing. In 2005, there was a decrease at the first quarter and a gradual increase in the remaining quarters. It increases at the first two quarter in 2006 and a decrease in the last two quarter in 2007. It

repeated itself in the other coming year but mostly increasing until the last quarter of 2008 and the beginning quarter of 2009 where it dropped to around 12.5P/E from 22P/E. After which it rises to 17 and remained there for up to four quarters and increased to 32P/E in 2010. It reduced a little to 27P/E and then increases to the highest Migros stock which was at the volume of 35P/E. At 35P/E at the end of 2010, all through 2011, it experiences a massive reduction which it landed to volume of 13P/E. In 2012, though it fluctuates but mainly increased throughout the year, and within the last three to two quarters of 2013, there was a fluctuating decrease until 2014 when it started increasing though fluctuating.

FINDINGS

The author set out in this thesis to find an answer to the hypothesis stated in chapter one. To be able to answer the hypothesis correctly, the author analyzed to financial reports of Migros T.A.S companies.

The case of Migros and Tansaş (see table 8 and 9) implies that before the merger, Migros was making profit and as well as the shareholders' equity was influenced. The average of the both profitability ratio figure clear states that before and after the merger, the company has always run on a profit level. However, there is a little difference in the average. Between the ROA, the present state of Migros is more profitable than before the merger, which implies that the return in assets is positively affected. Thus, that cannot be equally said about ROE. The profitability ratio figure shows that the ROE was affect negatively. It clarifies that Migros was stronger in ROE when it was alone than now that it came together with Tansaş. However, the NPM and GPM were increased. With this fact, the alternatives hypothesis will be accepted which says that M&A affects the profitability of a firm.

6. CONCLUSION

After reviewing, the basic theories explaining the reasons behind the mergers and acquisitions, different cases of Mergers and Acquisition in developed countries have been analyzed. By referring case studies in developing economies, in his paper, the mergers between Migros and Tansaş as a have been examined.

The second case of Migros Türk merging with Tansaş was a success both in increasing the shareholder's worth and in the development of the company. The company being a retail



operational company has its different adaption of M&A. Although the merge is a domestic activity, the company responded to the collaboration in a short while in yelling its advantage in the country making the company one of the leader in terms of retail industry and has its branches all over Turkey and few other countries.

To sum up according to the analyses of this dissertation, Merger and Acquisition has a positive effect on the development of a firm.

When engaging in M & A, corporations need to consider some important factors in relations to the discussion in this study. Therefore, developing countries to attract foreign direct investment they need to put some of the following in place:

- 1) Encourage competitions and provide a smooth process for accessing investment opportunities in their country.
- 2) Reduction in registration and approval time thereby making business registration transparent and convenient to attract investors
- 3) Corporations needs to consider government policies of their destination before taking decision on acquisition or merger
- 4) Location advantage must be consider on availability of raw materials, labor and transportation
- 5) The economic environment of the destination country must be able to support the firm's investment production.

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