Effects of Mergers and Acquisitions on Acquired and Acquiring Business in the Food Delivery Industry: An Analysis

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Abstract

In India the practice of mergers and acquisition has attained considerable significance in the contemporary corporate scenario which is broadly used for reorganizing the business entities. The online delivery platforms are expanding by choice and convenience allowing customers to order from a wide array of restaurants with the single tap in their mobile phones is currently undergoing a rapid change as new online platforms race to capture the local markets. India's food delivery industry, brimming again with funds, will need to do just more to survive in the long-run than just amalgamated. After an initial hype and a slump that followed, the last 18 months has been significant increase in mergers and acquisition (M&A) in the space. This paper aims to focus on to study and understand how mergers and acquisition helps in the growth of acquiring business and studies the operational efficiency of the acquiring business before merge r and predict the future viability of the business . The data for the research has been collected from secondary sources. Through this paper an attempt is has been made to understand the not only factors that govern both acquired as well as acquiring business but also determines the dominant factors which is unique in each company . The various tools and techniques have been used to analyze the efficiency of the acquiring business.

Key words: Mergers, Food delivery industry, growth, acquired business, acquiring business

I. INTRODUCTION

Growth is the substance for which everyone runs behind either an entrepreneur or an Individual. In today's corporate world, merger and acquisition is spreading all over the industries which has totally restructured the whole market place. Corporate worldwide have aggressively trying to build new competencies and capabilities to remain competitive and to grow profitably. Strategic decisions such as mergers, acquisitions, overseas expansions, divestments, new product diversification, eccentric market or service offerings, though quite in vogue for long, have become more relevant in recent years, for exploiting profitable future opportunities for growth and success. In recent years, there has been increased merger and acquisition activity globally, aided by accelerated changes in technology, globalization of market places, pursuit of global competitiveness, easing of regulatory systems through

international bilateral and multilateral agreements and treaties, and adoption of international standards of accounting & valuation practices. Mergers and acquisitions activity among food delivery startups have seen a massive increase in recent years as venture capital funding has declined and all smaller players in the space seek to be gained or risk shutting down. Among all food delivery startups only 28 mergers or acquisitions took place between 2012 and 2014. This rose to 41 mergers and acquisitions in 2015, 31 in 2016 and 15 so far in the year 2017.

II. REVIEW OF LITERATURE

Amesh Bharat Kumar (2016) conducted a study on 'Mergers and Acquisitions in India and its impact on shareholders wealth' the author has done shareholders wealth analysis for short term investment. He studied about shareholders wealth analysis for short term investment. He studied about the short term effect pre and post-merger, that is compare to market and to understand the short term effect of the deal.

Devarajappa S (2017) analyzed in his paper about the pre and post-merger financial performance of the merged banks (here it's HDFC bank and centurion bank of Punjab ltd) and also the study indicated that the banks have been positively affected by the event of the merger.

Jyoti H Lahoti (2016) mentioned in their analysis on the topic 'An experiment study of merger and acquisition in the Indian banking sector' where the author studied the behavior of various M&A in Indian banking sector. The author analyzed whether the bank has achieved financial performance efficiency during the post M&A period specifically in the areas of profitability, leverage, liquidity and capital market standards. The author also tested the impact of M&A of banks and provides insights about their role after mergers on banks profitability.

Prashanta Athma & Bhavani (2016) researched on the topic 'Mergers in Banking sector in India: An analysis of pre and post-merger performance of SBI and HDFC bank. In this paper they analyzed the performance of key parameters of the both banks and they also analyzed the employee productivity, branch productivity and also the profitability of both banks.

Harpeet Singh Bedi (2014) conducted a study on the topic 'Mergers and acquisition in India: an analytical study'. This paper studies the various factors that played their parts in facilitating the merger and acquisition in India in favorable and also in unfavorable conditions.

Heena Paheya Samidhi (2016) conducted a study on the topic 'Impact of Mergers and acquisitions on India's economy' where the author studied about the impact of M&A on GDP, profitability, employment and the overall growth of the economy. This paper also shows the recent M&A cases and the reasons why the companies choose this option. They discussed the problems facing in the process of M&A by companies and how they can be overcome.

Krishna Prasad V and Mridula Sahay (2018) in their paper studied about the mergers and acquisitions of various companies in the period of 2005-2015, where the emphasis was on what benefits the companies were getting through these process and what all steps they have to consider before going for M&A process. This paper consists of mergers and acquisitions that has happened in India during 2005-2015.

M Jayadev and Rudra Sensarma (2016) studied about the mergers and acquisitions in Indian banking sector where the author had analyzed some critical issues of consolidation in Indian banking with popular emphasis on the view of two important stakeholders namely, shareholders and managers.

Ms Mani Arora & Mr. Anil Kumar (2012) conducted a study on the topic 'A study on Mergers and acquisitions- its impact on management and employees'. In this paper they studied the major issues associated with pre and post merging situation with special emphasis on the human aspect. This paper also analyzed the present training methods to cope up with the environment and the upbringing situation and some alternatives are also suggested to make any merger or acquisitions a successful event for the company.

Dominant factors affected the M&A of below companies

Rabi Narayan Kara and Amit Sani (2014) researched on the topic 'Mergers and acquisitions in India: A strategic impact analysis for the corporate enterprises in the post liberalization period' in which they tried to identify the presence of any trend of M&As of the Indian industry in the post liberalization period and they also examined the impact of M&As on performance of corporate enterprises.

III. OBJECTIVES

- To study the efficiency of the acquiring business before merger and acquisition
- To study the dominant factors that influences the Mergers and acquisition

IV. RESEARCH METHODOLOGY

Type of Study: This paper is conceptual in nature and hence descriptive in nature.

Type of data collection: The data collected for this paper is from secondary sources. The secondary data available in journals, magazines, e-resources, newspapers, websites, reports etc.

Period of study: 2016-17

Acquiring company	Acquired company	Target country	Year of M&A deal
Swiggy	Scootsy	India	2017
Swiggy	48 east	India	2017
Zomato	Runnr	India	2017
Cure.fit	Kristsy's kitchen	India	2017
Ola cabs	Food panda	India	2017

Tools used: To check the financial performance of the company before M&A the Return on Equity has been calculated.

- **Return on Equity:** Return on Equity is the amount of net income returned as a percentage of shareholder's equity. It measure how much profit a company generates with the company generates with the money shareholders have invested.

V. SCOPE OF THE STUDY

The study is limited to the four companies in the food delivery industry. Only the dominant factors and efficiency by M&A of fast food industry of the companies for a period of 2016-2017

VI. LIMITATIONS OF STUDY

- It is only based on secondary data therefore may be biased.
- To evaluate the financial performance only the return on equity has been considered but of the unavailability of data after mergers.

Conceptual Framework

Mergers and acquisitions (M&A) is a general term that refers to the consolidation of companies or assets through various types of financial transactions. M&A can include a number of transactions, such as mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. A corporate merger or acquisition can have a profound effect on a company's growth prospects and long-term outlook. But while an acquisition can transform the acquiring company literally overnight, there is a significant degree of risk involved, as mergers and transactions overall are estimated to only have a 50% chance of success.

Reasons for companies to engage in M&A

Some of the most common reasons for companies to engage in mergers and acquisitions include:

- **To become bigger.** Many companies use M&A to grow in size and leapfrog their rivals. In contrast, it can take years or decades to double the size of a company through organic growth.
- **To pre-empt competition.** This powerful motivation is the primary reason why M&A activity occurs in distinct cycles. The urge to snap up a company with an

attractive portfolio of assets before a rival does so generally results in a feeding frenzy in hot markets. Some examples of frenetic M&A activity in specific sectors include dot-coms and telecoms in the late 1990s, commodity and energy producers in 2006-07, and biotechnology companies in 2012-14.

- **To create synergies and economies of scale.** Companies also merge to take advantage of synergies and economies of scale. Synergies occur when two companies with similar businesses combine, as they can then consolidate (or eliminate) duplicate resources like branch and regional offices, manufacturing facilities, research projects, etc. Every million dollars or fraction thereof thus saved goes straight to the bottom line, boosting earnings per share and making the M&A transaction an “accretive” one.
- **To achieve domination.** Companies also engage in M&A to dominate their sector. However, a combination of two behemoths would result in a potential monopoly, and such a transaction would have to run the gauntlet of intense scrutiny from anti-competition watchdogs and regulatory authorities.
- **For tax purposes.** Companies also use M&A for tax reasons, although this may be an implicit rather than an explicit motive. For instance, since until recently the U.S. has the highest corporate tax rate in the world, some of the best-known American companies have resorted to corporate “inversions.” This technique involves a U.S. company buying a smaller foreign competitor and moving the merged entity’s tax home overseas to a lower-tax jurisdiction, in order to substantially reduce its tax bill.

VII. DATA ANALYSIS

General factors affecting the acquiring business and the acquired business.

Factors	Acquiring business	Acquired company
Diversification	The acquiring business will always aim to expand its service lines to increase its revenue lines.	The inefficiency to comply with the existing trend fluctuation will force the small companies to be acquired by bigger company who is capable of fulfilling this need of expansion.
Market operations	Big companies would have large labor force but wouldn't know how to operate in major local areas. Since time is a constraint in food delivery business, local market navigation is very necessary to sustain in this industry.	
Employee operational efficiency		Employee satisfaction lies in the reward and compensation given to them. The more the employees are satisfied; there is an increase in their operational efficiency.
Capital requirements		Capital is required to maintain their own brand image that makes the company unique from the rest.
Competition	The firms want to eliminate competition.	
Tax benefits	To avail tax benefits	To avail tax benefits
Brand image		By being acquired by larger firms, the brand images of smaller firms increase. The brand loyalty increases and they are protected. The customers trust them better.

Dominant factors affected the M&A of below companies

M&A	Factors
Swiggy acquiring scootsy	Increasing competition in the domestic food- delivery in Mumbai. Here the swiggy acquired scootsy because scootsy is into the hyper local market in Mumbai and for swiggy acquired scootsy will help them to enter the hyper local market of Mumbai where scootsy and zomato are huge in demand.
Swiggy acquiring 48 East	To expand swiggy's supply business line. Here due to acquisition, the two of the companies work on swiggy's supply business, including swiggy access which lets the restaurant partners expand into newer areas of the city for delivery by using swiggy's inhouse kitchen space.
Zomato acquiring Runnr	To add delivery capabilities of zomato. The zomato's main aim was to acquire runnr is to boost their delivery business. Since Runnr is a delivery service company having a huge reach. Due to this acquisition zomato boosts its delivery business as well the runnr will be running the delivery business as a separate entity headed by one of the senior executive of zomato. They not only handle delivery but service their customer as well.
Cure.fit acquiring kristys kitchen	To produce healthy and diet food to its customers: The cure.fit is a chain of group workout fitness centres and to expand their business, they acquired kristys kitchen to healthy food to its customers. Since kristys kitchen is a full stack online food delivery company, which delivers premium authentic international and healthy food in Bengaluru and it uses eco-friendly packaging solution. It also collaborates with foreign chefs to create authentic rupees. Kristys kitchen with join cure.fit as a part of acquisition where they are developing the product as per the healthy product that will now be taken to scale with the help of cure.fit.
Olacabs acquiring Food panda	To enter the food industry: Ola's entry into food delivery industry and also competing with Uber. Ola acquired the food delivery company named foodpanda to enter into online food industry and also to compete with its American counterpart Uber and Ubereats. This acquisition helps the both companies in the long way in leveraging our collective strengths to better and grow our footprint in India's digital economy.

Dominant factors affected the M&A of below companies**Efficiency of acquiring companies by the way of ROE**

Return on Equity: The return on equity is a measure of the profitability of a business in relation its equity, also known as net assets less the liabilities. ROE is a measure of how well the company uses investments to generate earnings growth.

ROE is used for comparing the performance of companies in the same industry. Generally, ROEs of 15-20% is considered good. The benefit of low ROEs come from reinvesting earnings to help in the growth of the company. Thus a higher proportion of debt in firm's capital structure leads to higher ROE.

Name of the Company	ROE
Zomato	(5.53%): This ROE indicates that the earnings of the firm dropped negatively and it is making an effort to perform well without needing much capital. To increase its revenue, the acquisition took place since the line of business was food industry. By acquiring the firm, the delivery service also adds up to their revenue.
Olacabs	(66.44%): This ROE indicates that Olacabs was at loss making. The main aim was to use its transportation in to food delivery business and compete with Uber. Diversification generates income, thereby increasing the net income of the firm.
Cure.fit	(10.28%): The level of ROE indicates that the firm is generating less income. In an attempt to generate more revenue, this acquisition took place. This increases the customer base of Cure. Fit globally.
Swiggy	(44.21%): The ROE indicates that their expenses are higher than the income, thereby resulting in lower net income. In an attempt to increase their local business revenue, the acquisition of Scootsy might help them increasing their income.

VIII. FINDINGS

- Operational efficiency is one of the major factor influencing a firm's performance and growth. The employee's efficiency directly correlates with the reward and recognition given by the firm. To provide with employee benefits and compensations, funds are required. The absence of which demotivates its employee. Therefore, companies that cannot fund various means to reward and recognize their employees always look out for firms that could absorb them.
- In relation with the above, capital requirement is one of the major reasons for the Mergers and Amalgamations. This M&A prevent the small firms from ceasing to exist due to insufficient funds to carry on their operations.
- Firms performing well in the market face with excessive competition. To survive this competition, the company must either have diversified line of business or enter in to the local market. Diversification helps the business to balance its revenue from market and expand its market share. Diversifying helps the big businesses to increase their brand image and brand loyalty, thereby building loyal customer base.
- Hyper- Local market operations is the focus of any business. Performing in the local market equals to knowing the demographics accurately.
- Merging with sick industry provides certain tax exemptions to the acquiring firm. Decreasing the tax liability is a way of decreasing the expense.
- Here swiggy acquires the scoosty for the hyper local entry into the Mumbai market and also to compete with its counterpart zomato. And it acquires the Bangalore based kitchen 48 east to expand their business supply line.
- Zomato acquires Runnr to expand and increase their delivery space capabilities and also to service their customers
- The kristy's kitchen was acquired by cure. Fit to expand their business not only in the fitness and health also to the food business where they help their customers to buy the healthy calorie food.
- Olacabs acquired the food panda which not only paved the olacabs way into food delivery industry but also to compete with its counterpart uber and uber eats.

IX. CONCLUSION

The nature and the pattern of M&A s strategies adopted by the Indian companies mostly reveal horizontal and vertical types. This paves the companies to focus on their core areas and expanding mostly in a related areas of strength which is helpful in realization of synergistic benefits. This paper aims to understand why these above mentioned companies are going for mergers and acquisitions and what all limitations the company can cover from these M&As. This study is carried out to find the general, specific and also financial performance of the company. From this paper I came to understand that there are various basic factors that affects the mergers and acquisitions and certain such factors has been mentioned in this paper and also the specific factors related to every companies are mentioned here. This paper analyzed the efficiency of the company before merger and how the merger affects the ROE of the companies. The financial performance of the companies by the investors and stakeholders are analyzed and the mergers and acquisition decisions has been taken. Such mergers and amalgamations prevent the small- scale industries to die due to lack of assistance, lack of capital, lack of skilled labor, etc. The M&A provide employment and investment opportunities.

X. SUGGESTIONS

Recommendation given to the future researcher is to consider a larger sample size with wider time span which will lead to better outcome as effects for a longer term can be seen. The research can be done in a broader manner. Since the research is for short term, we can only get the idea of ROE before M&A but since being acquisition happened in the recent years its long term financial stability is yet to be

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derived. The researcher can do the further study on how the mergers and acquisition affects their stakeholders. The future researchers can investigate other factors relating to the financial performance of the companies and also various other factors for mergers and acquisitions. The huge legal procedures for the mergers and acquisitions has to be minimized amounting to many mergers and acquisitions in the country. Since this food delivery industry is developing area many more mergers and acquisition will happen in future the researcher can study further into it and see how it affects the remaining companies in the industries. In order to standardize the use of its indigenous technologies into the acquired firm, the management should seek for creative new combinations of the acquiring and acquired firm. The researcher can make further analysis in food delivery industry of the other countries M&A that affects the growth of Indian industries.

XI. SCOPE OF FURTHER STUDY

The study about the further mergers and acquisition in the food delivery industry and as well as to study the mergers and acquisition in companies mentioned in this research.. The study with similar objective can be taken for other sectors.

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