

## TOPIC FOUR

### BUSINESS COMBINATIONS

#### 4.0 Definition of Business Combinations

A business combination occurs when two or more independent businesses join forces, either through shared ownership or when one entity gains control over another. This may involve acquiring assets, liabilities, or a significant stake in voting shares. Such combinations may result in the formation of a new entity or the absorption of one firm by another. Examples include:

- **International:** Disney's acquisition of 21st Century Fox (2019) expanded its media portfolio.
- **Ugandan:** Airtel Uganda's acquisition of Warid Telecom (2013) consolidated its telecommunications market share. DFCU Bank's acquisition of Crane Bank (2017) expanded its footprint in the banking sector. Prudential Assurance Uganda's acquisition of Gold Star Insurance strengthened its position in the insurance market.

#### 4.1 Methods of Business Combinations

Business combinations take place through mergers and acquisitions

1. **Mergers:** Mergers involve two firms voluntarily combining to form a new entity with a shared identity.
  - **Global Example:** The 1998 merger of Price Waterhouse and Coopers & Lybrand to form PricewaterhouseCoopers (PwC), creating a global professional services powerhouse.
  - **Ugandan Example:** Not common.
2. **Acquisitions (Takeovers):** Acquisitions occur when one firm (the acquirer) gains control over another (the acquiree), either through friendly negotiations or hostile takeover.
  - **Friendly Takeover:** The acquirer and acquiree agree on terms, e.g., Prudential Assurance Uganda's acquisition of Goldstar Life Assurance (2015), Vivo Energy's acquisition of Engen Uganda's operations (2019), Old Mutual (2015–2016) acquisition of UAP Insurance Uganda and I&M Bank's acquisition of Orient Bank (2021).

- **Hostile Takeover:** The acquirer pursues control against the acquiree's wishes, often without the consent of the target company's management or shareholders.

**Examples:**

- Kraft's takeover of Cadbury (2010), which faced strong resistance from Cadbury's board and public backlash in the UK.
- DFCU Bank's acquisition of Crane Bank (2017), facilitated by the Bank of Uganda following Crane Bank's receivership, which was later contested by Crane Bank's shareholders, leading to legal disputes, highlighting a lack of consent from the target's owners.

#### 4.2 Reasons for Business Combinations

Business combinations are driven by strategic objectives, often aligned with global trends such as digital transformation, sustainability, and market consolidation. Key reasons include:

**1. Growth and Market Expansion:** Combinations enable rapid expansion of market share, product lines, or geographic reach compared to organic growth.

- **Global Example:** Amazon's acquisition of Whole Foods (2017) expanded its grocery retail presence.
- **Ugandan Example:** Airtel's acquisition of Warid Telecom increased its market share in Uganda's telecom sector.

**2. Achieving Synergy:** Synergy is the concept that the combined value of two companies is greater than the sum of their individual values (2+2=5). This is a core motivation for many combinations. Synergy can be achieved through:

- **Operational / Cost Synergy:** Cost savings by sharing resources, such as using joint distribution systems and eliminating redundant functions (e.g., merging head offices, closing duplicated facilities, reducing overlapping staff) to achieve cost savings.
  - **Example:** The mergers of Deloitte with Haskins & Sells (1972), and later with Touche Ross (1989), helped reduce overlapping operations (such as duplicate departments or functions) and created operational efficiencies.
- **Financial / Revenue Synergy:** Better access to capital, improved creditworthiness, or tax advantages after combining companies. **Example:** The

merger of Coopers & Lybrand with Price Waterhouse to form PwC (1998) aimed to benefit from greater global scale and financial strength, enhancing access to multinational clients and capital.

**3. Access to Scarce Resources:** Combinations provide access to critical resources such as technology, skilled labour, or established customer bases.

- **Global Example:** Microsoft's \$26.2 billion acquisition of LinkedIn gave it access to LinkedIn's extensive professional network, user data, and recruitment tools, strengthening its enterprise products like Office 365 and Dynamics 365 through integrated insights and talent solutions.
- **Ugandan Example:** Kinyara Sugar Works partners with over 7,500 registered out growers to ensure a steady supply of sugarcane.

**4. Diversification / Spread of risk:** Entering new markets or industries reduces risk by spreading revenue streams.

- **Global Example:** Unilever's acquisition of Dollar Shave Club (2016) allowed it to diversify into the fast-growing, subscription-based male grooming market, selling products like razors, shaving cream, body wash, and deodorant directly to customers who subscribed for regular deliveries (e.g. monthly) via the website. This move expanded Unilever's reach beyond traditional retail models.

**5. Economies of Scale:** Large-scale operations reduce per-unit costs through bulk purchasing, shared R&D, or optimised production.

- **Global Example:** Walmart's acquisition of Jet.com (2016) expanded its e-commerce operations, enabling bulk inventory, streamlined logistics, and lower operational costs.
- **Ugandan Example:** The merger of UAP Insurance Uganda and Old Mutual Uganda (2015) reduced duplicated functions, streamlined operations, and expanded the customer base, lowering service delivery costs.

**6. Competitive Positioning:** Combining with competitors reduces wasteful competition and strengthens market control.

- **Ugandan Example:** Total's acquisition of Caltex Uganda (2008), followed by its purchase of Gulf Africa Petroleum Corporation (GAPCO) in Uganda, Kenya, and Tanzania (2017), consolidated fuel retail operations. These moves reduced competition and significantly expanded Total's market presence in the region.

- **Global Example:** Anheuser-Busch InBev's acquisition of SABMiller (2016), combined two of the world's biggest beer companies. This reduced competition in the beer market by bringing many popular beer brands under one company, allowing them to control a larger share of the global beer sales.

**7. Economic Resilience:** Businesses merge to withstand / survive economic downturns by pooling resources and stabilising operations.

- **Global Example:** During the 2008 financial crisis, Bank of America acquired Merrill Lynch to strengthen its financial services and survive the crisis.
- **Ugandan Example:** In 2021, I&M Group's acquisition of Orient Bank Uganda helped both institutions pool resources, expand their customer base, and enhance resilience amid the economic challenges posed by COVID-19.

#### 4.3 Types of Business Combinations

Business combinations can be categorised based on the relationship between the combining entities:

##### 1. Horizontal /parallel/unit trade Integration

Firms operating in the same industry and at the same production level combine to reduce competition, increase market share, or achieve economies of scale (a combination of competitors).

- **Risk:** Potential overproduction or regulatory scrutiny due to monopolistic behaviour.
- **Ugandan Examples:**
  - Barclays Bank's acquisition of Nile Bank (2007) – consolidated operations in the banking sector.
  - Airtel Uganda's acquisition of Warid Telecom (2013) – strengthened Airtel's market share in telecommunications.
  - Total's acquisition of Caltex Uganda (2008) and GAPCO Uganda (2017) – consolidated fuel retail operations under Total, reducing competition.
- **Global Examples:**
  - Disney's acquisition of 21st Century Fox (2019) – combined two major media giants, increasing market control in entertainment and streaming.
  - Anheuser-Busch InBev's acquisition of SABMiller (2016) – reduced global competition in the beer industry, expanding AB InBev's dominance.

## 2. Vertical sequence/process Integration

This occurs when firms at different stages of the same supply chain combine. It can take two main forms:

- **Backward vertical Integration:** A firm combines with its suppliers to gain greater control over input quality, costs, and supply reliability.
  - **Ugandan Example:** Kinyara Sugar Works partners with over 7,500 sugarcane out growers to ensure a stable supply of raw materials, reducing dependency on external sources and improving input quality.
  - **Global Example:** IKEA acquired Romanian and Baltic forests to secure its own timber supply, gaining control over raw materials and ensuring sustainable sourcing.
- **Forward vertical Integration:** A firm combines with its distributors (e.g. wholesalers or retailers) to control the sale and distribution of its products.
  - **Ugandan Example:** House of Dawda Group's acquisition of Charms Uganda Limited. This gave House of Dawda control over the distribution of its beverages and consumer goods, reducing reliance on external distributors.
  - **Global Example:** Amazon's acquisition of Whole Foods Market (2017). This allowed Amazon to gain physical retail presence and direct access to grocery consumers, expanding beyond online commerce.

## 3. Lateral (Allied) Integration

This is combination of firms that produce different but related. These can be convergent or divergent.

- **Convergent Lateral:** Smaller firms combine with a larger firm to supply it with inputs. E.g., a publisher may integrate with paper mills, printing presses, and binding services to streamline book production.
  - **Ugandan Example:** Companies like Kakira Sugar Works integrate with smallholder sugarcane farmers (out growers) to secure raw material supply.
  - **Global example: Apple Inc.:** Acquired Beats Electronics (audio hardware) and later music streaming services to support its broader ecosystem of devices and content.
- **Divergent Lateral:** A large firm merges with multiple smaller firms to supply them with inputs. E.g., Mukwano *Industries*, which produces plastics and packaging materials,

may merge with firms in sectors such as food, cosmetics, and household goods that use these inputs.

#### **4. Diagonal (Service) Integration**

This occurs when a firm combines with a business that provides auxiliary or support services (e.g. advertising, transport, cleaning, ICT, or maintenance), which are essential but not part of the core production line.

- **Global Examples**

- Amazon acquired Kiva Systems, a robotics company providing warehouse automation services, to improve fulfilment speed and accuracy.
- Apple acquired AuthenTec, a security company, to integrate fingerprint recognition (Touch ID) technology, an auxiliary service that supports core device security.

#### **5. Circular (Mixed) Integration**

This occurs when firms producing unrelated products combine under a single parent or management agency to diversify risk.

- **Global examples**

- Amazon, a global leader in e-commerce and cloud services, acquired Twitch, a live-streaming platform popular for gaming content. The two businesses operate in entirely unrelated industries, online retail and video streaming. This acquisition allowed Amazon to enter the digital entertainment space and diversify its portfolio beyond traditional commerce.
- Berkshire Hathaway, a multinational holding company with investments in insurance, utilities, and railways, acquired Precision Castparts, a manufacturer of aerospace components. The deal diversified Berkshire's portfolio into the industrial manufacturing sector, which is unrelated to many of its other holdings
- Bidco Africa, which initially focused on personal care and garment manufacturing, acquired Elianto (1998), a cooking oil brand, from Unga Group. This marked a shift into food processing, an unrelated industry. The move helped Bidco diversify across sectors such as consumer goods, food products, and industrial inputs.

### 4.3 Forms of Business combinations

Business combinations can be classified based on their structure and purpose. The primary types are:

**1. Federations:** A voluntary association of firms (often in the same industry) that collaborate under a common body while retaining full autonomy, often for advocacy or coordination.

- **Global Examples:**

- FIFA (Fédération Internationale de Football Association): A federation of autonomous national football associations. Each country runs its own football governance but adheres to FIFA rules in international competitions.
- International Air Transport Association (IATA): A global federation of independent airline companies collaborating to set global aviation standards.
- USB Implementers Forum (USB-IF): A federation of tech companies that co-develop and maintain USB standards.
- 3rd Generation Partnership Project (3GPP): A federation of telecom firms to develop mobile standards like 5G.

- **Ugandan Example:**

- Federation of Uganda Football Associations (FUFA): A national federation overseeing autonomous football entities (clubs and regional associations) within Uganda. Each member governs its own activities while aligning with FUFA regulations for national coordination.

**2. Cartels:** An agreement between firms (often competitors) to control prices, output, or markets, typically in violation of competition laws. Most cartels are illegal due to their anti-competitive nature, particularly in jurisdictions with strict competition regulations like the United Kingdom, United States, Japan, and the European Union (EU).

- **Global Examples:**

- OPEC (Organisation of the Petroleum Exporting Countries): Although not illegal, OPEC functions like a cartel by coordinating oil production levels among member countries to influence global oil prices.

- Canpotex: Coordinate global potash exports and pricing. Canpotex is legal in Canada under export cartel exemptions, provided it does not affect domestic markets.
- Airline Ticket Cartel – Indonesia (2019): Several Indonesian airlines, including Garuda Indonesia, were found guilty by the national competition authority (KPPU) of colluding to fix domestic airfares. This was a clear case of an illegal cartel under Indonesian competition law.

3. **Partial Consolidations:** One firm acquires a minority stake or partial assets of another without full control.

- **Global Examples:**

- Google's Stake in Uber: Alphabet (Google's parent company) made a strategic minority investment in Uber, using the equity method of accounting without full control.
- Berkshire Hathaway's Holdings: Berkshire Hathaway frequently acquires minority stakes in companies such as Coca-Cola and American Express, maintaining significant influence but not full ownership.
- SoftBank's Vision Fund: Invests partial equity stakes in technology startups worldwide, typically without acquiring majority control.

4. **Pool:** Firms contribute resources (e.g. patents, capital or technology) to a shared arrangement while continuing to operate independently.

- **Global Examples:**

- Bluetooth Special Interest Group (SIG): Member firms contribute patents and technical standards to support the development of Bluetooth technology. They remain operationally independent while jointly managing licensing and standard setting.
- MPEG LA Patent Pool: Multiple patent holders contribute essential video compression patents (e.g., for MPEG-2, AVC, HEVC) into a common pool, which is then licensed collectively to users worldwide.
- Airbus Consortium: European aerospace manufacturers (e.g. Dassault, BAE Systems) pooled capital, technology, and production capacity to develop

commercial aircraft under the Airbus brand, while initially maintaining their individual corporate identities and operating as a consortium before eventual full integration.

- Linux Foundation Projects: Tech companies such as IBM, Intel, Microsoft, and Google contribute source code, funding, and technical expertise to open-source projects (e.g., Kubernetes, Node.js) under the Linux Foundation, while operating independently.
- World Wide Web Consortium (W3C): A global body where independent firms collaborate by contributing technical knowledge, standards proposals, and tools to develop and maintain global web standards like HTML and CSS.

### Summary Table

Term	Meaning	Focus	Examples
<b>Type</b>	Category based on business relationship	Kind of firms combining	Horizontal, Vertical, Lateral, Diagonal, Circular
<b>Method</b>	Mechanism/process of combining	How it happens	Mergers, Acquisitions
<b>Form</b>	structural setup short of full integration	Degree of independence and cooperation maintained	Federation, Cartel, Pool, Partial Consolidation

### 4.5 Advantages of Business Combinations

- **Diversification:** Reduces risk by offering multiple products or services.
- **Economies of Scale:** Lowers per-unit costs through large-scale operations.
- **Market Control:** Reduces competition, enabling price and supply management.
- **Enhanced Efficiency:** Shared resources and expertise improve operations.
- **Resilience:** Stabilises firms during economic downturns/recessions.
- **Quality Improvement:** Better control over inputs ensures consistent product quality.
- **Increased Share Value:** Growth and profitability enhance shareholder wealth.
- **Public Confidence:** Larger firms gain trust from stakeholders.

#### 4.6 Disadvantages of Business Combinations

- **Cost and Complexity:** Business combinations are often complex, time-consuming, and costly, involving legal fees, due diligence, and integration expenses.
- **Integration Challenges:** Combining firms must align differing cultures, management styles, and IT systems. Cultural or operational mismatches can cause major disruptions, talent loss, and failure of the combination.
- **Monopoly Risks and Reduced Competition:** Especially in horizontal combinations, large firms may gain excessive market power, leading to reduced competition, limited consumer choice, potential overpricing, and lower product quality.
- **Exclusion of Small Firms:** Business combinations may create dominant players that outcompete or marginalise smaller firms, reducing employment, diversity and innovation in the market.
- **Unemployment and Staff Morale:** Redundant roles often result in job losses, leading to uncertainty and fear among staff, which may lower morale and productivity.
- **Risk of Failure:** Not all combinations succeed. Poor valuation, weak due diligence, or failed integration can result in financial losses and erode shareholder value.

#### 4.7. Modern Global Trends

- **Digital Transformation:** Tech-driven acquisitions, such as Google's 2021 acquisition of Fitbit, help companies expand into new digital markets like wearable technology.
- **Sustainability:** Some combinations focus on green technologies, such as Shell's acquisition of renewable energy firms, to support the transition to cleaner energy and enhance environmental sustainability.
- **Regulatory Scrutiny:** Antitrust authorities in the EU and USA, such as the European Commission and the Federal Trade Commission (FTC), oversee business combinations to prevent monopolies and protect competition.
- **Emerging Markets:** Uganda's telecom and banking sectors are undergoing consolidation to enhance regional competitiveness. For example, Airtel's acquisition of Warid Telecom in 2013 significantly increased its market share. Similarly, in banking, acquisitions such as DFCU Bank's takeover of Crane Bank in 2017 have strengthened institutions to compete more effectively across the region.

### **Sample Questions / Assignment Prompts:**

1. Using examples from Uganda and abroad, distinguish between mergers and takeovers.
2. Evaluate the advantages and disadvantages of horizontal vs vertical combinations.
3. How can business combinations help companies survive during economic downturns /recessions?
4. Discuss the role of synergy in successful mergers using examples from international consulting firms.
5. What risks do small businesses face due to large-scale combinations, and how can governments intervene?
6. Explain how different types of business combinations influence innovation and quality control.
7. Compare vertical integration strategies of Kinyara Sugar Works (Uganda) and Tesla (USA).
8. **Group Discussion:** Debate the ethical implications of monopolistic tendencies in business combinations, using OPEC as an example.

### **Online Video Resource**

Business Combinations - General Concepts:

<https://www.youtube.com/watch?v=MbskJjBat8&t=102s>

### **Case Study: Airtel Uganda and Warid Telecom**

In 2013, Uganda's telecommunications landscape shifted when Airtel Uganda announced it was taking over Warid Telecom. Before this development, the two companies had been strong competitors in mobile voice, data, and mobile money services. Following the deal, all Warid customers became part of Airtel's network, gaining access to a wider range of services and an expanded coverage footprint.

The move gave Airtel a stronger market presence, enabling it to serve a larger customer base across the country. Industry observers noted that the company could now use Warid's infrastructure and customers to strengthen its position against MTN, the market

leader at the time. Globally, similar moves have been seen in the telecommunications sector, such as T-Mobile's combination with Sprint in the USA, which created a larger network and pooled resources for innovation. Analysts often connect such developments to the need for rapid expansion, improved efficiency, and technological advancement.

While the transition appeared smooth, the process of merging two businesses, each with its own systems, staff, and ways of working can present challenges. The path to integration was far from straightforward. Bringing together two organisations with distinct corporate cultures, operational systems, and billing platforms proved both complex and costly. There was a significant risk of customer dissatisfaction, as well as the potential loss of key employees who might feel unsettled by the changes. At the industry level, the consolidation reduced the number of major competitors, prompting concerns about the emergence of a duopolistic market structure. Regulators, such as the Uganda Communications Commission, were therefore required to scrutinise the deal carefully to safeguard the principles of fair competition.

### **Discussion Questions**

1. What type of business combination is illustrated in the case, and what evidence supports this?
2. How has this business combination influenced competition within Uganda's telecommunications sector?
3. What benefits have customers obtained from this business combination?
4. What concerns may have arisen for customers, employees, or the wider market because of this business combination?
5. What concerns may have arisen for customers, employees, or the wider market because of this business combination?
6. identify other examples, in Uganda or globally, where similar business combinations have taken place, even in different sectors?