

A Study on Mergers with Respect to Google and Samsung Mobility

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Abstract—A merger is a combination of two or more companies into one company. It may be in the form of one or more companies being merged into an existing company or a new company may be formed to merge two or more existing companies. The Income Tax Act, 1961 of India uses the term 'Amalgamation' for merger.

A general term used to refer to the consolidation of companies. A merger is a combination of two companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock. Merger, corporate combination of two or more independent business corporations into a single enterprise, usually the absorption of one or more firms by a dominant one. A merger may be accomplished by one firm purchasing the other's assets with cash or its securities or by purchasing the others shares or stock by issuing its stock to the other firms stock holders in exchange for their shares in the acquired firm. There are various reasons for merging of the companies. The acquiring firm may seek to eliminate a competitor to increase its efficiency to diversify its products, services, markets or to reduce its taxes. Merger activity varies with the business cycle, being higher when business is good.

Hence, an attempt has been made in this paper to discuss about the deal, risk, challenges and benefits followed in the merging process of Samsung Mobility with Google.

Keywords: Merger, acquiring, dominant, assets, securities.

1. INTRODUCTION

The term “merger” and “acquisition” are often confused and used interchangeably by business and financial executives. On the face of it, the difference may not really matter since the net result is often the same: two companies that had separate ownership are now operating under the same roof, usually to obtain some strategic or financial objective. However, the strategic, financial, tax and even cultural impact of the deal may be very different, depending on how the transaction is structured. Merger refers to two companies joining to become one, the buyer, purchases the assets or shares of another company, the seller, paying in cash, stock or other assets of value to the seller.

In a stock purchase transaction, the seller's shares are not necessarily combined with those of the buyers existing company. They may be kept separate as a new subsidiary or

operating division. In an asset purchase transaction, the assets to be conveyed by the seller to the buyer become additional assets of the buyers company, with the hope and expectation that the value of the assets purchased will, over time, exceed the price paid, enhancing shareholder value as a result of the transactions strategic or financial benefits.

2. OBJECTIVES

- To discuss the deal of merger between the two companies i.e., Google and Samsung Mobility.
- To represent the risk and challenges faced in the merging process.
- To represent the benefits of merge between two companies.

3. METHODOLOGY

We have collected the secondary source of data to develop this concept.

4. HISTORY OF GOOGLE

Google is an American multinational corporation specializing in Internet related services and products. These include online advertising technologies, search, cloud computing and software. Most of its profits are derived from Ad words.

Google is founded by Larry Page and Sergey Brine while they were Ph.D. Students at Stanford University. Together they own about 14 percent of its shares but control 56 of the stockholder voting power through super voting stock. They incorporated Google as a privately held company on September 4, 1998. In 2004, Google moved to its new Headquarters in Mountain View, California, nicknamed as Googolplex.

Rapid growth since incorporation has triggered a chain of products, acquisitions and partnerships beyond Google's core search engine. It offers online productivity software including email (Gmail), a cloud storage device (Google Drive), a office suite (Google Doc's) and a social networking service

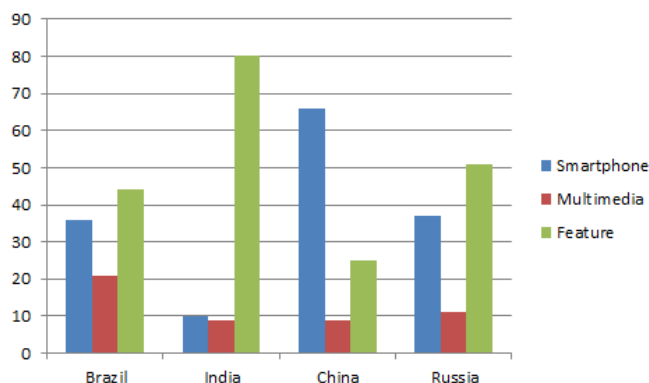
(Google+). Desktop products include applications for web browsing, organizing and editing photos and instant messaging. The company leads the development of Android Mobile operating system and the browser only a chrome OS for a net book known as Chrome book.

The corporation has been estimated to run more than one million servers in data centers on the world (as of 2007) and to process over one billion search requests and about 24 pet bytes of user generated data each day (as of 2009). In December 2013 Alex listed google.com as a most visited website in the world. Numerous Google sites in other languages figure in top one hundred, as do several other Google owned sites such as YouTube and Blogger. Its market dominance has led to prominent media coverage, including criticism of the company over issues such as copyrights, censorships and privacy.

5. GOOGLE CORPORATION

Google is a global technology leader which focuses on improving the ways people connect with information relative to the industry internet and computer software. The company mission is to organize the world's information and make it universally accessible and useful. Its products lines include search advertising, display advertising, mobile advertising, tools for publishers, local and enterprise. Google has become one of the most recognized brand in the world and achieved market share of 65.5% as on May 2011 in Search Engine business. Google incorporated in California in September 1998 and launched an IPO in 2004 listing its stock in NASDAQ as "GOOG". Google has become the 4th largest technology company in USA.

The following table represents the Profit, Assets, Total Equity, Employees and Subsidiaries of Google Corporation.



6. HISTORY OF SAMSUNG MOBILITY

The headquarters of *Sang hoes* in Degum in the late 1930s

In 1938, Lee Byung-chull (1910–1987) of a large landowning family in the Uiryeong county came to the nearby Degum city and founded *Samsung Sang hoe*, a small trading company with forty employees located in Su-dong (now Inyo-dong). It

dealt in groceries produced in and around the city and produced its own noodles. The company prospered and Lee moved its head office to Seoul in 1947. When the Korean War broke out, however, he was forced to leave Seoul and started a sugar refinery in Bussan named *Ceil Jading*. After the war, in 1954, Lee founded *Cheil Mejia* and built the plant in Chrisman-dong, Daegu. It was the largest woolen mill ever in the country and the company took on the aspect of a major company.

Samsung diversified into many areas and Lee sought to help establish Samsung as an industry leader in a wide range of enterprises, moving into businesses such as insurance, securities, and retail. President Park Chung He placed great importance on industrialization, and focused his economic development strategy on a handful of large domestic conglomerates, protecting them from competition and assisting them financially.

In 1947, Cho Hong-jai (the Hyosung group's founder) jointly invested in a new company called Samsung MulsanGongsa, or the Samsung Trading Corporation, with the Samsung Group founder Lee Byung-chull. The trading firm grew to become the present-day Samsung C&T Corporation. But after some years Cho and Lee separated due to differences in management between them. He wanted to get up to a 30% group share. After settlement, Samsung Group was separated into Samsung Group and Hyosung Group, Han kook Tire, and others.

In the late 1960s, Samsung Group entered into the electronics industry. It formed several electronics-related divisions, such as Samsung Electronics Devices, Samsung Electro-Mechanics, Samsung Corning, and Samsung Semiconductor & Telecommunications, and made the facility in Suwon. Its first product was a black-and-white television set.

7. SAMSUNG CORPORATION

Samsung C&T Corporation (C&T = Construction & Trading) (formerly **Samsung Corporation**) (Korean), established in 1938, is the original company of the Samsung Group and currently consists of the **Engineering & Construction Group** and the **Trading & Investment Group**. The company was renamed from Samsung Corporation to Samsung C&T Corporation in 2007. The Samsung Group is South Korea's largest conglomerate with interests in construction, electronics, chemicals, finance and numerous other fields.

8. DEAL BETWEEN GOOGLE AND SAMSUNG MOBILITY

A legal agreement made between Samsung and Google means that the Android-maker is bound to lend a hand in the event that Samsung loses its current battle with Apple. In court today, Apple disclosed some terms of a Mobile Application

Distribution Agreement (MADA) between Samsung and Google, including a clause that asks for Google to compensate Samsung.

That agreement is designed to let Samsung offer Android some of Google's software out of the box, but there are strings attached. And as Apple aims to point out, it also means that there's some protection involved if Samsung were to be sued.

9. GOOGLE'S1 ESSENTIALLY OFFERING TO DEFEND SAMSUNG."

In a taped deposition, Google's patent counsel James Macon read over parts of the agreement, as well as emails between Samsung and Google officials noting that Google would back company specifically over two patents relating to universal search. The deposition did not disclose concrete financial or strategic details of what kind of compensation Google would offer. Nor did it mention whether other patents in this case were a part of that agreement. Instead, Macon said simply that the agreement was created for Google to provide a number of its applications to Samsung, and provide backup in the event of a legal issue.

10. RISK AND CHALLENGES OF MERGING PROCESS

The following are the some of the risk and challenges faced in the merging process of Google and Samsung Mobility.

11. INTEGRATION

Google's attention has been focused on Samsung's portfolio of 17,000 and 7,500 pending patents. With regard to man power, by this merging process Google is adding 19,000 employees from MMI this may lead to organizational conflicts between them due to different mindsets in terms of business.

12. MANUFACTURING

It's a new concept to Google. In long term prospective this deal may face a problem in deciding whether to continue this same move, spin-off or to shut it down it's completely depends up on market.

13. ECOSYSTEM OF ANDROID

Google's extracting positive remarks about the deal from various partners such as Sony-Ericson, HTC and Samsung. But it may threaten android's open ecosystem hindering the progress of its growth.

14. CHALLENGES OF GOOGLE

Google acquisition may lead to serious conflict, It will lead to direct competition with other hardware partners like Samsung, HTC, and the hardware manufacturing is totally different from Google's core business. The following are the some of the

major challenges faced by the Google with respect to merging of Samsung Mobility.

- Need to change the perceptions of the investors that are not perceived the deal in a positive way.
- By this acquisition Google employee strength would increase by 19000 eventually decrease the profits of the business?
- In this present scenario, Samsung and HTC are the leading Android based smart phone makers. Now Google is directly competing directly with them for hardware sales.
- One of the most challenge faced by the Google while framing the policies that would not reach to management failures with regard to management cultures of software and hardware companies are almost different.

The following table represents the valuation of deal between the Google and Samsung Mobility by using Market value, Share value and Post Merger values of both the companies.

15. BENEFITS

In this merging process of Google and Samsung mobility, there are different types of benefits. They are discussed below

a) Operational benefits

Google can access all the product lines of MMI cell phone, set top boxes and tablet which are having a very good market share android software had made considerable inroads in the Smartphone market with 150 million devices and 5, 50,000 activations a day.

b) Accounting benefits

Tax benefits: Acquiring Loss Company making a profit company Google can make advantage for each year till 2019 can utilize the losses.

c) Google and Samsung Mobility together will accelerate innovation and choice in mobile computing. Consumers will get better phones at lower prices.

d) Samsung Mobility's patent portfolio will help protect Android ecosystem. Android, which is open-source software, is vital to competition in the mobile device, ensuring hardware manufacturers, mobile phone carriers, application developers and consumers all have choice.

16. CONCLUSION

Google wants to encourage as many headset makers as possible to use Android because Android helps mobile users get online. And online advertising is Google's core business. Google has no incentive to close off Android to other hardware manufacturers, limiting itself the way Apple and Research in Motion have. The Android ecosystem depends on a range of manufacturers and software developers adding their innovations to Android. Cutting that off would be bad for Android.

17. AS PER EXPERTS

- i) **Computer and communications Industry Association President and Chief Executive, Ed.Black** – That support signals that other device makers believe Google wants to protect and grow its Android business and see Android used on as many mobile devices as possible rather than restrict access to the platform. (AP via ABC news, 16/08/2011)
- ii) **Senior Vice President of France Telecom Orange, Yves Maitre** – I believe it is always good to have very strong players and very integrated ones. We welcome strong competitors to Apple and Samsung and Google will be this type of very strong competitor. (All things Digital, 15/08/2011)
- iii) **Former FTC antitrust official and senior fellow at the center for American Progress, David Balto** – If anything, antitrust regulators may see the deal as a boost to competition. Android is such a crucial competitor to the iPhone in particular, that allowing Google to buy Samsung Mobility will likely produce even more innovation in Smart Phones and other devices. (AP via ABC news, 16/08/2011)

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