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Analysis of Recent International M & A Trends in Telecom Industry - A Case Study

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Abstract

The corporate world aims at maximisation of profits and wealth. One of the main objectives of any profit making enterprise is to maximise shareholders wealth. These objectives can be achieved by way of organic growth and / or inorganic growth. In value creation, M & A have assumed great importance which is in the form of inorganic growth.

The telecom industry in the world has observed constant changes and accordingly the companies in this industry have changed their business models to achieve these objectives. In the recent past telecom industry is also facing challenges due to convergence issues. Value creation thus has become a challenge. Telecom Industry in India as well as all over the world has observed various M & A activities in the recent past. The objective was to find out the main objectives and driving forces in various M & As. For the purpose of our study we have relied on Case Study based approach and selected three cases.

The telecom industry and its eco system consist of various players. We have selected cases based on a few criteria such as it is an international acquisition (i.e. in foreign countries), players in M & A are from the same eco-system, period of observation is of two years i.e 2012 & 2013 and one of the companies is a leading handset manufacturer.

On the International front also a few M & A have shown a specific trend and the same is observed and analysed in the cases of Motorola and Google, Microsoft and Nokia and Sony Ericsson and Sony Mobile Corporation. The study concludes with key findings and likely trend in the industry in the near future.

Keywords: Mergers & Acquisitions, Motorola-Nokia-Ericsson

1. Introduction

The corporate world aims at maximisation of profits and wealth. The ecosystem of telecom industry is changing fast due to various reasons such as changing regulations, technology, consumer preferences, and convergence issues. These have led to change in the business models of a few companies. Due to globalisation, even established companies had to face problems on various fronts and forced them to accept a mode of restructuring by way of mergers and acquisitions.

In the entire telecom ecosystem, there are various companies such as technology companies, chipset manufacturers, network / infrastructure providers, VAS companies /content developers, handset manufactures, service providers, IT/ software solution providers, application vendors, regulatory bodies, end users etc. In the entire ecosystem M & A is already taking place and the scope of study would be unlimited considering its complex structure.

Thus study is restricted focusing only the handset manufactures in this ecosystem. There are various handset manufacturers such as Nokia, Samsung, LG Electronics, Sony Ericsson, ZTE, HTC, Apple, RIM – BlackBerry, Motorola, Huawei etc. These companies are in existence for a long period of time and their market share is also changing year on year. For the purpose of our study we have selected three handset manufacturers who have completed the process of M & A in the last two years i.e. 2012 & 2013. The cases include study of Motorola-Nokia- Ericsson and its subsequent analysis.

2. The Objectives of the Study

In the recent past a few M & A have taken place in telecom industry i.e. equipment manufacture and internet service providers / IT service providers etc. The objective is to understand the contemporary events related to M & A and to analyse them to arrive at some conclusion.

There are various aspects to study for M & A, which include areas of strategies, organization theory, accounts &finance, economics, organization theory and HRM. It results in ignoring research findings in the other areas (Larsson and Finkelstein (1999). So our attempt is to focus on techno-commercial aspect of above M & A rather than purely finance or management perspective.

3. Methodology

We have adopted a case study based approach to understand and evaluate the recent trends in M & A. One of the main objectives of this approach is to study M & A which have taken place in relation to handset manufacturers. The study explains "how" it has taken place and major learning from the same. A case study based approach is a detailed study of several cases which are unique to a research topic i.e. in this case study; we tried to explore the basic objective / unique feature of M & A in three cases. The unique aspect / feature is observed and observations are drawn on this.

Allport (1937, 1962) introduced the terms 'nomothetic' which means general laws & procedures of exact science and focuses more on quantitative terms similarly another term 'idiographic' which indicates understanding of a particular case / cases focuses more on qualitative aspects. These can also be applied in M & A cases. The case study method belongs to the second school of thought i.e. idiographic which can be applied in cases of M & A. The process involved includes (Glaser and Strauss (1967) performing multi-case studies (between 2 to 10 cases), carry out comparative analysis which results in hypothesizes and theory which can be generalised (Eisenhardt, 1989:548).

A case study requires study of an event or a set of related events. The study should aim at describing the events and the phenomenon of interest (p. 302). According to Stake (1995), the collective case study is the study of a number of cases in order to enquire into a particular phenomenon.

4. Facts of the Cases:

4.1. Case 1: Motorola & Google

4.1.1. Motorola Mobility

Motorola Mobility was formed in January 2011 after, US based Telecommunications Company Motorola Inc. was divided into two (namely Motorola Mobility and Motorola Solutions due to $4.3 billion loss from 2007 to 2009) independent public companies.

The main business of Motorola was to design and sell wireless network infrastructure equipment,broadcast as well as home network products (including set-top boxes - this part of the business was subsequently sold by Google Inc. to Cable equipment maker Ariss Group Inc. for $2.35 billion) & cable modems, smartphones, digital video recorders, and network equipment which were used forhigh-definition television, video broadcasting etc.

Motorola was first one to launch handsets using TDMA, CDMA and GSM, first one to launch walkie-talkie, FM Portable Radio, portable consumer phone Dyna TAC, first portable cell phone Star TAC and a Linux OS based handset.

4.1.2. Google Inc

Google Inc. is an American corporation established in 1998 specialized in Internet-related services as well as products. The services and products include search engine, cloud computing and various software, online advertising technologies. The company has taken a lead in developing the mobile operating system i.e. Android. The operating system is freely available and promotes app development and content sharing with developer.

The first search engine and Doodle was launched in in 1998. Some of the technological success factors of Google include launch of Gmail in 2004, Google Maps and Google Earth in 2005, YouTube in 2006, Android Operating system for mobile devices in November 2007 and Chrome browser in 2008.

4.1.3. Causes of Google Acquiring Motorola

Motorola Inc. was acquired by Google Inc. in August 2011 (the process completed in May 2012) with an estimated price of $12.5 billion. It is a vertical merger. Motorola Mobility – a hardware company is acquired by a

Software Company / internet giant i.e. Google. Motorola was sustaining losses whereas Google was a profit making company. The former was strained in cash whereas the latter was a cash rich company.

Google has Android operating system which is open-source is being used by Motorola. However the same was under patent legal battle. (for alleged patent infringement suit from Microsoft, Oracle and Apple.) Acquiring Motorola was a step towards resolving these issues. Motorola Mobility relied on Android OS for its smartphones.

As Google led the operating system of Android, Motorola Mobility used Android operating system for its smartphone devices. Thus two major players such as Google for its software; and Motorola Mobility for its devices, if combined would help in faster innovation. Motorola Mobility was great in innovation in communications technology which has resulted into development of intellectual property. With both the companies coming together, it will help in terms of IPRs i.e. building Google's patent portfolio. Android as an operating system was facing anti-competitive threats from Apple, Microsoft, and other companies. Motorola Mobility has approximately 17,000 granted patents and 7500 patent applications which were pending, thus totalling to 24500 patents. Deal enables Google to take an advantage of Android as an operating system and mobile computing in the form of devices.

4.1.4. Effect of Acquisition

Since Motorola Mobility's has patents, it will help to protect operating system of Android ecosystem. Google can create synergy in terms of patents acquired from Motorola, operating system, and create dynamic devices.

4.1.5. Motorola's Subsequent Acquisition by Lenovo

Google purchased Motorola for almost $12.5 billion with major objectives of controlling patents. Now Motorola is sold to Lenovo at a massive loss at a price of $2.91 billion. Lenovo is a Hongkong Corporation. Thus it indicates expensive deal for Google. Lenovo is a Chinese electronics company with excellent distribution network and expected to have an edge for smartphones. Now Lenovo can concentrate on by accessing US and Latin America market by acquiring Motorola. The real issue is control on Motorola's patents. Post above acquisition, Google will continue to hold Motorola Mobile patent portfolio which will be leased to Motorola back.

4.2. Case 2: Microsoft & Nokia

4.2.1. Microsoft

Microsoft Corporation is an American public multinational corporation. The major business includes development, manufacturing, licenses, and support to products, services, IT solutions in relation to computing and with a main focus on software. The company was formed in 1975. It is one of the world's most valuable companies in terms of market capitalisation and branding. Some of the technological success factors of Microsoft include MS-DOS, Microsoft Windows line of operating systems and Microsoft Office suit.

Microsoft has dominated PC operating system and office suite markets. Apart from this, it has also produced a wide range of other software, internet search , mobile phone operating system, video game industry , the digital services market.

4.2.2. Nokia

Nokia Corporation is a Finnish multinational company. It has a main focus on communications and information technology. Nokia was formed in 1865. The main business includes hardware products such as mobile telephones, portable IT devices, IT related products and services and applications such as games, media and messaging, digital map information and navigation services. Nokia's another company i.e. Nokia Solutions and Networks provide telecommunications network equipment and services.

By the fourth quarter of 2012, Samsung achieved the first position in terms of mobile phone maker followed by Nokia (the market share being 18.0%). However subsequently, Nokia only has left with a 3% market share in smartphones. They lost almost 40% of their revenue in mobile phones in Q2 2013.

Microsoft acquired Nokia in 25th April 2014 (although process started in September 2013). In 2008, Nokia acquired Symbian Ltd. which provides Symbian OS for Nokia phones. Nokia's Symbian operating system was failed post 2011 and then switching to Microsoft was an obvious reason. With the introduction of smartphones and tablets, mobile phone and handset sale was affected. It has also affected on Nokia's production. Average Nokia

R & D expenditure was around 14% of the sales (in 2010) which is significant which may have resulted in development of IPR.

The acquisition includes 3.79 billion euro for Nokia's devices and Service business including key patents;1.65 billion euro for a broad intellectual property licence. In this IP and patent agreements have material value. Mobile phone business provides an entry into other markets; it would result into long term value creation.

4.2.3. IP Acquisition and License Agreements with Nokia

Since the mobile handset market, smartphone market and related business is mainly driven by patents, the above merger would help Microsoft to get an advantage of patents. Microsoft is acquiring over 8,500 design patents (except NSN), ownership of Lumia and Asha brands and a 10 year licence to use the Nokia brand on feature phones. The cost of license to Nokia's utility patents to Microsoft was almost 1.65 billion euro. Nokia holds an excellent patent portfolio related to technologies and wireless technologies. This portfolio consists of 30,000 utility patents and patent applications.Thus the licence and patents are valuable for Microsoft's business strategies. Nokia is assigning to Microsoft benefits under more than 60 patent licences with third parties such as Qualcomm, IBM, Motorola Mobility and Motorola Solutions. Microsoft will get a benefit in terms of royalty arrangements which Nokia had negotiated. Put all together, Microsoft will have the most cost effective patent arrangements for smart devices. Microsoft already had an extremely strong patent portfolio.

4.2.4. Case 3: Ericsson & Sony Mobile Corp

Sony Corporation (incorporated in May 1946) is in Japan. In October 2001, a joint venture (50-50) "Sony Ericson" was entered between Sony Corporation and Ericsson (Sweden). On 15th February 2012, Sony acquired remaining 50% equity interest in Sony Ericsson from Ericsson. Thus due to this, Sony Ericsson has become wholly-owned subsidiary of Sony and the name was changed to Sony Mobile Communication. Sony Mobile, manufactures and sells mobile handsets with a specific focus on smartphones using Android as an operating system.

It has helped Sony in acquiring ownership of five essential patent families related to wireless handset technology. The total consideration was 107174 million yen i.e. 1050 million Euros. Thus Sony Corporation is 100% owned Sony Mobile Communications.

Sony Ericsson has released new models based upon digital photography and multimedia capabilities including built-in digital camera & colour screen. The product range of Sony Ericsson includes the first mobile phone based on UIQ 3 - P990, world's first 8-megapixel phone and the first 12-megapixel phone, named Satio, which runs on Symbian Operating System 9.4. It could successfully prove that it has released 'people phone' with a specific focus on high quality built & entertainment. Sony Ericsson had various technological innovations.

4.2.5. The Buyout Plan

Sony Ericsson was established back on October 1, 2001, with an objective of using specialised areas of both the companies. Sony was expertise in consumer electronics whereas Ericsson's was expertise in phone and network knowledge. The joint venture lasted for about 10 years."Sony Mobile Corp." acquired Ericsson's 50% share from "Sony Ericsson" on Feb 16th, 2012. It made a payment of € 1.05 billion to Ericsson in cash. As part of this deal Sony acquired 5 patent families along with a broad IP cross-licensing agreement with Ericsson. It would lead to the two companies' initiative of connecting across multiple platforms.

Ericsson is a Swedish Company provides telecommunication systems and mobile networks. Ericsson was one of the top cellular telephone handset manufacturers however took a setback due to unavoidable reasons of shortage of inputs affecting its production.

Sony is a Japanese consumer electronics company. Sony was also one of the companies in cell phone market. Sony and Ericsson discontinued manufacturing own mobile phones and concentrated more on phones having multimedia features. Since the date of Joint Venture, it was very difficult to earn profits and the venture actually sustained huge losses. In 2008, the company could achieve a status of third largest mobile phone manufacturer after Nokia and Samsung.

4.2.6. Reasons of Acquisition

Sony had a decreasing market share due to decrease in popularity of feature phone market and losses of $ 317 million in Q4 of 2011. Sony sees smart phones as integral part of its tablet, PC and video game console market. This shall help integrate its software and hardware innovations into smartphones. It facilitated opening up of new world of

Sr.No.	*Comparative Aspects*	*Case 1*	*Case 2*	*Case 3*
1	Name of Acquirer	Google	Microsoft	Sony
2	Year of Formation of Company	1998	1975	1946
3	Country of Incorporation	USA	USA	Japan
4	Financial Status	Profit making and cash rich	Profit making and cash rich	Profit making
5	Nature of Business of Acquirer	Software and Internet related product and services	Software, IE and then by manufacturer with best products such as Windows OS	Electronics, products related to audio, video, IT etc. Entertainment
6	Main purpose of acquisition for acquirer	Patent acquisition and to overcome patent related issues	Patent acquisition	Patent acquisition and restructuring into telecom business
7	Name of Target Company	Motorola	Nokia	Ericsson
8	Year of Formation of Company	1928	1871	1876
9	Country of Incorporation	USA	Finland	Sweden
10	Financial Status	Loss making and defunct in 2011	Loss making in Q-2 of 2013	Loss making
11	Nature of Business of Target Company	Handset manufacturer	Handset /mobile products manufacturer and software	Mobile phones
12	Main purpose of acquisition for Target Company	To come out of losses and restructuring	To come out of losses and restructuring	To come out of losses and restructuring
13	Number of Patents with Target Company	Approx. 24500 patents (17000 granted and 7500 pending)	Approx. 8500 design patents and 30000 utility patents	Approx. 35000patents largest holder of patents for standard essential patents for mobile communication
14	Year of Acquisition	May 2012	September 2013	February 2012
15	Value of Acquisition	$12.5 billion in cash	In cash Euro 5.44 billion (including licenses and future options with Euro 1.65 billion for patents)) or $7.17 billion (includes $2.18 billion for Nokia's Patents)	1.05 billion Euros
16	Main purpose of acquisition	Convergence of digital communications, information systems, consumer electronics, software providers, internet services and facility, content on net, rapid changes in technologies and resultant impact on handset and contents, Focus on cloud computing Financial impact in terms of profits and valuations Maximisation of shareholder's value Control on Intangible assets Main driving force in the form of Operating systems		
17	Role of IPRs (Patents / Intangible assets acquisition)	Patents IPRs Key Employees	Patents IPRs Key Employees Production facilities	Patents IPRs Key Employees

online entertainment to SONY mobile users with SONY Play station Network and SONY Entertainment network. Whereas for ERICSSON: In 1993, Ericsson sold around 8 lac phones however in 1999, it reached to 32 million. However from 1998 to 2001, it faced various issues and problems resulting into huge losses. Sony Ericsson's market share fell from 3% to 1.7% in 2011 subsequently Sony acquired Ericson's share in the venture in February 2012.

5. Comparative Analysis

5.1. Analysis

For the purpose of analysis, we have considered three cases of mergers and acquisitions. The comparative chart indicates that out of three acquirer companies, two are from USA where as one from Japan. The main business of the acquirer companies is providing services in the field of Information Technology, Software services and Internet. All the three target companies are mobile handset manufacturers. Based on year of establishment, the companies which are incorporated later (newly formed) are taking over old companies (Motorola, Nokia, Ericsson - Mobile). It may be an indicator of requirement of changes in the business models for technology companies for its sustainability. The acquirer companies have huge profits, assets and cash rich whereas the target companies were in losses and comparatively less cash however these companies were very rich in terms of intangible assets i.e. IPR – patents; licenses and human employees. The target companies hold huge number of patents and thus it has become one of the main reasons of acquisition / target for acquisitions. Thus the role of IPR ispre dominant in acquisitions. One of the main aspects was also to control on employees of target companies. The acquirer companies hold operating systems and software which has played an important role in acquisition. The target companies although handset manufacturing companies had to rely on operating systems and software solutions provided by acquirer companies. These companies wanted to have major control on handset manufacturing business for growth. Operating systems are used in PCs, Smartphones and Tablets. If we observe the trend of sales in these three segments, the demand for PCs is falling (share is 20%) where as demand for Smartphones and Tablets is increasing (share is almost 80% in 2013). The acquisition in all above three cases indicates the importance of operating systems or software applications over handset manufacturing activity. Even Blackberry Ltd. announced that the company was open for being purchased on 12th August 2013. One of the reasons here is same- fall in demand of its handsets, importance of operating systems in the entire ecosystem. Changes in technology, consumer preferences are main reasons to drive target companies for mergers and acquisitions.

There are ten major handset manufacturers out of which three players have already faced the challenges of mergers. Out of ten handset vendors, almost six are using Android (in terms of market share of all operating systems, it is almost 78.6%) whereas others are using other operating systems. Considering the market share of various vendors, the major gainers are Samsung, Apple followed by LG, Lenovo (which has subsequently acquired Motorola) etc. It would be possible that the others have almost 34% market share in terms of handset manufacturers, if any of these manufacturers have their own operating systems, then it would really drive the market.

6. Conclusion

The telecom industry always faces the challenges from technology up gradation, convergence issues and uncertain ecosystem which mainly includes consumer preferences. The trend in the mergers and acquisitions in the recent past has clearly shown the importance of changing customer preferences, driving force / role of operating systems as a part of selling handsets, financial positions of handset manufacturing companies, IPR / patents. The global market share of PCs is decreasing whereas for smartphones it is increasing. Thus this has also shifted focus on operating systems, patents to make changes in newer models. It clearly indicates growing importance of operating systems and software industries taking over handset manufacturing companies. It would be interesting to observe whether operating system plays a role in selecting the handset as one of the consumer preferences. (As the market share of Android has gained a lot during 2012-13.) The consumers have shown a preference of tablet and smartphones over personal computers. The gaining importance of smartphones, selection of operating systems and position of other players in terms of profits and cash would drive the future trends in mergers and acquisitions of telecom industry. Considering the competition in the smartphone market, cost will also play an important role. It would be interesting to observe the competition from players from China with existing top players i.e. Samsung and Apple.

APPENDIX

Table 1: MajorHandset Manufacturers and Operating Systems Used:

Sr.No	*Name of the Company*	*Operating System used*
1	Nokia	Symbian (till 2011), Microsoft Windows (2011 onwards)
2	Sony Ericsson	Sony Ericsson Java Platform 7 (Java ME)
3	Motorola	Android
4	Samsung	BADA, Android
5	LG Electronics	Android
6	ZTE	Android
7	HTC	Android
8	Apple	iOS
9	RIM – BlackBerry	BlackBerry OS
10	Huawei	Android

Table 2: Market Share of Mobile Phone Manufacturers in 2013

Sr.No.	*Name of vendor*	*2013 Market Share (%)*	*2012 Market Share (%)*
1	Samsung	24.60%	22.00%
2	Nokia	13.90%	19.10%
3	Apple	8.30%	7.50%
4	LG	3.80%	3.30%
5	ZTE	3.30%	3.90%
6	Huawei	2.90%	2.70%
7	TCL	2.70%	2.10%
8	Lenovo	2.50%	1.60%
9	Sony	2.10%	1.80%
10	Yulong	1.80%	1.10%
11	Others	34.00%	34.90%
		100%	100%

Source: © Gartner (Feb 2014) and http://mobithinking.com/mobile-marketing-tools/latest-mobile-stats/a

Table 3: Major IT Service Providers/Owners of Operating System:

Sr.No.	*Name of the OS Company*	*Name of the Company*	*Global smartphone operating system share (%) in 2013, according to IDC © IDC (Jan 2014)*
1	Android	Google	78.60%
2	iOS	Apple	15.20%
3	Research in Motion (RIM)	Blackberry Ltd	1.90%
4	Windows	Microsoft	3.30%
5	Linux and others	Open Source	1.00%

http://mobithinking.com/mobile-marketing-tools/latest-mobile-stats/a

Table 4: Market Share of Major Operating Systems

Name of vendor	*2013 Market Share (%)*	*2012 Market Share (%)*
Android	78.60%	69.00%
iOS	15.20%	18.70%
Microsoft	3.30%	2.40%
BlackBerry	1.90%	4.50%
Others	1.00%	5.40%
Total	100%	100%

Source: © IDC (Jan 2014) and http://mobithinking.com/mobile-marketing-tools/latest-mobile-stats/a

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