

DIGITAL PROLIFERATION THROUGH MERGERS AND ACQUISITIONS IN INDIA

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ABSTRACT

Digital transformation isn't about internet "unicorns", its about using the latest technology to do what you already do – but better. Evolution of technology has been the foundation stone of progress and has over the centuries changed the way societies function. Technological breakthroughs are induced by the Mergers and Acquisitions in an economy which accelerates Innovation and growth in an economy. The paper attempts to look into the role played by the Mergers and Acquisitions in technological breakthroughs which proliferate the Digitalization in an economy.

Key Words: *Digital economy, Mergers and Acquisitions, Innovation.*

INTRODUCTION

Ones and zeros are eating the world. The creating, keeping, communicating, and consuming of information are all being digitized, turned into the universal language of computers. All types of enterprises, from small businesses to large corporations to non-profits to government agencies, are going through a “digital transformation,” turning digitization into new processes, activities, and transactions.

From the 1950s on, with a distinct bounce in the 1990s due to the advent of the Web, digitization has changed the way we work, shop, bank, travel, educate, govern, manage our health, and enjoy life.

Evolution of technology has been the foundation stone of progress and has over the centuries changed the way societies function. Technological inventions have revolutionized each sector of the society by reducing human labour, bringing efficiency and increasing productivity. For a country like India that has a perfect blend of rich traditional heritage and one of the fastest growing economies with the largest ‘young’ population; there is an immense opportunity to change the face of the society with technological revolution. While the country has seen implementation of technological inventions in various fields in several decades after independence, the present Government has acted as a catalyst in speeding up the process of digital revolution in the country.

Phillips and Zhdanov (2013) model explains that M&A market induces both large and small firms to innovate, its impact is greater for small firms because the possibility of being acquired increases their potential gains from innovation, while large firms may find it optimal to let small firms innovate and acquire successful ones later. Second, large firms are less procyclical in their R&D, while small firms are always more incentivized to innovate with increased demand, and large firms may find it optimal to “outsource” R&D to small firms at an intermediate state of demand. Therefore, Innovation and growth is achieved easily and quickly through M&As in an economy. Digital Transformation thrives on Continuous Innovation.

The digital economy provides India a way to trigger the journey toward becoming a developed nation without waiting for costly and time-consuming industrial infrastructure investments to bear fruit.

Study Objectives

1. To analyse the importance of M&As in accelerating Innovation.
2. To know the role of Innovation in Digital Transformation.

Statement of the Problem

India in recent past has seen great potential in case of Merger and Acquisition (M&A) deals. It is being played vigorously in many industrial sectors of the economy. Many Indian companies have been growing the inorganic way to gain access to new markets and many foreign companies are targeting Indian companies for their growth and expansion. The volume of M&A deals has been trending upwards particularly in the fields of pharmaceuticals, FMCG, finance, telecom, automotive and metals. Various factors which lead to this robust growth of mergers and acquisitions in India were liberalization, favourable government policies, economic reforms, need for investment,

and dynamic attitude of Indian corporations which is a good sign for an economy as it speed up development process in an economy.

The confluence of technological change, changing consumer preferences and an evolving regulatory landscape are reshaping how products are developed, delivered and consumed. Companies are actively using M&As to invest in innovative start-ups in order to develop these new consumer offerings. Digital flows are now responsible for more GDP growth globally than trade in traditional goods. Automation, AI, the Internet of Things and business models such as the “sharing economy” are changing how we conduct business and our lives.

The study attempts to bring out the role of M&As in driving the technological innovations and growth in an economy inducing the Digitalization at a faster rate in India.

Research Methodology

As the study is descriptive and analytical in nature, the entire analyses of the study is based on secondary data and such data are collected from research articles in various journals, reference books of M&A, Newspapers, Magazines, reports of The Fletcher School Tufts University, World bank, etc.

Meaning and Definition

The digital economy is the worldwide network of economic activities, commercial transactions and professional interactions that are enabled by information and communications technologies (ICT).

According to the OCED, “Digital economy is an umbrella term used to describe markets that focus on digital technologies.” It refers to the full range of economic, social and cultural activities supported by the Internet and related information and communications technologies. “These typically involve the trade of information goods or services through electronic commerce.

Importance of Digital Economy

Although some organizations and individuals use technologies to simply execute existing tasks on the computer, the digital economy is more advanced than that. It is not simply using a computer to perform tasks traditionally done manually.

Instead, the digital economy highlights the opportunity and the need for organizations and individuals to use technologies to execute those tasks better, faster and often differently than before.

Moreover, the term reflects the ability to leverage technologies to execute tasks and engage in activities that weren’t possible in the past. Such opportunities for existing entities to do better, to do more, to do things differently and to do new things is encompassed in the related concept of digital transformation.

Current Scenario

Several Nordic countries, Switzerland and tech-centric South Korea are ahead of the US and Japan, to be called as the most advanced digital economies according to a digital economy ranking conducted by researchers at Tufts University in partnership with Mastercard Inc. India is at No. 53.

Nordics lead the Digital world

	Rank	Digital evolution index 2017 score
Norway	1	3.79
Sweden	2	3.79
Switzerland	3	3.74
Denmark	4	3.72
Finland	5	3.72
Singapore	6	3.69
South Korea	7	3.68
UK	8	3.67
Hong Kong	9	3.66
US	10	3.61
India	53	1.85

Fig 1 : Digital evolution index 2017 score

Source: Research at Tufts University in partnership with Mastercard Inc.

China leads on Digital Progress

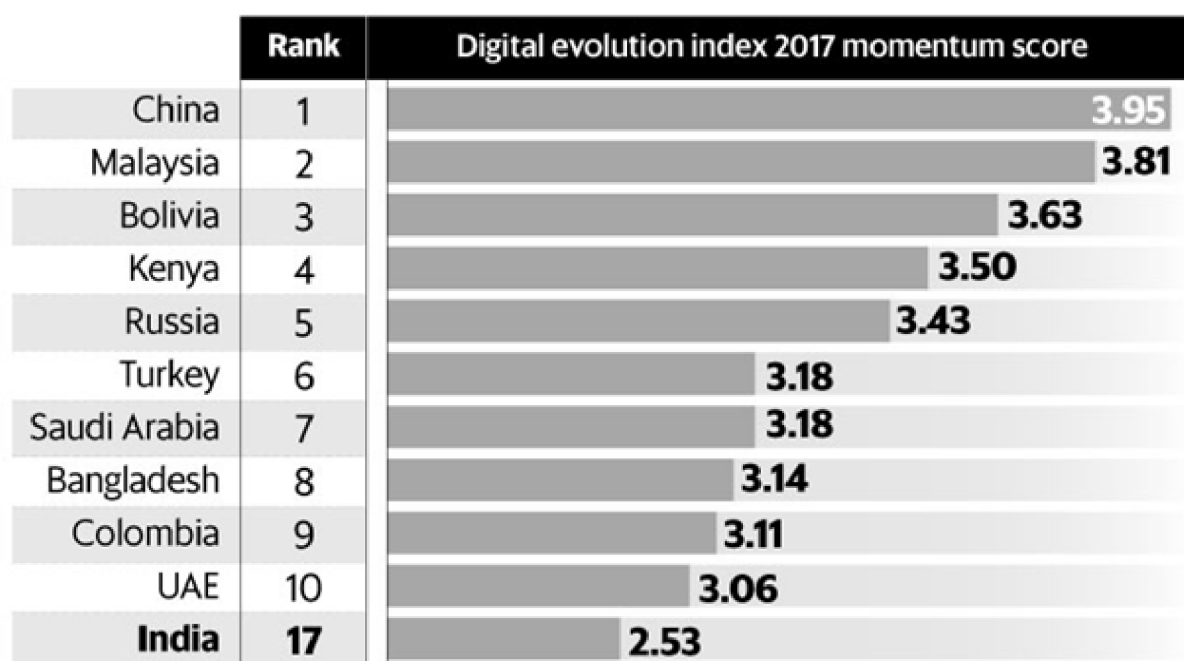


Fig 2 : Digital evolution index 2017 Momentum score

Source: Research at Tufts University in partnership with Mastercard Inc.

More than 170 indicators, including mobile broadband penetration and intellectual property laws, were used to rank 60 countries as of 2015, and to show how far they've progressed since 2008. This score, which the researchers called the Digital Evolution Index, quantifies the interplay between demand and supply within the digital economy, the level of support provided by governments and institutions and the pace of innovation.

Role of Mergers and Acquisitions in accelerating technological growth

Technology is not just for Tech companies anymore. Nearly every industry has been affected by digital and mobile technologies, and many have been upended. No company can afford to ignore the impact of technology on everything from supply chains to customer engagement, and the advent of even more advanced technologies, such as artificial intelligence (AI) and the Internet of Things, portends more far-reaching change. The question is, how do companies rapidly access the technologies that can advance their businesses and integrate them successfully with their current operations?

For an increasing number of organizations, the answer is to buy rather than to build. Acquisitions of high-tech targets have become an instrument of choice for buyers in all sectors looking to boost innovation, streamline operations and processes, shape customer journeys, and personalize products, services, and experiences.

Acquisitions and mergers are strategic moves by companies foreseeing scope for business expansion. Big organizations acquire small ones to strengthen their existing assets or to quickly fill the loopholes- instead of doing it themselves from the scratch. On the other hand, two big companies merge primarily to achieve the monopoly over the industry.

The below statistics presents the value of global mergers and acquisition deals in 2016, by industry.

Global M&A deals in 2016

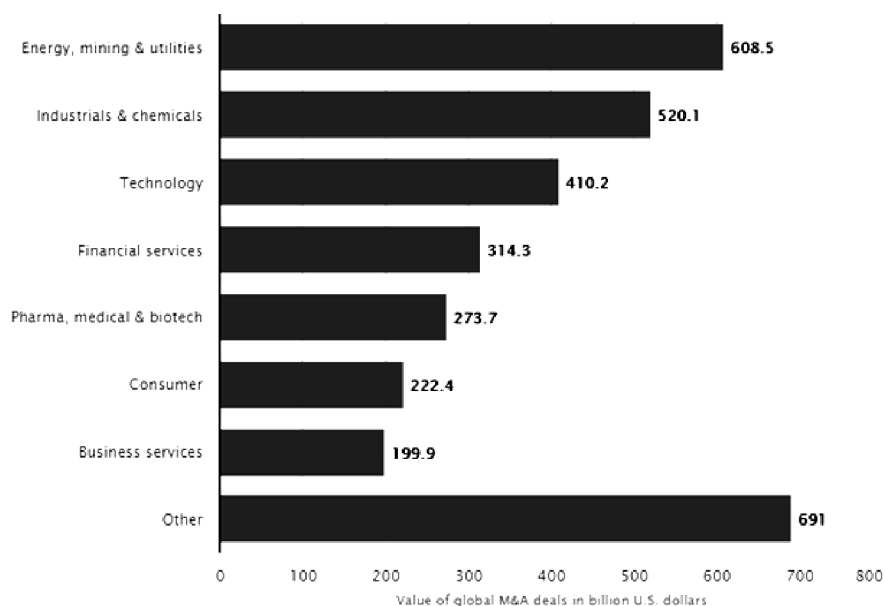


Fig 3 : Global M&A deals in 2016

Innovation-through-M&As can be a great growth catalyst and has become a crucial complement to internal, organic innovation in a growing number of industries. The following are some of the examples in the recent past:

Axis Bank's acquisition of FreeCharge: Axis Bank is one of the few tech savvy banks in India. It has been embracing technology to ease the banking. It acquired Accelyst Solutions Private Limited and Freecharge Payment Technologies Private Limited for \$60 million. The acquisition will pave a way for its foray into proliferating digital payments space in the country.

Vodafone-Idea merger: The high profile merger was announced at a time when the new entrant Reliance Jio started disrupting the Indian telecom industry. The combined entity

with Kumar Mangalam Birla as chairman is going to be the largest telecommunications service provider in the country with about 400 million customers, 35 percent customer market share, and 41 percent revenue market share. With the combined infrastructure, technology, intangible assets, etc., the company will take the fight against Bharti Airtel and Reliance Jio.

Google's acquisition of Halli Labs: Halli Labs develops solutions to traditional problems using Artificial Intelligence (AI), Machine Learning (ML), and deep learning technologies. Google acquired this 4-month old start up. The acquisition is a testimony to how big companies look beyond horizons to acquire talent.

Airtel-Telenor merger: Airtel which is under immense pressure due to losing customers and falling revenues is trying hard to regain its lost ground. The merger with Telenor India will give initial thrust to the company in the fight against Reliance Jio and Vodafone-Idea. It will also increase the company's 4G spectrum holdings.

Tirumala Milk – Lactalis: The largest dairy player in the world, Groupe Lactalis SA, acquired the 18-year-old Hyderabad based Tirumala Milk products for a whopping Rs 1750 crore (\$275 million). Tirumala is the second largest private dairy company in South India.

Yahoo- Bookpad: After Facebook and Google acquired Little Eye Labs and Impermium yet another acquisition of an Indian start-up by a global technology major, underlining the growing innovativeness of the country's start-up ecosystem. Bookpad has been acquired for over \$15 Mn.

Growth of Internet, Information & Communication Technologies

The US, which leads the world in IT and e-commerce, has had an impressive economic performance, particularly in terms of productivity growth, since 1995. According to the Report, much of the acceleration in productivity

growth “is structural and attributable to changes induced by ICT and the Internet, through improvements in all aspects of corporate organization, production, finance, marketing and logistics”.

According to WEF Chief Business Officer Robert Greenhill “Indian Information and Communication Technologies (ICT) sector played an important role in fostering productivity, providing opportunities for citizens and proving a growth catalyst for the economy reaching out to the less-advantaged segments of the population, especially in rural areas.”

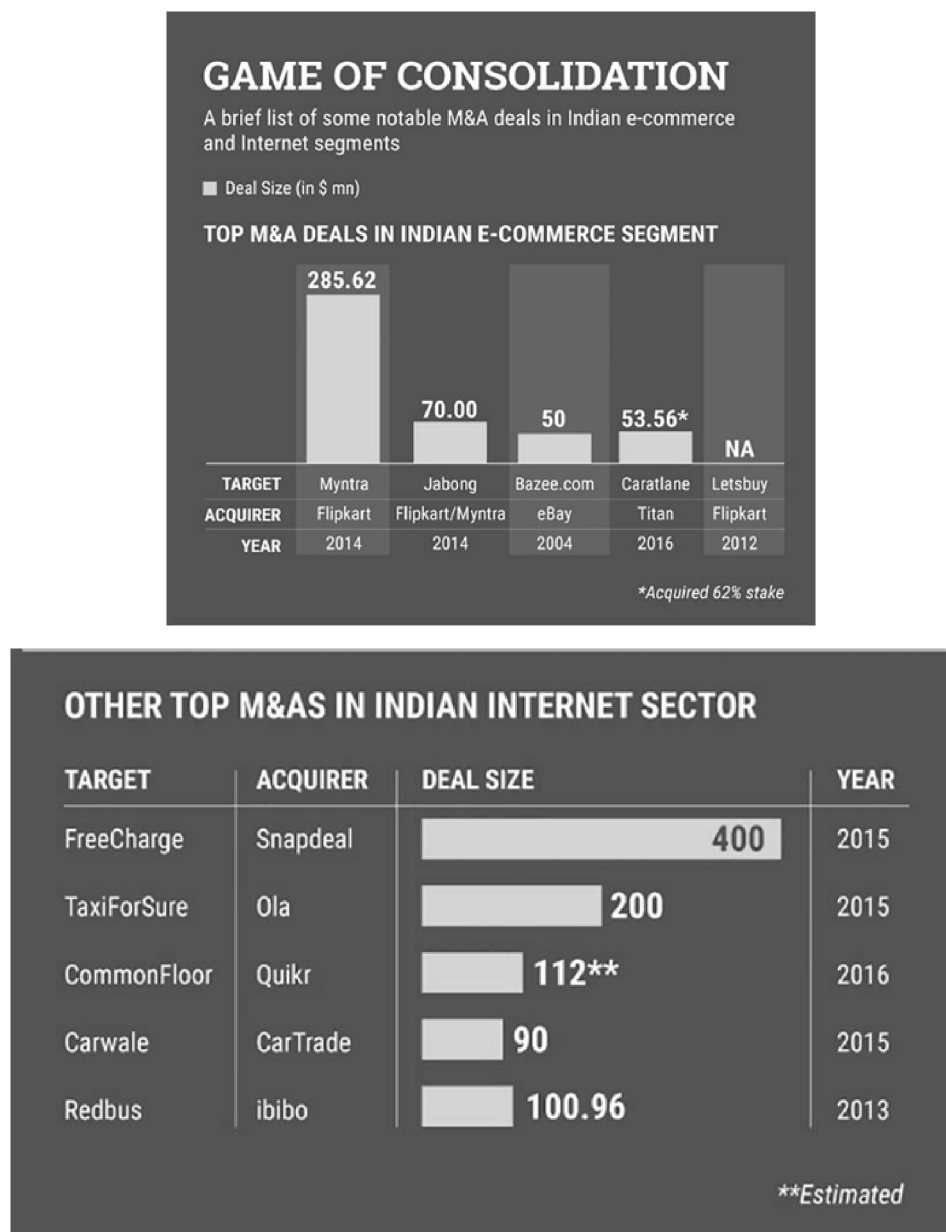


Fig 4 :M&A Deals in Indian E-commere Segment & Internet Sector

Source: VCCEdge, VCCircle

CONCLUSION

Mergers and acquisitions like Make My Trip-Golbibo, ItzCash-Ebix Group, and PayU-CitrusPay created the potential to change the face of their existing markets, as well as the economy of the country. India, as a market, is filled with unique and globally scalable ideas. And now with the efforts of the current government in accelerating Digitalization, these ideas are also taking wing under different government schemes and policies. All we need is a right environment and support at the right time so that these M&A trends activities indicates growth and not fall of the market.

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