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***Research paper***

# Specific Features of Mergers and Acquisitions in the Transport Industry

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**Abstract**

The article defines the role of the transport system in formation of the industrial infrastructure of the world economy in order to determine the trends to increase the efficiency of transport infrastructure in the conditions of globalization of the world economy. The authors have considered M&A processes as the most efficient means to improve the efficiency of operation of transport companies. The main reasons have been identified which motivate owners of transport companies to such types of reorganization as mergers or acquisitions. Both external and internal factors influencing the value of transport companies in mergers and acquisitions have been systematized. it was proved that one of the most priority options for the sustainable development of both an individual enterprise and the domestic economy is transnational integration transformation into forms of mergers and acquisitions. According to this scenario, the expected result is not only an increase in the company's value, but also an increase in profits.

***Keywords***: *integration; reorganization; estimated value of business; world economy Mergers and acquisitions; transport industry; transport infrastructure.*

## 1. Introduction

As integration processes in the world economy strengthen, the position of individual national economies as components of the global world economy is fundamentally changing. Today, with the influence of exogenous factors, there is not a single country or a national economy which would not be involved in the global economy.

The world economic relations cover all spheres of the functioning of the international economy, which transforms them into an extremely complex system. Being influenced by the globalization processes, the world economy is an extensive, complex economic system, the unity of which is ensured by the developed international division and cooperation of labor, the interaction of intensive international markets, the implementation of monetary and financial as well as credit relations. This makes countries develop foreign economic relations of the most diverse forms, intensify the production specialization, and expand the scope of interaction with other countries.

The transport system take one of the most important places in the formation of the industrial infrastructure of the world economy, since it is transport that is directly involved in ensuring the commodity-money circulation cycle of the economy, promotes progressive geographical and structural changes in the distribution of production and population, acceleration of the circulation of material, financial, information and labor resources.

## 2 Results and Discussion

As the internationalization of production and circulation becomes more intense and competition in traditional markets and the destabilization of the financial sector grows rapidly, the intensification of integration processes will undoubtedly lead to the internationalization and globalization of transport and logistics systems. Therefore, the primary task is determination of the economic role and social significance of transport in the world economy, as well as identification of possible ways to increase the efficiency of world transport infrastructure.

In our opinion, organizational transformations in the form of mergers and acquisitions (M&A) deserve special attention in solving this problem as one of the most powerful tools for improving the efficiency of transport and logistics systems of individual countries and the world as a whole.

In the context of modern world economic processes caused by the growth of globalization and the deepening of the global financial crisis, the factors that have an impact on the increase of the value of integration objects need to be detailed for making decisions on the appropriateness of conducting M&A transactions in the transport sector.

Also, the main areas of analysis of mergers and acquisitions include motivation, that is, the reasons that make owners of the companies to conduct integrate transformations.

In the study of existing motivational approaches, it has been identified that the works by modern specialists [1,2,3,4,5,6,7,8,9,10,11] contains no systematization and generalization of existing theoretical and methodological approaches. Therefore, in order to achieve new scientific results which would be suitable for practical implementation in the business activities of transport companies, we

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regard that the theoretical approaches should be systematized, generalized and reconsidered in accordance with the requirements of the present.

Upon considering various motives of the integration process, we think that only those motives which, in our opinion, promote most the implementation of the principal objective of any entrepreneur – making profit – should be focused on.

The motives that make owners of transport companies conduct acquisition include financial motives, commercial, technical, technological ones, economies of scale, establishing a monopoly position, the motive of integration into the production cycle, as well environmental, intellectual and staffing reasons.

We regard seeking to establish a monopoly position, economies of scale, receiving excessive profits, the possibility of entering the market, uniting the acquisition object into the integrated production cycle, reducing the production unit cost, business diversification, "retail" sale of the property of the transport company, and protection against acquisitions as motives of the integration process in the merger.

Further, a working group consisting of twenty competent experts was created to determine the significance of each of the selected motives and assess their impact on the development of financial and economic activities of the integrated structure as a whole. The experts were asked to provide a quantitative estimate of the motives being studied on the basis of their own scientific, professional and practical experience.

Also, to determine consistency in rankings by twenty experts of the working group, the concordance coefficient was calculated. This coefficient is 0.87 for the motives of the integration process in merger, which suggests good consistency in expert opinion. This concordance coefficient calculated for the motives of the integration process in acquisitions is 0.89, which is also a positive result.

Thus, according to the expert estimates, the results of ranking of the motives of the integration process during mergers and acquisitions have the following form (Table 1 and 2).

**Table 1:** Results of ranking of the motives of the integration process during merger

| Priority place | Motive | The essence of the motive | Method of actualization of the motive |
|---|---|---|---|
| 1 | Seeking to establish a monopoly position | - seeking to create a dominant position in the selling markets<br>- seeking to fight off competition by setting common prices, single commercial terms and conditions or certain sales quotas | - establishment of common prices, single commercial terms and conditions or certain sales quotas<br>- acquisition of a competitor's company for the purpose of its liquidation |
| 2 | Receiving excessive profit | - seeking to reduce costs<br>- increased revenue growth rate from the sale of transport services | - increase of prices for the existing range of goods<br>- change of assortment of sales<br>- change in cost standards |
| 3 | Uniting the acquisition object into the integrated production cycle | - seeking to find new opportunities and prospects for the company<br>- seeking to achieve savings through the inclusion of the acquisition object in the integrated production cycle | - merger with the company which can provide the missing resources for successful operation |
| 4 | Economies of scale | - substantial reduction of the delivery time of resources required for the production<br>- reduction of the resource delivery cost<br>- seeking to achieve economies of scale through marketing centralization and a number of services such as accounting, financial control, office work, staff training and overall strategic management of the transport company<br>- seeking to reduce the average cost per unit of production by increasing the volume | - combining productions and eliminating duplication of employees' functions in different divisions of the enterprise |
| 5 | Reduction in the production unit cost | - Reduced costs of raw, materials, fuel and energy per production unit;<br>- Reducing the amount of depreciation deducted per unit of output;<br>- Reduced wage costs per production unit;<br>- Reduction of administrative and managerial expenses | - increase of labor productivity by introducing new technology, complex mechanization and automation of production processes, improvement of technology, introduction of progressive types of materials<br>- elimination of unproductive losses and expenses |
| 6 | Diversification of business | - reduction of possible losses when entering the market due to insufficient experience in the chosen field | - expansion of the range of services<br>- distribution of investment and risk to all areas of production |
| 7 | Possibility of entering the market | - an opportunity to save on the construction of a new company and purchasing equipment | - acquisition of a functioning and already established business, which brings a stable income |
| 8 | "Retail" sales of the property of the enterprise | - receiving income from selling all or part of the property of the acquired enterprise | - acquisitions of the company whose assets can be used more effectively when sold by parts to other companies |
| 9 | Acquisition protection | - seeking to prevent the company from acquisition | - merger with a "friendly company" (also called "white knight")<br>- acquiring an asset that can create certain problems for potential invaders<br>- using appropriate anti-acquisition techniques |

As we can see, the most important motive for implementing mergers agreements by transport companies is the aspiration of owners to actualize their personal ambitions by establishing a monopoly position in the transport service market, and then – the aspiration to increase profits.

According to the results of ranking of the motives of the integration process in the acquisition, as it is the case in the merger, the prime motive for the implementation of reorganization transformations is seeking for the power. The motives concerning the possibility of receiving profit and minimization of costs take the second place, and the motives associated with the acquisition of positive experience, the establishment of an internal operation system of the company are on the last place.

In the context of the globalization of the world economic space, integration transformations in the form of mergers and acquisitions should be considered as part of the corporate strategy of company management. The specific features of this strategy are primarily associated with the reorganization process - merging of companies of different size and value. Therefore, a reliable

estimate of the value of a company is one of the main reasons for the successful conclusion of merger or acquisition agreements.

**Table 2:** Results of ranking of the motives of the integration process during acquisition

| Priority place | Motive | The essence of the motive | Method of realizing the motive |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1 | Establishing a monopoly position | - seeking to create a dominant position in the transport service market<br>- seeking to fight off competitors (eliminating price competition) | Acquisition of competitive companies in order to terminate their activities in the future |
| 2 | Financial | - seeking rapid growth<br>- seeking to maximize the profit of a transport company<br>- reduction of the production cost | - combining enterprises with surplus or limited financial resources in cash, which can provide higher value of the joint venture<br>- construction of an optimal capital structure to ensure financial stability, solvency and financial independence of the enterprise |
| 3 | Commercial | - seeking to fight off competitors through acquisitions | - association with a company that has an inefficient capital structure and which has free capital and borrowing opportunities |
| 4 | Economies of scale | - achieve synergy effect | - combining production and centralizing management functions<br>- distribution of fixed costs for a larger volume of production<br>- productivity growth at the expense of specialization |
| 5 | Integration of the acquisition object into the overall production cycle | - seeking to open new opportunities and prospects for the company<br>- seeking to continually improve all operations performed<br>- providing high quality goods and services<br>- seeking to achieve savings through the inclusion of the acquisition object in the integrated production cycle | - acquisition of the company which can provide the missing resources for successful operation |
| 6 | Technical and technological | - increasing the competitiveness of the technological potential of the company<br>- compliance with quality standards established in or outside the country | - introduction into production of new technological processes<br>- control over technological discipline |
| 7 | Intellectual and staffing | - preservation and development of intellectual potential of the company<br>- preservation of the rights to intellectual property or its use (including patents, licenses)<br>- increasing knowledge and professional experience of the employees of the company | - raising the educational level of employees of the enterprise<br>- compliance of the qualifications of the employees with the requirements of them from the enterprise<br>- proper organization of the personnel management system<br>- effective incentive system etc. |
| 8 | Environmental | - minimizing the cost of measures to comply with environmental standards<br>- bringing the products of the enterprise to the markets of other countries with stricter standards of environmental cleanliness of goods | - proper observance of national standards of the minimum permissible content of harmful substances released into environment and environmental parameters of products manufactured by the enterprise |

For reliable estimation of the value of a transport company, a set of factors that can affect the final value of the merged company should be investigated.

On the basis of an overview of literary sources [2,3,4,6,7,15,16,17,18,19,20] and the study of information from leading international consulting and audit companies [11,12,13,14] regarding factors affecting the value of a company, the factors affecting the value of companies in mergers and acquisitions were graphically summarized (Figure 2).

The advantage of the proposed classification of factors for valuation of a transport company is its versatility and usability. Using this classification, the factors which form the value of transport companies can be structured by different groups of attributes, and the key factors generating the value of the company can be identified.

Since the formation of the value of a transport company is a complex dynamic process, which is focused on interaction with the external environment, it is important to determine the factors that affect the valuation of the company, since their degree of influence is an essential element of the M&A strategy. Identifying the influence of both external and internal factors on the market value of the company will further determine the appropriateness of a merger or acquisition agreement and contribute to the development of the financial strategy of the enterprise.

## 3. Conclusion

Thus, by choosing a merger or acquisition strategy as an effective business management tool, the transport industry opens up significantly more benefits than a range of opportunities of constrained growth.

The positive effects of mergers and acquisitions of transport companies primarily include:

- increase in the volume of sales of transport products in the form of cargo and passenger transportation;
- achievement of the scale of activity effect. Savings from expanding activities result in a reduction in the costs of organizing the transportation of goods and resources between different countries of the world, and accordingly - to lower prices for transport services;
- strengthening the market position of the company and reducing dependence on existing markets. When transport companies enter foreign markets, they improve their relationships with counteragents (intermediaries, customers, public authorities, etc.), which leads to strengthening of their market position and automatically reduces the dependence on the business performance in the domestic market.

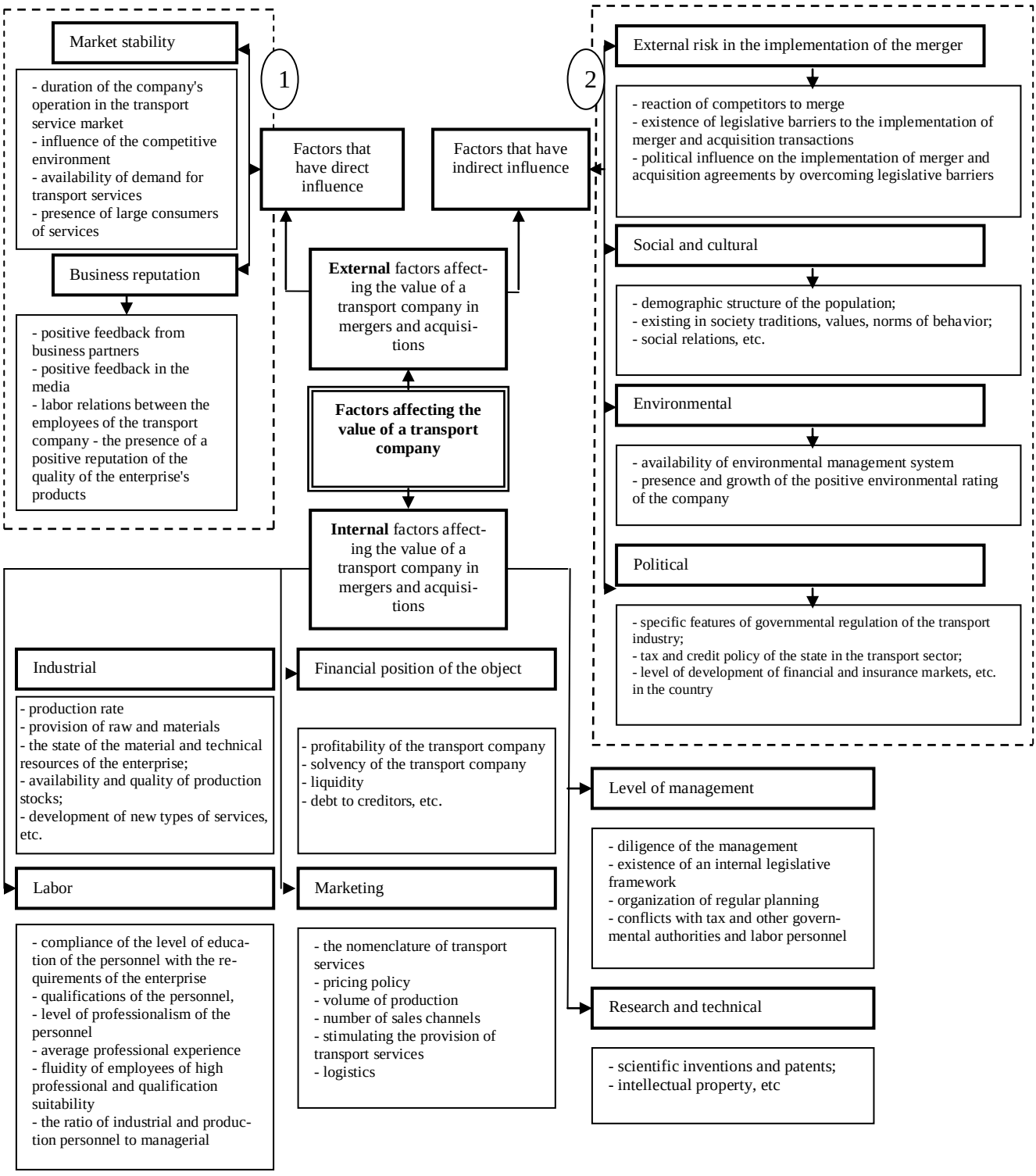



**Fig.1:** Factors affecting the value of a transport company

- getting the possibility to use differences and common characteristics of the domestic market vs. the foreign markets. The use of differences and common characteristics is the possibility for a transport company to leave a foreign market through entering another foreign market without lowering the overall performance in the event of a critical decline in demand for products or a significant increase in competition in an individual foreign market;
- possibility to apply the existing management experience in new markets and acquiring new experience. Transport companies that operate in many overseas markets are exposed to a greater number of external factors, which in turn complicates the management process. Therefore, these companies receive considerably more opportunities for expanding their experience than those operating in the domestic market only.

Thus, M&A agreements provide for transport companies the opportunity of better adjustment to the ever changing global economic climate, faster development in the relevant sector and region, and adequate competition in the transport service market.

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