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Business Growth by Mergers and Acquisitions

- A Qualitative Study of Business Strategies: The Case of Smile Tandvård

Tillväxt via Fusioner och Förvärv

- *En Kvalitativ Studie av Företagsstrategier: Fallstudie av Smile Tandvård*

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Abstract

M&A is a strategy with a process that greatly revolves around achieving an approved merger, and subsequently being ready to act upon an approval. The strategy's focuses are on the preparation and the analysis of the merger. A firm that is consistently up-to-date on the information available and on the status of the market, can prosper when opportunities reveal themselves. This paper studies business strategies from the point of view of what might bring growth to firms, based on theory and empirical evidence. Moreover, a case study is used of the firm Smile Tandvård, who actively uses M&A. The study is consisting of a research of the theoretical background, to enable links from several of these theories into the case study, as well as into the analysis. Additionally, was an interview conducted with the accounting manager of Smile Tandvård to get a clear insight into the firm's processes. The qualitative part showed the theories, the empirical evidence and the case study aligning in their characteristics, where I could pinpoint certain aspects of Smile Tandvård to the choices a firm has on a market, according to the theories. Moreover, showed the research there being plentiful ways in which you could examine the success of a merger or an acquisition. The direct result or direct returns not being the sole aim when deciding on M&A, and there were competitive advantages to gain. The quantitative test showed there being a correlation between business cycles and the amount of mergers and acquisitions.

Keywords: Mergers, Acquisitions, Business Strategies, Growth, Strategies.

Sammanfattning

Fusioner & Förvärv som strategi, har en process som till stor del handlar om att få förvärvet godkänt, och sedermera kunna agera vid godkännandet. Strategins fokus är på förberedelsen och analysen inför förvärvet. Ett företag som är konsekvent uppdaterat på den tillgängliga informationen och statusen på marknaden, kan uppnå framgångar genom detta när möjligheter uppstår. Denna studie undersöker företagsstrategier från perspektivet av vad som kan ge företag tillväxt, via en bas av teori och empiri. Utöver det, används en fallstudie av Smile Tandvård, som aktivt använder sig av strategin av fusioner & förvärv. Studien består av en research av befintligt teori, för att möjliggöra flera kopplingar till fallstudien, såväl som till analysen. Adderat till det, utfördes en intervju med redovisningschefen hos Smile Tandvård, för att kunna få en klar inblick i företagets processer. Den kvalitativa studien visade att teori, empiri och fallstudien följer och knyter an till varandra i sina kännetecknande drag, vilket möjliggjorde att jag kunde precisera aspekter hos Smile Tandvård som följer de val ett företag ställs inför på en marknad, enligt teorin. Därtill, visade undersökningen att det finns åtskilliga sätt att tolka och granska fusionen eller förvärvets framgång. Med det direkta resultatet eller den direkta avkastningen icke varande det enda ett företag siktar mot vad gällande fusioner och förvärv, det fanns även konkurrensfördelar att vinna. Det kvantitativa testet visade att det fanns en korrelation emellan konjunkturcykler och antalet fusioner & förvärv.

Nyckelord: Fusioner, Förvärv, Företagsstrategier, Tillväxt, Strategier.

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1. Introduction

Mergers and Acquisitions have increased in importance since the 1980's as a way to promote firm growth. The strategy is a tool for rapid growth that has caught the interest of the common man, as well as the inveterate, in the topic. It coincides with a part of society that is often considered to be very hard to understand, even though its proximity to the everyday life. The inveterate is enticed by the background information to the merger or acquisition, as well as the direct- and indirect effects that come with it. Direct effects of mergers or acquisitions can be exemplified as the benefits the parent firm can utilize now that they have acquired- or merged with the target firm. It can also be seen through the direct effect on the market, with there now either being fewer firms, or it being a reinforced firm, that might result in a direct shift in market power. The direct effects lead to indirect effects, a reinforced firm might grow from the merger or acquisition that later on leads to a shift in market power when the direct effect has grown in power. Another indirect effect is shown by a firm acquiring a target firm, that changes the production process or lower costs, which leads to its competitors following suit, acquiring similar firms to adapt to the "new standard".

There is also a parallel to draw between the merger or acquisition and the firm's business strategy. With an additional part being the market's answer and reaction to the event, which baits interest from many directions. The market could follow in the footsteps of a market leader that reinvents a production process, and react by taking upon the new way, or by taking inspiration from the leader and further reinvents the process, all coming from a merger or an acquisition.

With it being closely regulated in regard to competition on a market, there is a clear gain for firms that distinguishes opportunities of mergers and acquisitions, and may capitalize on such opportunities, within the confines of the regulation. However, to enable a firm to strike at an opportunity, there often lie more work to the purchase than what meets the eye. As analyses and strategic planning are necessary in order to not lose in comparison to non-merging competitors, in other words: there must be a purpose to the merger or acquisition and therefrom could competitive advantages be gained. Over the past 30 years there has been a raised interest for M&A. The primary focus is on the connected strategic fit, the organizational fit and the whole acquisition process. With recent advances in research discussing the status of the topic, one can ask if the failure rates of M&A are something to focus on, or if instead there is more to it, and what those gains could be. Failure rates have been stable regarding acquisitions since the 1970's, in the level of 45-50 %. However, despite these failure rates and negative average returns for acquisitions, the reason for M&A can be pointed towards value creation opportunities. The discussion around recognizing the process and organizational dimensions of acquisitions can be called for as well, in a way answering if the focus instead should be pointed towards these surrounding factors (Cartwright & Schoenberg 2006).

The number of mergers and acquisitions have been around 50 000 annually in the world in the last five years, equivalent to one transaction every 10-11 minutes (IMAA Analysis 2021). In Europe for the same time period there were 17 500 M&A annually (ibid).

A firm that has used M&A as a part of their strategy is Colosseum Smile AB, also called Smile Tandvård. The firm is Sweden's largest- and oldest private dental firm, and is a part of the Colosseum Dental Group. The business group describes itself as: "a leading dentistry organization in the European dental services markets" (Colosseum Dental 2021). The business group consist of more than 300 dental clinics in nine different countries, of which 39 dental clinics are in 34 different cities in Sweden (ibid). Colosseum Dental Group grow through both organic growth and by M&A. The organic growth happens through gained popularity, satisfied returning customers and new development. The growth through M&A focuses on acquiring smaller actors on the market to gain economies of scale, patient stocks, etc.. There are advantages and disadvantages with both forms of growth.

The organic growth's advantage is slow and steady, where the firm reinvest a share of the earnings in its core business. The disadvantages are that the desired share of the market takes time to develop and is vulnerable to competition. The advantages of growing through M&A are the immediate improvements in increased market share and assets, new acquired skills and know-how and easier access to capital. The disadvantages relate to integrating the acquired businesses successfully and managing the increased operations and scales.

From the many aspects of M&A, from the build-up, to the purchase and effects they bring for the buying firm and on the market, there are a number of interesting aspects to investigate. What strategies do firms use for growth? Are M&A a prominent feature for growth? In the context that it could help firms of any sizes to grow. An analysis of firms' strategies for growth, through a primary scope of M&A, will help to achieve answers. With the additional tool of Smile Tandvård as a data source and case study.

In relation to this, I want to gather a greater understanding for the topic of M&A, in connection to firms' ways of growing, different business strategies and to get an insight into Smile Tandvård's business in Sweden and its business group: Colosseum Dental Group.

The purpose of this paper is then to examine business growth through M&A. A study of business strategies will be made to set M&A into a comparison. Moreover, the secondary purpose is to find out if a firm that focuses on M&A as their main way of growth, results in what the theory and empirical evidence point towards: That the strategy of M&A is not primarily about the direct result or return of the action, rather the surrounding factors of restructuring, sharing activities, gaining market shares, synergies, etc.. Otherwise would the failure rates, amount of acquired firms that are divested, etc. deter firms of using M&A as a strategy.

Organic growth is through a business' internal processes and it does not include growth attributable to M&A. Thereby will organic growth be disregarded in my purpose.

1.1 Problem Statement

To what extent is M&A an effective business strategy for firm growth?

Will the acquiror gain a competitive advantage through M&A, through efficiency gains and by gaining a competitive edge over its non-merging competitors?

1.2 Methodology

To achieve the objectives set for the paper, and to seek answers to questions asked, it requires a combination of collecting data, doing interviews, finding the relevant theory and empirical evidence. The relevance of finding the correct data is preferred but not required, as the discussion and analysis are more important aspects than attempting to find an answer to the whole problem. As this is the case, an interview with the accounting manager of Colosseum Dental AB is preferred to collecting quantitative data in the context of this being a qualitative study. I intend to analyze theory, earlier studies and utilize the offered help from Smile Tandvård to enable a discussion and explanation of the topic of firm strategies in general, and M&A in specific.

There are two methods of reasoning: Deduction and Induction, deduction is an identification and reasoning from premises leading to a logical conclusion. The distinction from induction is thereby that induction instead makes generalizations from observations that are specific. For this paper, the best fit will be a basis of deduction. It will be used when gathering knowledge that is needed, together with a research of existing theory that will be taken further into comparisons to empirical evidence. Thereafter, an examination of Smile Tandvård will be done, with an analysis that will focus on the theories that surround the topic and can be applied to the firm itself in comparison to business strategies and the market it acts upon. Through the process of gathering scientific knowledge of the subject at hand, there will be an approach at explaining important aspects of Smile Tandvård's process of acquisitions, synergy effects and results from the M&A.

The data will be gathered from reliable sources, as OECD, the European Commission (EC) and the Colosseum Dental Group, from which Smile Tandvård belong to, with the help from the accounting manager at Smile Tandvård. With an aim towards results and values connected to M&A, additionally also synergy effects, etc.. With this in mind, the paper will be a qualitative study where I use secondary data for the statistics.

The method will primarily be of a qualitative nature, with the usage of quantitative aspects added through gathering data in numbers and values to support the text. This will lead into an analysis of the theory and statistics. The quantitative parts of the paper will use the topic's connected theory, earlier studies, etc.. There will also be made an interview, when I question and discuss with the accounting manager of Smile Tandvård, which will be a part of an exploratory study within the paper. As accounting manager, you see the numbers of the firm black and white. Therefore, the position is a great intermediary for me to understand the firm. The accounting manager has direct knowledge about the firm's strategy and its consequences. The reliability of the source of the person interviewed should leave no gaps of consideration, thereby is the accounting manager a trustworthy source of information.

The choice of Smile Tandvård as a case in this study is chosen thanks to the firm's (and further, the business group: Colosseum Dental's) strategy of M&A in the market it acts on. The dental market in Sweden (and 8 other countries in Europe) has shown potential for their business idea, and subsequently they aim to apply it on the market to gain market shares. Considering the fact that Smile Tandvård will be shown to include M&A as part of the firm's business strategy, it fits into my desired topic of research and as a case study. Thereby allowing me to gather their information and compare it to the theoretical- and empirical background, which will show connections and contrasts.

The objective of the paper is to analyze firms' strategies for growth, especially through M&A. Further to put Smile Tandvård's methods for growth in comparison to what the theory says and what the empirical evidence have said about the fastest way to grow a firm: by M&A. Smile Tandvård will be used as a data source and case study. Moreover, by that enable me to discuss and assess the firm's successes and their areas for improvements.

1.3 Delimitation

Data will be gathered from articles and papers, and from interviews with Smile Tandvård. This data will then be compared an analyzed, to the existing theory and empirical evidence. Therefore, the focus in this paper will be on the market level and not on a firm-to-firm comparison.

Because of the qualitative nature of the data and information from Smile Tandvård, the data is primarily used as an example of how a firm functions when using M&A as a strategy. Additionally, it will be used to give an example of the status of M&A in Sweden for the dental healthcare market.

The focus of the paper is limited to Sweden, and the EU on those occasions where it makes sense to provide a broader picture of mergers and acquisitions as a business strategy. The paper do not describe or analyze other markets than the Swedish. To have done so would require in depth analysis and knowledge of country- and market specific circumstances affecting these markets and would be well beyond the scope of the paper and further inconsistent with the purpose of the paper and the problem statement.

1.4 Disposition

The paper will be with a disposition of a starting part that will explain related theories and terms, as well as important aspects to the topic. In order to build a basic understanding of business strategies, M&A and connected factors, and enable me to connect adjacent concepts and terms to the data. Following that I will aim to explain regulations surrounding M&A, the European Commission's involvement and the importance of M&A. After that part, I will take a look at the competition- and dental market in Sweden.

The case study using Smile Tandvård is presented and examined in the analysis part of the paper. The analysis consist of the interview with the accounting manager of Colosseum Dental AB. In addition, results from a quantitative analysis of the likely link between the business cycles and number of M&A is presented. The analysis is followed by a discussion on the results found in the analysis. This part will compare the results to existing empirical evidence and theory. Finally, a conclusion is made to what extent the problem statements are answered.

2. Theoretical Background

To be able to study business strategies in general, and M&A in particular, there is a need for a fundamental understanding of the existing theories of M&A. With a topic that has been well and truly examined in many instances, there are several important terms and explanations to bring up. This chapter will therefore include these following theoretical terms that will allow me to analyze, discuss and examine the topic. Furthermore, the content will allow me to connect theoretical factors to the case study.

2.1 Mergers

A merger, a process in which two or more firms combine their operations. There are two types of mergers: horizontal- and vertical mergers. A horizontal merger is when the two, or more, involving firms are direct competitors, and a vertical merger is when the involving firms are at different levels in the supply line, as when one firm produces a product, which the other firm uses in their production. Mergers allow firms to combine production, marketing and administrative operations, among other positive aspects. However, negative aspects could come from mergers as well, such as less competition when the number of firms on a market is reduced due to a merger. A part of competition policy is designated to examine if there is a need for blocking mergers, because of reasons such as that the result of the merger would reduce competition, as this would lead to higher prices for the consumer. An example of an organization that examines these aspects is the European Commission, who examines M&A in Europe (Besanko et al. 2016).

Besanko et al. (2016) bring up the importance of mergers as “reasons to buy”, with the way firms work there are efficiencies to be gained when exploiting scale and learning economies. Firms should focus their activities on what they do best, firms can through mergers take advantage of their own- and the merged firm’s best qualities and activities. Among many reasons for merging, are some examples that the firm you wish to merge with might have proprietary information, or patents, which in turn enables them to produce at a lower cost. Another argument for mergers is the economies of scale that the firm may achieve by a merger, or that the firm obtain learning economies (Besanko et al. 2016).

As mentioned before, there are positive aspects to mergers as well. A merger could lead to the combined firms now producing products at a lower average costs, subsequently leading to lower prices. Firms might be asked to present evidence of the merger, resulting in reduced costs and lower prices in order for it to go through, even aspects as better service or better products as a result of the merger could prove to be sufficient for the merger to be accepted. Furthermore, does

Clougherty (2013) state there to be correlation between mergers being approved and the presentation of international competitive effects, for domestic mergers. As they marshal the political forces (Private- and Public interest) at hand, leading to them having higher rates of approval. There are also cases in which the firms have restrictions imposed by the government, and through following those restrictions the merger is allowed. Restrictions in such cases are drawn out to ensure competition on the market, even though the merger might be bad for competition, the restrictions even out the playing field on the market. By for example forcing the firm to sell some of its brands or rights to competitors (Besanko et al. 2016, Clougherty 2013).

2.2 Acquisitions

Acquisitions of firms, -of patents, or -of licenses. All of which to benefit the buying firm, and all three ways can enable the firm to obtain new products (Kotler et al. 2013). However, with the focus on acquisitions of firms, there is more to the purchase than only obtaining the products of the bought firm. There lie more positive aspects within an acquisition, aspects such as customer bases, steps within the development process, expertise through human capital, etc.. What critics although have claimed is that competition is reduced when firms are expanding through acquiring competitors, as it is put in contrast to new product developments (Kotler et al. 2013). The large number of acquisitions that we have experienced in the recent years is said to absorb new (and young) competitors, and through that leading the industries into a state of reduced competition. The reduced competition is further than that leading the industries into having fewer major firms.

What makes acquisitions complex, in the form of the subject, for a moment disregarding the fact that acquisitions are complex in the process as well, is the bipartite situation. The results of acquisitions can benefit society through economies of scale, thereby enabling the firms to offer lower costs and lower prices. Moreover, it can through the acquisition change management, and make an inefficient firm efficient. Alternatively, it could create competition in a market or industry that lacked proper competition before. The other side of the complex situation of acquisitions is that it could be quite harmful in many aspects, therefore it is closely regulated by governing authorities, who can block or regulate firms from acquiring a certain firm (Kotler et al. 2013).

Adding to this, Besanko et al. (2016) use efficiency as a reason to acquire firms. The added acquired firm could help the parent firm reach economies of scale, or even add information, patents or technology, which would mean lowering costs for the parent firm. Learning economies could also be achieved through acquiring firms. With economies of scale and learning economies comes advantages towards firm with low production levels or little experience (Besanko et al. 2016).

2.3 Why do Firms Engage in Mergers and Acquisitions

Why do firms engage in M&A? Akdogu's (2009) results show further backing of the theories claiming that acquisitions award the acquiror a competitive edge, therefore are the acquirors' rivals damaged if they are non-merging competitors. Acquisitions are seen as a means of corporate restructuring in a changing environment (ibid). To help explain negative returns to acquirors, without leaving the concept of value-maximizing for firms, Akdogu (2009) shines light on competitive advantage as an explanatory theory, where instead of focusing on direct returns, the focus is shifted towards acquisitions being strategic investments and restructuring tools. The competitive advantages could be necessary resources or technology, among other parts. There is also an aspect of acquiring the targeted firm in order for it not to be sold to a competitor, which might prove costly. However, could a value-maximizing firm find rationality in acquiring a target if the alternative of not making the acquisition makes the firm worse off in terms of returns (ibid). In terms of overall returns, the acquisition could prove beneficial despite negative returns (often small and insignificant as well) earned by the acquiror, through the returns of the target. Which have proven to earn positive and significant returns. The negative returns earned by the acquiror, in comparison to its competitors' negative returns, could also be seen as futile. As the non-merging competitors' negative returns are significant, earned at the announcement of their rivals' acquisitions (ibid).

In an effort to explain important lessons learnt in connection to Microsoft's (failed) bid to acquire Yahoo, Aktas, de Bodt, and Roll (2013) divide the case into four main lessons:

- The endeavor to create or maintain a competitive advantage may lead to overbidding.
- The seemingly low level of competition and virtual disappearance of hostile takeover might cast doubt about the market for corporate acquisitions as an effective external control mechanism over incumbent managers.
- Through the feedback loop between market information (stock prices) and corporate decisions: low firm valuations generate takeover transactions (the trigger effect) but an increase in the probability of a takeover attempt leads to an increase in valuation of potential targets (the anticipation effect).
- Antitrust regulation using an industry concentration index should not be overlooked.

The first lesson being that "the endeavor to create or maintain a competitive advantage may lead to overbidding" (Aktas, de Bodt, and Roll 2013). Which naturally explains one reason for firms to engage in M&A, but also a negative aspect of letting the competitive nature of the market overcome rationality. When the causation of overbidding is not an error in valuing or overconfidence, a competitive battle between two firms might blind one or the other into making the wrong choices.

The second lesson explained by Aktas, de Bodt, and Roll (2013) adds the argument of the incidental nature of the disciplinary role of the market for corporate control, to the debate of the market for corporate acquisitions as an external control mechanism. A low level of competition and virtual disappearance of hostile takeovers has been seen as a doubt regarding how effective this external control mechanism is over incumbent corporate managers, what Aktas, de Bodt, and Roll (ibid) shine light on is the powerful effect latent competition can have on bids to acquire, as unannounced potential bidders. Cases as MicroHoo (Microsoft's attempted bid at Yahoo) confirm that the market for corporate control, in the way it can play a disciplinary role, is not in need of observable competition for it to work, the threat of an acquisition can act as discipline of the management despite the lack of an observable rival bidder (ibid). This leads us into M&A being engaged in by firms as a means to assess management, to assess how the corporation stands in a comparison with competing firms, and to assess where and when competing firms counter-bid or interact with your own firm's actions.

The third lesson handles the trigger effect and the anticipation effect, which are two important effects to keep track on when talking M&A. A firm might engage in acquiring a target firm due to the target firm's valuation being low at the current time, however can a firm not expect to be alone in noticing an undervalued firm and by that does the probability of a takeover attempt increase. Subsequently, will the increased probability also increase the valuation of the target firm. The trigger effect comes from a low valuation of a firm (with potential) triggering takeovers, the anticipation effect comes from the probability, and anticipation, of a firm being acquired also leading to an increased valuation of that firm, as demand rises (Aktas, de Bodt, and Roll 2013).

The fourth, and last, lesson that Aktas, de Bodt, and Roll (2013) choose to explain in connection to MicroHoo, is how antitrust regulations should be used and trusted. A horizontal merger in an industry that raises the concentration by a certain specified number of points (the Herfindahl-Hirschman Index, HHI) is investigated by the antitrust agencies (ibid). The MicroHoo merger would have meant a significant increase in concentration, Aktas, de Bodt, and Roll (ibid) point towards how the financial press at the time argued against the clear indications of concerns of the merger, and instead argued for it to result in an reinforced competition. However were they by Aktas, de Bodt, and Roll's (ibid) examination wrong in doing so, and should have instead trusted the index. A merger or an acquisition that raises the concentration and decreases the level of competition on a market is something firms strive for, as it is better for the firm itself, despite the customers being the ones who are harmed. An incentive to engage in M&A is to control the market to a greater extent, if a firm manages such a move without being stopped by agencies controlling the market through antitrust regulations, the firm can prosper.

Having an understanding of the boundaries (as the HHI) on the market, and trying to avoid them or push them to their boundaries, can prove useful for any firm. Engaging in M&A is a clear way of competing with rivals. Microsoft, Yahoo and Google collectively made 260 acquisitions between 2000 and 2008 (Aktas, de Bodt, and Roll 2013). With several acquisitions being either beating the rivals in a bid war, countering a rival's acquisition or to increase competition in a new market segment. Especially Microsoft and Google competed through acquisitions in this time period, with Google making successive acquisitions of services to compete with Microsoft Office. Although the small size of the acquisitions, with respect to the acquiror's size, Aktas, de Bodt, and Roll (2013) argue the significance of the transactions.

Aktas and Dupire-Declerck (2015) write in a later article: "Increased Entry Threat and Merger Activity" about why firms might engage in M&A, and that "competition drives M&A towards more efficient resource allocation" (Aktas & Dupire-Declerck 2015). There are further documentation in the article showing results that align with previous arguments and literature regarding M&A, talking about how they are efficient reactions to economic shocks. Especially that there is an intensified takeover activity caused by an increase in entry threat. Motivation for M&A is, among many others, explained to come from a wish to "exploit operating synergies and generate revenue enhancements or economies of scale" (ibid). What is further brought into the explanation is the need for strategic positioning, which can be helped by mergers and acquisitions. Additionally, can there be financial synergies involved in the set up target, to be able to use the merger to lower the cost of capital. There are many corporations who use M&A as a way of achieving rapid growth in new markets, or at least are they in the search of it. As the strategy is deemed to be quick in comparison to other strategies (ibid).

2.4 Competitive Positions and Market Strategies

A market has competition between the firms acting on it, where the competition can be seen in differences in strategies, objectives and resources, or in the similarities of the same aspects (Kotler et al. 2013). These firms are by Kotler et al. (ibid) occupying different competitive positions in the target market. The firms' roles then play an important part when picking strategies. In table 1, Kotler et al. (ibid) examines the market from the four different roles: Market leader, Market challenger, Market follower and Market nicher. The firm in an industry with the largest market share is the Market leader. The runner-up firm that is fighting hard to increase its market share in an industry is a Market challenger. A runner-up firm that wants to hold its share in an industry without rocking the boat is a Market follower. Lastly, a firm that serves small segments that the other firms in an industry overlook or ignore is a Market nicher (ibid).

Table 1: Strategies for Market Leaders, -Challengers, -Followers and -Nichers

	Market Leader	Market Challenger	Market Follower	Market Nicher
Strategy	Expand total demand	Full frontal attack	Follow closely	By customer, market, quality-price, service
Strategy	Protect market share	Indirect attack	Follow at a distance	Multiple niching
Strategy	Expand market share			

Kotler et al. (2013).

Example of a market that Kotler et al. (ibid) talk about is shown in table 2:

Table 2: Example Market for Market Leaders, -Challengers, -Followers and -Nichers

	Market Leader	Market Challengers	Market Followers	Market Nichers	Total
Market share	40 %	30 %	20 %	10 %	100 %

Kotler at al. (2013).

Despite these tables' clear classification and explanation of a market, is it by Kotler et al. (ibid) very important to remember that these do not always apply to a whole firm, perhaps only a part of a firm in a certain industry. As firms' positions may vary between industries. Therefore, lies there a need for every firm to examine and specify its position in every market or industry. To enable the firm to maximize its efforts with the best strategy for each industry (ibid).

Market leader strategies involve expanding the total demand, protecting its market share and expanding its market share. Expanding total demand is normally the strategy which a leading firm gains the most out of, as the total gain of the whole market increases it means that the leading firm

– with the largest market share – is the firm which gains most (ibid). Ways to expand the market are: more usage of the already existing products on the markets, new users of the products and new uses of the products. More usage of existing products can be achieved by encouragement of further usage, or convincing them to use more of it (per occasion). New users are found in untapped market segments, and new uses are by Kotler et al. (ibid) found through discovering and promoting new ways to use the product.

The second strategy that is brought up by Kotler et al. (ibid), Protecting market share, is based around protecting the firm's current business. Primarily against competitors' attacks. One of many ways to protect itself is to fix – or prevent – weaknesses, another way is by fulfilling the customers' expectations regarding value of the brand and its products. Furthermore, there is a need to fill in the gaps that can be created on the market, as well as keep the most valued customers by creating strong relationships that lasts over time. Kotler et al. (ibid) do however point towards attack being the best form of defense when protecting a firm's own market share, and adds that the best response is that of continuous innovation. By this, meaning that the market leader shall lead the industry in all regards: cost cutting, distribution effectiveness, new products, customer services and promotion. Thereby keeping and even increasing its value to customers and the firm's competitive effectiveness (ibid).

Lastly, expanding market share have shown to be a great strategy as profitability rises with it. Additionally, a small increase in market share might mean a very large increase in sales. What firms have to take into the equation is that the improved profitability from gained increase market share is dependent on their strategy to achieve the increase. It might be the case that the cost of buying higher market share is exceeding the returns it yields. This leading to there being many low-share firms with high profitability and many high-share firms with low profitability. Furthermore, Kotler et al (ibid) explain that higher shares tend to produce higher profits only when the firm offers the market a product with superior quality and charges a higher price (covering the cost of superiority), or when unit costs fall with increased market share (ibid).

Firms that are quite large can still be challengers on a market, runner-up firms with positions of second, third, or lower, can adopt a strategy of challenging the market leader and other competitors (ibid). In that way, by an aggressive bid for more market share, try to claim an even higher position. What a market challenger must do to challenge the current market structure is to define which competitor(s) to aim for, by this also define its strategic objective. It could be the choice between challenging a market leader for the leadership (high risk, high gain) or challenging other parties on the market to wrest more market share (ibid). Despite the fact that a market leader often is perceived to be in control of the market, a market challenger have a second mover advantage. Strategists call it as such because of the market challengers' situation on the market, they can observe the market leader's successful strategies and then try to improve on them. Thereby, not having to create and innovate something totally new, rather improving on something already successful and by that being given a chance of overtaking the market leader, by improving their idea (ibid). Kotler et al. (ibid) even state it as a fact that market challengers often become market leaders by imitating and improving on existing ideas, thought out and put to life by pioneering processors.

The alternative to challenging the market leader is to avoid the market leader and instead challenge firms in similar, or smaller, sizes. Firms that could be underfinanced or not serving their customers in a proper manner. Regardless of the firms that are targeted, a market challenging firm which have chosen this specific strategy must have an objective which is clearly defined and attainable. Additionally, the targeted firms must be chosen carefully (ibid). The challenge, or bid, for market share could be made by focusing on price, distribution, product, advertising, etc., which are frontal attacks of matching competitors' strengths. Indirect attacks are in contrast made by focusing on competitors' weaknesses or on gaps in the market that the competitor covers (ibid).

Those firms that are positioned on the market alike a market challenging firm, but do not want to challenge the market leader can instead adopt strategies of a market follower (ibid). Thereby, avoiding disturbing the market leader and creating a battle on the market, which a market leader in most cases win. Instead, can a market follower gain advantages by learning from the market leaders efforts to develop new products and markets. With less investments and expenses, can a market follower copy or improve on the market leader's products and even be as profitable as the market leader, despite not being able to overtake them (ibid). Kotler et al. (ibid) underline the difference between following and being passive or a carbon copy of the market leader. As there lies much work into holding current customers and winning new ones, at the same time as balancing the distance to the market leader. To avoid retaliation from winning over customers from the market leader. Furthermore, also keeping an eye out for market challengers which might see the market follower as a target (ibid).

A firm that chooses to serve market niches exist in almost every industry, these firms specialize in targeting sub-segments on the market instead of large segments or even the whole market (ibid). Firms with market nicher strategies are often smaller firms with limited resources (there also exist smaller divisions of larger firms with the same strategies), however can they be as successful as, or even more successful than, the larger firms. If they are smart with their way of niching the market.

The way that a market nichers knows- and meets the needs from their targeted customer group is superior to the firms which sells to the customer group in a more casual way. With this in mind, and thanks to the added value that comes with it, can market nichers charge a substantial mark-up over costs (ibid). Thereby achieving high margins. A perfect area for market nichers is safe, profitable and of little interest to major competitors. With time can a market nicher build skills and customer goodwill, which helps in the defense against the major competitors when or if the market becomes attractive. The market nichers uses the key idea in niching, which is specialization. Specialization can be within many aspects, as in the market, when it comes to customers, in the product or in the marketing mix. Thereby focusing on serving a given customer-size group or a specific geographic market, operating at the high or low end of quality and price, or offering services not available from other firms. The overlying risks that market nichers carry are if the market itself dry up, or attract larger competitors by growing to a certain point. One of the solutions to these problems is multiple niching, which helps the firm increasing its chances for survival (ibid).

2.5 Strategic Planning

To be able to achieve long-run survival and growth, a firm must define its role on the market. Given its specific resources, objectives, opportunities and situation (Kotler et al. 2013). Strategic planning is by Kotler et al. (ibid) described as the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. It involves adapting the firm in its changing environment to be able to take advantage of opportunities that might occur. The steps of strategic planning is defining the firm mission, setting firm objectives and goals, and designing the business portfolio at a corporate level, which then transcends into planning, marketing and other functional strategies at a business unit-, product- and market level (ibid). Strategic planning is the plan that prepares the firm for the rest of the planning, such as annual plans and long-range plans.

The first step of strategic planning, defining the firm mission, involves the organization stating its purpose that it wants to accomplish. Many firms use a mission statement, which is what the firm wants to accomplish in the large environment, and it is also what answers questions of what the firm wants to do as their business, and what customers they want to reach. It can be divided into a product-oriented definition and a market-oriented definition. The mission of the firm should be stated with a focus towards customers and the experience the firm creates for them (ibid).

The next step, setting firm objectives and goals, is detailing supporting objectives from the mission itself to suit each level of management. Where a broad mission could be turned into objectives such as business objectives and marketing objectives. Marketing objectives can be helped from creating marketing strategies and programmes. The overall objective is to define the firm's mission into greater detail (ibid).

The last step at the corporate level is designing the business portfolio, which is guided by the firm's mission statement and objectives (the prior steps). It consists of the collection of businesses and products that make up the firm. The best fit of opportunities in the environment and the firm's strengths and weaknesses is required and sought after. It is achieved by analyzing the current business portfolio and then shaping the future business portfolio, this two-step planning develops the best design for growth (ibid). At the business unit-, product- and market level, the strategic planning is turned into planning, marketing and other functional strategies. Where the firm's each various business units takes the strategic plan into more detailed planning. There are different functional departments that must work together to accomplish the chosen strategic objectives: finance, accounting, operations, marketing, purchasing, human resources, etc. (ibid).

2.6 Business Cycle

Real GDP fluctuates naturally, with each period of growth or downturn having a suiting description of the economy's state. First, we take a look at a downturn of the real GDP, where six consecutive months (two quarters) of declining real GPD is defined as a recession. In connection to a recession, at the point of which the recession is said to have started (when output starts to decline) is called the peak. What in turn connects to when a recession ends (when output starts to increase again), is the trough, which is the point where output stops falling. The last description of a state in the fluctuations in real GDP is expansion, which is the period after a trough in the business cycle, where the economy recovers (O'Sullivan et al. 2014).

Real business cycle theory explains fluctuations in economic theory to result from a variety of causes, such as: a developing country that is highly dependent on agriculture and suffers a prolonged drought, a major shift in technology, a country that uses oil in its production when a sharp increase in the price of oil occurs, or a number of small shocks all hitting the economy at the same time. What explains real business cycle theory, and also is the idea behind the theory, is that changes in technology (usually) changes the level of full employment or potential output. Where a significant change can increase both actual- and potential output, but of course also cause them to fall. Because of the fact that an adverse technology shock might decrease the demand for labor, which would in turn shift the market equilibrium, which would result in a lower level of employment and lower wages. The lower level of employment together with the status of the economy being less productive would result in a fall of total GDP. The contrast to an adverse technology shock, a positive technological shock, would increase labor demand. Thereby, result in a level of employment and wages, which in turn would raise total GDP as there is high employment and a more productive economy. A key lesson that one must understand from real business cycle theory is that even though an economy buffeted by positive and negative technological shocks experiences economic fluctuations, it would still be at full-employment output, it is the potential output that will vary over time (ibid).

2.7 Corporate Strategy

The overall plan for a diversified firm is the corporate strategy, it is one of two levels of a diversified firm's strategy. The two levels consists of a competitive strategy (business unit) and a corporate strategy (Porter 1987). Where the ways of creating competitive advantages in a business is the competitive strategy's role, corporate strategy handles the management of business units and what businesses the whole corporation chooses to be a part of and compete in. Corporate strategies were studied and examined by Porter (ibid) as a general subject, and the diversification records of large, prestigious firms (33 in total) with connections to creating shareholder value as a particular subject. Porter (ibid) found that most of the large firms had more divested firms than kept firms, from the firms that they had acquired. Which in turn led to the firms not creating shareholder value, instead the original strategies were dissipated.

Premises of corporate strategy are several in numbers, Porter (ibid) lists and explains them to be reasons for corporate strategies failing (when ignored), as they by Porter's (ibid) words: "cannot be altered". The first premise to be brought up is that competition occurs at the business unit level, where Porter (ibid) states that business units are the ones who compete, not the diversified firms. There is a need for focusing on making every business unit succeed, as corporate strategy reinforces the competitive strategy and grows out of it (ibid). The next premise to be explained is that diversification inevitably adds costs and constraints to business units, where costs and constraints of business units are inevitable, but can be reduced. Either size it comes in, they cannot be eliminated. Another premise by Porter (ibid) is that shareholders can readily diversify themselves. The explanation being that it is cheaper for shareholders to diversify themselves, rather than letting corporations do it. Therefore, value-adding must be connected to a corporate strategy. In this way there are incentives for business units to accept the cost of lost independence, and incentives for shareholders to not diversify by themselves, as the added value by the corporate strategy cannot be replicated alone. The next following premise, passing the essential tests, formulates conditions that, when followed, creates shareholder value. The tests are: the attractiveness test, with a basis of that the industry must be structurally attractive, or capable of being made attractive, for it to be chosen for diversification. Secondly: the cost-of-entry test, in which the cost of entry into an industry cannot capitalize on all of the future profits. Thirdly: the better-off test, meaning that there must be a gained competitive advantage, either for the new unit or for the corporation (through the link with the new unit) (ibid).

The next premise is how attractive is the industry?, because of the fact that an attractive industry will have high entry barriers, as there is a high average return on investment (ibid). There will also be aspects such as modest bargaining power for buyers and suppliers, rivalry among competitors is stable, substitute products are few, etc.. In contrast will an unattractive industry mean that there are structural flaws, powerful and price-sensitive buyers, excessive rivalry (due to high fixed costs), etc. (ibid). Favorable structures in industries allow for diversification, and the creating of shareholder value, as the support leads to returns that exceeds costs of capital. When there is a lack of such favorable structure, there must instead be an opening to restructure the industry or to gain a sustainable competitive advantage, which leads to returns above the industry average, despite the structure. Moreover, can an entry before the industry's fullest potential is shown be beneficial (ibid).

The penultimate premise is what is the cost of entry?, which is connected to how when the cost of entry eats up potential expected returns, diversification cannot build shareholder value (ibid). Acquisitions is a way of entering into a new industry, and it can mean that a firm beats the market due to a price paid that is not fully reflecting the prospects of the new unit. Although, this is commonly not the case as there are variables that affects the purchase, such as multiple bidders, free flowing information, and intermediaries on the market that works against making the market as efficient as possible, etc. Additionally, are acquisition premiums often high, to reflect future prospects (ibid).

The last premise is will the business be better off?, it involves the corporation needing to bring significant competitive advantage to the new business unit. Which can be tough as benefits to the corporation only might accrue once, in connection to the entry. Although, the new business unit might offer potential for significant advantage to the corporation as well (ibid). Regarding benefit to the new business unit accruing once, the corporation lacks rationale for holding it long term when the diversified firm no longer adds value. The solution then is to free up corporate resources through selling the unit. Porter (ibid) states that: "The better-off test does not imply that diversifying corporate risk creates shareholder value in and of itself". Rather than being the prime motivator, diversification of risk should be a side effect, a result, from the source of a corporate strategy.

Porter (ibid) explains the concepts of corporate strategy to be divided into two parts, the first two concepts uses the firm's relationship with each business unit (and keeping them autonomous) to create value. While the latter two concepts exploit interrelationships between businesses (ibid). All four concepts will be handled down below.

The first concept of corporate strategy is portfolio management, which is the most used of the total of four concepts (portfolio management, restructuring, transferring skills and sharing activities). The basis of portfolio management is diversification through acquisition (ibid). The steps the corporation goes through are to acquire attractive firms, and then to persuade the competent managers of said firms to stay on. Usually, are the acquired firms in industries in which the portfolio manager has specific expertise in, it might be in the same industry as existing units, but it is not necessarily the case for all new business units (ibid). The idea is to acquire autonomous business units, the corporation focuses on supplying capital and professional management techniques to their teams. In this way, the business units gets to grow through the help of the acquiror. The business unit's teams are compensated according to the results (ibid). One of the portfolio manager's jobs is to have an overview of which business units that generates cash and which business units that have potential, but are in need of cash for fulfilling that potential. The portfolio manager transfer resources between the business units according to their categorization of the business unit's status.

When connecting portfolio management to portfolio strategy, the corporation uses analyses to find attractive firms to acquire, preferably candidates that individual shareholders could not, and by doing so creates shareholder value. The introduction of capital, management skills, reviewing, coaching and discipline, among other things, are used to maximize the potential of the acquired firm (ibid). In order for the acquisition to prove useful and beneficial, the diversification plan must meet previously mentioned tests (attractiveness-, cost-of-entry-, and better-off test) while still finding good but undervalued firms. Additionally, to find significant competitive advantages (ibid).

Nowadays, acquisition premiums are common. The markets have grown to be transparent, as attractive firms with good managements are available for everyone to see at their nearest computer screen. Moreover, are benefits such as contributed capital, professional skills, dispassionate review, etc. harder to maximize. As the benefits have eroded over time as markets grow innovative (ibid). However, is the biggest threat for portfolio managers the complexity. The difficult task of finding more and more deals to maintain the growth at the same rate of the firm's growth, is doomed to fail. The mistakes are also more frequent when the business units grow in numbers of dozens, or even hundreds, to supervise (ibid).

In contrast to a portfolio manager's relative passivity, a firm that instead chooses to restructure business units is more active in trying ways to release the unrealized potential in acquired firms (ibid). The strategy of restructuring is by Porter (ibid) explained as to have a basis of seeking out firms or industries that have a current status of being undeveloped or threatened, but that are on the threshold of significant change. When the corporation finds a firm that matches these criteria, it intervenes by either changing management teams, shifting strategy, add new technology, or by doing it all. All to strengthen the firm. It might be the case that more acquisitions as support is needed as well, especially if the corporation wants to transform the industry in some way. When value is no longer added, the parent can sell off the business unit (ibid). If a corporation implement the strategy of restructuring well, it can pass the three tests of diversification (attractiveness, cost-of-entry and better-off). Through the strategy of acquiring these types of firms it passes the cost-of-entry test, through acquiring problematic firms (or with unseen potential) it avoids most of the acquisition premiums. Through interventions it can pass the better-off test, and through creating shareholder value by restructuring firms, that is only structurally attractive at the point of purchase, it passes the attractiveness test (ibid).

Transferring skills involves synergies and capturing the benefits of relationships, business to business. Business units are often competing rather than cooperating, there is value in finding the synergy between businesses instead (ibid). There are still apparent links between businesses, both technological- and competitive developments as examples, and according to Porter (ibid) do these links create possibilities for competitive advantages. By dividing activities of business units into two parts: primary and support, Porter (ibid) opens up for defining interrelationships and synergies. These two parts in the value chain are consisting of primary activities of: inbound logistics, operations, outbound logistics, marketing and sales, and service. With support activities of: firm infrastructure, human resource management, technology development, and procurement. The value chain defines the interrelationships that may create synergies, by the support activities providing the inputs and infrastructure for the primary activities as an example (ibid).

Where the primary activities creates-, delivers-, markets- and supports the product/service, and the support activities supports the primary activities. This categorization helps explain how interrelationships can create synergy by transferring skills among similar value chains. The opportunity of transferring skills arise when there are similar value activities, similar buyers or channels, same strategic concept, etc. between two business units (ibid).

Three conditions are set up by Porter (ibid) to be able to take transferring skills into a competitive advantage:

1. Similar (enough) activities to allow for meaningful sharing of expertise.
2. Skills transferred should involve important activities, for competitive advantage.
3. Skills transferred should be significant (enough) for the receiving unit to gain competitive advantage.

Transferring skills meets the tests of diversification (attractiveness, cost-of-entry and better-off) if the firm mobilizes the expertise across units that it fits and if the industries chosen for diversification passes the attractiveness test. As the transfer of skills changes the strategy and, or, operations of the receiving unit, it is also an active process (ibid).

Connected to the primary- and support activities, divided by Porter (ibid), a firm's ability to create synergy is also determined by sharing activities. As two business units can share the same logistics network as an example. It is deemed to be a potent basis for corporate strategy by Porter (ibid) as he believes it to enhance competitive advantage. The fact that sharing activities often lead to lowering costs or raising differentiation backs up Porter's belief further (ibid). More benefits of sharing activities include, but are not limited to, boosting efficiency of utilization and help the firm move down the learning curve faster. Despite the benefits, there are caveats. For it to be significant to competitive advantage, sharing activities must involve activities that are precisely that, significant.

Sharing activities also involves costs, even though a firm can reduce them in the long-run, which must be outweighed by the firm's benefits from sharing. For example, in contrast, can coordination costs outweigh the benefits, if the firms which merge activities are not sensitive to economies of scale (ibid). Sharing activities comes with great opportunities of gaining advantages, therefore has the strategy spread rapidly. Also by the help of developments in competition, technology, etc. the corporate strategy of sharing activities meet tests of diversification. The better-off test is met through business units gaining tangible advantages from within the corporation, the cost-of-entry test is met through reducing the cost of overcoming an entry barrier to a market/industry. However, does this strategy not easily meet the attractiveness test, even with widespread opportunities for sharing activities. It would require a very close fit in opportunities and for the target industries to have an attractive structure (ibid).

2.8 Network Effects and Network Externalities

Network Effects and Network Externalities, although they might seem similar there are distinct differences between the two. However, they are both key parts when discussing value. When network externalities are at work, it shows by the value of a product to a consumer increasing with the number of other consumers who use it. In other words, the demand for a product is dependent on other consumers also owning, or buying together with you, that product. Network externalities can in turn lead to a network effect. A certain mass of users of a product is positive as an externality, and the positive externality creates a new way of using it, which becomes a network effect. Exemplified by how a social media product for interactions have positive network externalities from more users on the app, and the interactions could create new ways to use the app or just boost engagement, which creates a network effect. Positive network externalities could also be used as a defense against new entries on the market, as the advantage could be difficult to match. It would as an example not be possible for a new firm to challenge Facebook regarding the network effects and network externalities they get from their existing userbase, the new firm would have to find a way to pass that defense (O'Sullivan et al. 2014).

In connection to M&A, a firm acquiring another firm, or combining the two through a merger, might lead to a negative effect in the short-run. However, through aspects as amassing (loyal) consumers in that specific acquisition or merger, the effects in the long-run might be positive. In the same way that firms might invest a lot of money and effort into creating relationships with loyal customers, lose money in the short-run, but reap the benefits in the long run through their customer-base. M&A can be an effective way for a firm to acquire a critical mass of customers in a short period of time. New firms on a market (or firms that are challenging a market leader) can boost their mass of customers by acquisitions of smaller firms, in that way challenge bigger firms on the market without having to steal customers from those firms themselves.

2.9 Economies of Scale

Economies of scale can be defined as "a situation in which the long-run average cost of production decreases as output increases" (O'Sullivan et al. 2014). Additionally, if the long-run average-cost curve is negatively sloped. The description also being that "there are economies, cost savings, associated with scaling up the firm's production" (O'Sullivan et al. 2014). These descriptions and explanations are very clear on the basis concept of the term, however, in what ways they are achieved are plenty. Through gained experience, a firm's workers improve in production, learn shortcuts and become more used to dealing with their equipment. Additionally, the work done grows to be better organized and the production processes. This usually leads on to higher volumes being produced and a greater efficiency is achieved, what Kotler (2013) tells us by these aspects is that a firm achieves economies of scale after time if they do it right.

The process of achieving economies of scale comes with benefits of average costs decreasing (at least it tends to), and this is due to production experience, which is a great result for the firm. The process of reducing average costs with accumulated production experience goes under the term learning curve, or experience curve, as well (ibid). Kotler (ibid) also brings up the topic of economies of scale in connection to acquisitions, where the point being is that through acquiring a firm the parent firm might achieve a lowering of costs by the purchase. The statement then leads on to a lowering of prices which benefits society (ibid).

In contrast to benefits from increasing output, efficiency, etc. and by that economies of scale. There is a situation in which an increases output might also increase the long-run average cost, which goes by the term of diseconomies of scale. This means that the long-run average-cost curve instead is positively sloped, caused by two reasons:

- **Coordination problems**. Many layers of organization (often in very large organizations) require many layers of management. To be able to coordinate the different part's activities. Which leads to higher unit costs. An increase in output that itself might make the slope negative, might due to additional layers of management being required instead make it positive.
- **Increasing input costs**. A higher level of output requires a higher level of input. The higher demand for input might make the prices higher, therefore the organization pays higher prices for all its inputs in connection to the higher demand.

O'Sullivan et al. (2014).

Porter (1987) tells us that synergies activated by sharing activities can achieve economies of scale, by lowering costs, done through business units sharing departments, knowledge and processes, etc.. What firms though must consider is if whether they are sensitive to economies of scale, before merging activities. If it is not the case, coordination costs might eliminate the benefits, even though costs of sharing could have been minimized if they were identified prior to the merge (Porter 1987).

To conclude the second chapter, there is a broad theoretical background connected to business strategies and M&A. With many of the strategies connected to the positioning and reasoning of the firm in focus. Additionally, there have shown to be several effects and competitive advantages to strive for when using the different strategies. With this chapter in mind, the basis of theory has been laid and M&A has been introduced and defined, allowing me to continue in the next chapter with the highly relevant information on the regulation of M&A in Europe.

3. Regulation and Mergers in the EU

The topic of M&A has been well examined for the last 30 years, with a broad basis of theory and empirical evidence. However, to understand more of the complexity that surrounds M&A, there is a need to know how- and by what authorities it is regulated. The process of getting a merger or an acquisition completed is highly relevant to grasp when analyzing the strategy. Therefore, this chapter will describe the legal conditions for M&A in the EU. In doing so, the legal framework is also described for Sweden since the same regulation applies there.

National models of mergers and acquisitions, and the control of them, can be found in historical context of the regulating state (Cini 2002). It is as well true for the establishment of the EU merger regime. Policymakers that seek to attain objectives in connection to M&A may find their sought-after conditions in historical aspects of regulations. This is the case as the European model for merger control can in a broader view be seen as fused domestic merger regulations from the European countries. Additionally, it has clear parallels to the European integrations of premarket integration logic and of its pro-competition character from its history. It includes both character of many cultures and of many nations (Cini 2002). Although, its clear involvement in the regulations surrounding M&A, the historical aspect of a primarily qualitative study matter less than it would in a heavily-based quantitative study. As this is the case, historical background to the topic will not be examined further.

3.1 European Commission (EC) and Regulation

M&A are examined at the European level, from the perspective of whether they lead to a reduction in competition on the market. Not all mergers leads to benefits to the economy and it is the European Commission's (EC) responsibility to investigate all mergers and to only allow those that has no or limited anti-competitive effects. Which can be the case if the combining of forces leads to an increased efficiency regarding activities and developments, and a reduction in production- or distribution costs. (European Commission (EC) 2021). If by the Merger Control Regulation (hereby referred to as MCR) a merger instead impedes effective competition in the common market, it must be prohibited or amended. As a regulation, it is by the MCR all large mergers are investigated before they take place. Through analyses and reasoning by it, there can be reached a decision of whether it should be approved, prohibited or amended (Cini 2002).

The merger regime of the European Union (EU) was established in 1990, with the main function of creating a level playing field for European businesses (Cini 2002). With an additionally set function of investigating- and passing judgement on large-scale mergers, by removing the authority and control of national jurisdictions. The EC is responsible for the enforcement of the MCR. All mergers are subject to approval and has to be notified with the EC within the first seven days of the merger agreement between the firms. The actual investigative procedure starts at the same moment the M&A are notified to the EC's Merger Task Force (MTF). The first thing the EC examines is the details given by the firms. The firms must inform about the content of the proposed merger, the relevant market, the market shares held by the firms, The MTF considers if the case have a community dimension. This means that they have to assess if the merger is relevant for the efficient functioning of the internal market. The MCR article (2(3)) that sets the criteria for M&A having a community dimension:

> A concentration which creates or strengthens a dominant position as a result of which effective competition would be significantly impeded in the common market or in a substantial part of it shall be declared incompatible with the common market (Cini 2002, p. 242).

If the merger does not fall within the MCR's scope, the Commission allocate the task of approving the merger to the national competition authorities. The national authorities follow the same rules for approving M&A as the MTF (Cini 2002).

Reduced competition in a market usually comes from one firm being dominant and this could be the effect of a merger. When two firms merge, it is usually to strengthen the position on the market, which might disturb the balance of competition in it. Especially when the new firm can use its market position to curb competition and harm consumers by reduced choices and setting higher prices (Council Regulation 2004). In the language of the MCR this is a merger's unilateral effects. Mergers that distorts competition are unlikely to be approved by the regulators. Another effect to take into consideration in the assessment of a merger is how the non-merging firms will react collectively: the coordinated effect. This could be shown through a collusion, or a potential collusion, being indirectly created through the action of competing firms merging, as a response (Council Regulation 2004).

The turnover thresholds, with an EU dimension, are with a basis of two alternative ways. The first alternative requires:

i) A combined worldwide turnover of all the merging firms over €5 000 million.
ii) An EU-wide turnover for each of at least two of the firms over €250 million.

The second alternative requires:

i) A worldwide turnover of all the merging firms over €2 500 million.
ii) A combined turnover of all the merging firms over €100 million in each of at least three Member States.
iii) A turnover of over €25 million for each of at least two of the firms in each of the three Member States included under ii).
iv) EU-wide turnover of each of at least two firms of more than €100 million.

In both alternatives, an EU dimensions is not met if each of the firms archives more than two thirds of its EU-wider turnover within one and the same Member State (European Commission (EC) 2021).

If a proposed merger falls in a category below the specified thresholds, then there is instead only a need for the national competition authorities to review the merger, if it is in an EU Member State. Additionally, are mergers, which are situated outside the European Union, but do business in the EU, also examined. As they might affect the markets as well. Proposed mergers can be approved unconditionally, if they do not significantly impede effective competition in the EU. Or they can be approved conditionally, if the firms in the merger commit to take actions against the distortion of competition by correcting the effect the merger will most likely have. This is although monitored, to assure the firms fulfil their commitments. Thirdly, proposed mergers can be prohibited, if they do significantly impede- or distort effective competition without being able to commit to taking actions against the effect. Alternatively, if they are major competitors (Council Regulation 2004).

The European Commission (EC) look for certain aspects in their merger analyses, using the legal basis of the Council Regulation (EC) No 139/2004. (Council Regulation 2004). The investigation are consisting of two phases. With "Phase I" starting after the notification with a 25 working day-limit for the Commission to analyze the deal (Most cases, more than 90%, are resolved in this phase without remedies). "Phase I" involves requests for information from the merging firms, or third parties, and also questionnaires to competitors or customers seeking their views on the merger. Further than that it involves the views from other contacts with market participants. This is in order to clarify the conditions for competition and the role of the merged firms in that market (European Commission (EC) 2021).

At the end of "Phase I" there is a "state-of-play meeting" held, where the firms are informed by the Commission about the results of the investigation. The two main conclusions to come from "Phase I" and the investigation:

- The merger is cleared, either unconditionally or subject to accepted remedies.
- The merger still raises competition concerns and the Commission opens a "Phase II"-investigation.

European Commission (EC) (2021).

"Phase II" turns into an in-depth analysis of the merger's effects on competition, as so, it requires more time. The Commission has 90 working days to make a final decision, of the compatibility with the EU Merger Regulation. It involves more extensive information gathering, which includes the involved firms' extensive economic data, internal documents, site visits, and more detailed questionnaires to market participants (European Commission (EC) 2021).

The analysis by the Commission in "Phase II" includes claimed efficiencies which the firms could achieve when merged together. If these effects have an overweight of positive efficiencies for consumers, in comparison to the mergers' negative effects, the merger can be cleared. They must although fulfil strict conditions to be taken into account, which the merging firms are responsible for proving. The firms are updated on a regular basis by the Commission about the process, if by the end it is concluded that the planned merger will likely impede competition, they are sent a "Statement of objections (SO)" which informs them of preliminary conclusions. The statement can be responded to within a certain period, and the parties can request an oral hearing with the competition Hearing Officer (European Commission (EC) 2021).

The final decision follows the "Phase II"-investigation, the Commission may either:

- Unconditionally clear the merger.
- Approve the merger subject to remedies.
- Prohibit the merger, if no adequate remedies to the competition concerns have been proposed by the merging parties.

European Commission (EC) (2021).

Remedies ("commitments") are what a firm may offer in order to guarantee that the Commission's concerns of a competition that might be significantly affected, would not happen. It usually involves proposals of certain modifications to the merger, which would guarantee continued competition on the market. This is in turn analyzed by the Commission, whether the proposed remedies are viable, and sufficient to eliminate competition concerns. All decisions and procedural conduct of the Commission are subject to review by the General Court and ultimately by the Court of Justice (European Commission (EC) 2021).

A criticism of the MTF, and concisely what has been argued most by economists, is that they do not take efficiency into account in their assessments. To not take efficiency gains (to be had from mergers) in their consideration and analysis of mergers, and additionally give the importance of market dominance too much power, have been argued my economist alike Wilks and McGowan for some time (Cini 2002). Efficiency gains from the merger may lead to the involved firms saving in on costs in their procedures. Which, with the assumption of them lowering prices in order to gain market share, leads to total welfare being increased from the lowered price level, additionally, will the consumer surplus also increase from the same aspects.

Efficiency gains can be explained by dividing up the merging firms on a market with the non-merging firms, as a lack of efficiency would mean that the non-merging firms would gain from instead. In theory, this would mean that a merger must have efficiency gains for it to be justified for the involved firms to execute, at the same time further proving the logic for regulators to add it to their assessment. Although, what must be remembered is that regulators do not have an easy approach to follow in order to make certain of an analysis of potential efficiency gains. At the same time as it would be counteractive for firms to notify in what ways they gain in efficiency. This results in the conclusion that, with the caveat of the difficult procedure, there lies logic in the argument of allowing for an efficiency defense in merger cases (Cini 2002).

Clougherty (2003) concludes in his paper from 2003 how antitrust policy approval is required for successful mergers and acquisitions, and follows it up by how this means that domestic mergers can be seen as "political as well as a market phenomenon". What is then argued is that there are private interest- and public interest political forces concurring that is promoted by the international competitive effects, that in turn comes from domestic mergers (ibid). Firms could in practice put pressure on the private interest by also pressuring the political aspects of how a domestic merger should result in international competitive gains. Of course adding that to the domestic competitive gains. The public interest can gain support, by how a positive net international competitive effect in turn can give the national welfare merit, from coming from a domestic merger. Clougherty (ibid) points towards that these aspects should mean that domestic mergers, with international competitive effects, should marshal both forces of private and public interest. Subsequently, leading to them being approved by the antitrust review process to a higher degree, and more rapidly, than their counterpart domestic mergers without international competitive effects. In other words, as Clougherty (ibid) states:

> Because international competitive effects favor the concurrence of private and public interest political forces, thus favoring positive antitrust review outcomes, acquisitions with international effects are less likely to encounter domestic antitrust holdup. (Clougherty 2003, p. 137).

3.2 Importance of Mergers and Acquisitions for the Economy

Cartwright and Schoenberg (2006) writes in their paper: "30 Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities" about how the 30 000 acquisitions completed globally in 2004 represented a total value of $1 900 billion, which by them is paralleled to exceeding the GDP of several large countries. Since 2004, the number of acquisitions completed globally has risen to around 50 000 annually in the last five years, 2015-2020 (IMAA 2021). The importance and sheer size of the economy connected to M&A are to be taken seriously. Table 3 shows the amount of notifications of mergers and acquisitions to the EC annually. Table 4 shows the number of mergers and acquisitions completed worldwide over the time period of 1990-2020, with five year gaps (IMAA 2021).

Table 3: Notifications of Mergers and Acquisitions, 21 September 1990 to 28 February 2021

Year	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**	**2020**	**2021 (Feb)**	**Total**
Number of Notified Cases	11	95	330	318	274	337	361	63	**8 025**
Cases Withdrawn Phase 1	0	4	8	6	4	6	7	1	**171**
Cases Withdrawn Phase 2	0	0	5	3	0	2	2	1	**47**

European Commission (EC) (2021).

Table 4: Mergers and Acquisitions Worldwide 1990-2020

Year	**1990**	**1995**	**2000**	**2005**	**2010**	**2015**	**2020**
Mergers & Acquisitions Completed Annually Worldwide	10 814	20 278	39 783	36 025	43 940	47 400	45 562

IMAA (2021).

With deregulations of financial services in the 1970's and 1980's came the prominence of readily available large investment funds. This in turn led to M&A being allowed to multiply, both in numbers and in amount per deal (Besanko et al. 2016). The changed role of the financial sector in the economic infrastructure from the deregulations has through several steps, including the now more active capital markets, enabled venture capitalist and investment banks to in turn enable entrepreneurs to compete with large rivals. The now more rapid process to achieve the scale necessary to take upon the battles of old large rivals has changed the landscape for competition (ibid).

Mergers have also helped in times of need, as they did in the Great Recession, in the late 2000s. When several big actors on the market for airlines (US airline industry) through mergers could, by a reduction in competitors and strengthened organization, avoid to plummet, as they had done in previous economic downturns. Besanko et al. (ibid) uses this example of the US airline industry to illustrate the interplay among competitors in a concentrated market. The strategic plays at the time showed great understanding of the economics that they faced. Although, Besanko et al (ibid) point out the remarkable case study of competitive dynamics that the airline industry show.

Regulation of M&A and the importance of mergers and acquisitions for the economy is a relevant and important aspect of the study of the business strategy. Moreover, to fully understand the process and amount of work there lies behind a completed merger or acquisition. In order to study the case, of Smile Tandvård, in the best way possible, there is a clear need to explain the competition in Sweden that Smile Tandvård faces. Both the competitors and the dental market will thereby be explained in the following chapter.

4. Competition in Sweden

The competition in Sweden in the dental market has for a long time been dominated by the market leader Folktandvården, who is a public actor. Thereby, has the competition between public dental care versus private dental care been growing in power in the latest years. To be able to analyze Smile Tandvård as a case study, there is a need for an understanding of the market and the competitors the firm faces. Additionally, to see the status of the prices set. As a large public actor on a market often results in strict levels of pricing, leading to the competition being focused on quantity instead.

The competition in Sweden for dentistry is heavily based around the public actor: Folktandvården, and the private business group: Praktikertjänst. The largest private firm on the market is Smile Tandvård (or Colosseum Smile). Table 5 shows the whole market of dental actors. Where we can see that although the market has been dominated by Folktandvården and Praktikertjänst, the lone private actors are catching up. With the results being that the two largest parties have lost 5% of the market in the recent years (61% to 56%), and the signs points towards the decline continuing, as the private actors keep eating into the market. Private actors have a market share of 59% when looking at total number of actions, having provided 10 million of the total 16,9 million actions in the year of 2016. Which shows a disbalance in comparison with market shares measured in healthcare providers prices over time (Konkurrensverket 2018).

Table 5: Market Shares Measured in Healthcare Provider Prices over time

Year	**2009**	**2011**	**2013**	**2015**
Folktandvården	32	32	32	30
Praktikertjänst	29	28	27	26
Colosseum Smile	1	2	2	3
Distriktstandvården Sverige AB	0	0	1	1
City Dental i Stockholm AB	0	0	0	1
OraSolv Clinics AB	0	0	0	1
Global Health Partner	0	1	0	0

10-50 Million SEK*	4	5	6	7
5-10 Million SEK*	10	10	11	12
1-5 Million SEK*	15	15	16	16
1 Million SEK or less*	8	7	5	3
Total	100(**)	100	100	100

Konkurrensverket (2018).

Note: Market shares expressed in percentages. *Yearly revenue per firm. **Sum of 99 because of lack of decimals.

With a free pricing on the market since 1999, and with the help of the reform regarding dental care in taken into action in 2008, profitability has been growing successively. It can be seen as relatively high in comparison with other markets in the healthcare sector, with an average profit margin (measured in mean) for dental care at 11%, in the period of 2013-2016 (Konkurrensverket 2018). Patients are reimbursed for their dental care up to a level of a reference price, which is set annually by "Tandvårds- och läkemedelsförmånsverket – TLV", however are they not reimbursed further if the price from the dental actor is higher than the reference price. With a market structure of only a very few dental actors putting their price levels below the reference prices, rather using the reference price as a floor for their pricing. Additionally, are the patients not reimbursed by the reference price if the price is at a lower level, instead by the lower price. Table 6 shows the price level index for reference prices and healthcare provider prices (both public and private) (ibid).

Table 6: Price Development index. Reference Prices vs Healthcare Provider Prices

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Reference prices	100	101,75	105,57	108,20	108,84	119,88	120,45	119,53	125,16
Healthcare provider prices	100	101,97	105,95	109,99	112,00	121,37	122,63	123,64	127,87

Konkurrensverket (2018).

Note: Private and Public.

When adding up the share of patients that receives healthcare provider prices on par with- or below the reference price it adds up to 40%, the remaining share of patients, 60%, receives a healthcare provider price over the level of the reference price. Furthermore, the distribution between the two parts have remained constant throughout the time period. The distribution can be seen in table 7 (ibid).

Table 7: Share of Patients that are Debited a Healthcare Provider Price Close to a Reference Price

Year	**2009**	**2011**	**2013**	**2015**	**2017**
Much below reference price (>10%)	8	8	11	11	10
Somewhat below reference price (10%-0%)	18	15	16	10	12
On par with reference price	14	17	17	19	17
Somewhat over reference price (0%-10%)	33	31	31	33	32
Much over reference price (>10 %)	26	29	25	27	28
Total	100(*)	100	100	100	100(*)

Konkurrensverket (2018).

Note: *Sum of 99 because of a lack of decimals. Shares expressed in percentages.

As there is little to no price dispersion, signs of a hard price competition can be the explanation. With it being further reimbursed by the fact that the biggest actor on the market is a public actor. As this is the case, the competition instead moves focus towards quantity, the fact that the private actors are gaining on the public actors on the market can then be correlated towards the private actors' willingness to grow through M&A. Which is the case especially for Smile Tandvård, and therefore will be discussed later on.

Konkurrensverket (ibid) mentions in their report a conclusion made in the prior report from 2013, which points out the need for an independently based price comparison service on the market. As they argue that the patients are at a significant disadvantage considering the asymmetry in information, the health care providers are at an advantage against both patients and the Swedish Social Insurance Agency (ibid).

Descriptive statistics of Smile Tandvård will be presented hereafter, to enable a better insight of the firm's background, its progress in the recent years and to be able to put the firm into comparison to the competition, in Sweden.

Table 8: Descriptive Statistics of Smile Tandvård (Colosseum Smile AB) in the Time Period of 2009-2015.

Year	**2009**	**2011**	**2013**	**2015**
Market Share in Percentages	1	2	2	3
Yearly Revenue in (SEK n thousand)	26 383	29 494	41 482	481 349
Employees (No./Nos.)	28	57	67	462

Source: Colosseum Smile (2009, 2011, 2013, 2014, 2015, 2019). Konkurrensverket (2018).

Smile Tandvård can be shown to have grown steadily over the last 10 years. Where the only year with a declining yearly revenue was in 2010, which could be explained by the financial crisis' effect on the economy. All other years show progress and growth, in terms of revenue. The number of employees further show the growth of the firm, the number is a mean, gathered from the annual report. Yearly revenue and number of employees are shown in table 9.

Table 9: Yearly Revenue of Smile Tandvård (Colosseum Smile AB) in the Time Period of 2009-2019.

Year	Yearly Revenue (SEK n thousand)	Employees (No./Nos.)
2009	26 383	28
2010	21 243	37
2011	29 494	57
2012	31 106	71
2013	41 482	67
2014	62 783	83
2015	481 349	462
2016	528 447	462
2017	630 443	545
2018	737 680	560
2019	784 291	554

Colosseum Smile (2009, 2011, 2013, 2015, 2017, 2019).

When the competition on the dental market now has been explained, with a further understanding of what Smile Tandvård faces in terms of private- versus public dental care, competitively determined prices, market shares with size inequalities, etc., the research has been made to be able to take all the information into the analysis. Which will be presented in the following chapter.

5. Analysis

The analysis will include the study of business strategies, of M&A, and the case of Smile Tandvård. Additionally, it will be examined to what extent M&A follow the fluctuations of the business cycles. The chapter will aim to conclude on the gathered information, to answer questions asked and problems stated, and to discuss the topic and purpose. Leading to the conclusion of the paper.

5.1 Interview with the Accounting Manager of Smile Tandvård

Interview with the accounting manager of Colosseum Dental AB (Smile Tandvård): Ulf Fjällman. [2021-03-26].

Smile Tandvård as of today, came to be from three firms which started their journey at the same time in Sweden. They all three wanted to be the greatest private dental care firm in Sweden, subsequently it has led to them merging, through being acquired at different times, together under the same umbrella, that is Colosseum Dental or Smile Tandvård. One of the reasons for the start, the accounting manager of Colosseum Dental AB: Ulf Fjällman says is:

> They (the original three firms) saw that the dental care market, and the people owning the clinics, started to grow old. There was no one to sell these clinics to, and the up-and-coming dentists were not aiming for a working life in a "small box" with one or two dentists/colleagues. Instead, they wanted co-workers, they wanted competence development through associating with colleagues in a larger organization. Additionally, is the status today that it is expensive to create and build a dental care clinic, one solution was then to spread out the costs over more people. Through this point of view, and through scoping the possibilities of acquisitions on the market, these three firms grew in the same space and later merged.

Looking at the market shares of the dental market in Sweden now gives some merit to their insight on the future of the market for dental care, with them now being the largest private firm for dental care, only the public organization: Folktandvården and the private business group: Praktikertjänst ahead of them. Although, the gap in between is significant. However, is Smile Tandvård gaining market share year after year (Table 10).

Table 10: Market Shares Measured in Healthcare Provider Prices over Time

Year	2009	2011	2013	2015
Folktandvården	32	32	32	30
Praktikertjänst	29	28	27	26
Colosseum Smile	1	2	2	3

Konkurrensverket (2018).

Note: Three largest parties on the market included. Market shares expressed in percentages.

The status now is that the Swedish-, Norwegian- and Danish parts of Smile Tandvård (being a part of Colosseum Dental Group (CDG)) have been acquired by a global professional investment firm based in Zurich, Switzerland named Jacobs Holding, which has a sole economic beneficiary: Jacobs Foundation. Jacobs Holding is the majority shareholder in Colosseum Dental Group. The Colosseum Dental Group operates more than 300 dental practices, employs more than 4 500 dental care professionals and generates more than EUR 650 million in revenues (Colosseum Dental 2021). Fjällman state that:

> Jacobs decided to be the leading business chain in the world's dental services market. Since then, they have acquired dental care chains in Finland, Switzerland, Italy, Germany, The United Kingdom, France, Sweden, Norway and Denmark and grown to be the leading in the European dental services market. When I started we were 20 employees in Sweden, today we are 850, worldwide 6 500. Jacobs has the same strategy as us, to grow, to control of course, to be the greatest, which they use as a message in the respective countries.

With a reinforcement through being part of the European Business group: Colosseum Dental Group, and by that being a part of Jacobs, there are great opportunities to take advantage of for Smile Tandvård. In connection to being reinforced by greater organizations, we talked about the topic of M&A. Fjällman explains:

> Smile Tandvård has two full-time employees in the department of Acquisitions. Additionally, also one consultant, who is one of the former founders of Smile Tandvård, that has a great insight of the dental care market. One could say that they know every

> dentist in the private sector in Sweden, with the caveat of one or another. These three employees work regularly to be able to be ready when opportunity strikes, and one can expect there to be 5-8 acquisitions annually.

In the last five years there have been 6-7 acquisitions completed annually on average. With a low bound of four and a high bound of ten.

Answering the question of whether the size of the firms they acquire, or aim to acquire, matter in the context of wanted variables, Fjällman says:

> No, everything, with quality. We check if they are great dentists, if they have a good management. We have many criteria to check off in the process of research, however, if there is someone willing to sell, we strike.

Further asking if they choose to "strike" as early as possible, Fjällman explains:

> Yes, and there are different ways. We have something that we call "add-ons", which are dentists at locations where we already have clinic, and then we usually buy their business (including patient stock) and integrate them in our existing clinic. What we prefer the most, and get the best effect from, is when the dentists continue to work for a couple of years (2-3). In order for the customers to get used to a new place before the dentists retire, and we then get the chance to recruit new dentists and transfer the patient to a new dentist in an orderly fashion that the patient appreciates.

The question following this asks if it is then the case, in connection to economies of scale, that them as a firm acquire the targeted firms despite there not being any direct effect or potential, only a large patient stock with long-term customers. Additionally if there must be a positive result in the short-term. Fjällman answers:

> Yes. We prefer not to but an old firm that has been built-up over time, we would rather buy the re-packaged version of the firm, where we choose what parts that suits us. The patient stock is the most valuable aspect of the firm, and then we of course look at if there is any technology or equipment that they want to sell to us, but usually there are not anything that we want. We would rather only acquire the employees and the customers.

These answers by Fjällman point towards the real value being the patient stock. With additional value in the employees for smooth transitions, which can be understood when there are many newly acquired firms in need of integration into the organization. The value of the patient stock is easily correlated to the competition of quantity that exists on the market, as large public actors push the price towards a perfect competition, resulting in a battle for quantity instead of prices.

Regarding if there is a time period in the year at which they are the most actively acquiring new firms, Fjällman tells us:

> No, not really. Sometime it might be the case that we acquire several clinics at the same time. But we would rather spread the acquisitions out over the year, mostly because of administrative reasons. As it costs time to integrate new firms, it is not only the accounting part, sometimes we have to manage their business in order for it to start functioning.

Further speaking on the integration of newly acquired firms, Fjällman says:

> There are also many agreements/contracts to write (re-write) with regions and county councils if there is a new location. If it instead is an 'add-on', the new firm fits into the old agreements made at that location.
> We want to merge as fast as possible, to not end up with several unnecessary firms to manage, so it is basically coincidental if there is too much to handle at one time. The integrations of new firms into the organization can also be done more smoothly if there is time available. There can then be better conditions for the new firm, as most of the new firms are relatively small in comparison to 'Smile Tandvård', which leads to them being unfamiliar with large organizations' way of dealing with routines etc. Reports and corporate cultures are two other aspects that the new firms must get familiar with, the integration of such transitions require time to adapt. Therefore, it is better to spread the acquisitions throughout the year.

The knowledge of integration of newly acquired firms is not something learned recently, with as many acquisitions made, it comes with experience. However, several acquisitions per year do not come cheap. With a strategy resulting in acquiring firms when opportunity strikes, how do they manage it? Fjällman explains in connection to this:

> Yes that is the case, we acquire the firm and take the extra work from The acquisition when it comes. Everything (the funds) comes from

> Switzerland (Jacobs), they have a department for Mergers and Acquisitions (M&A) there. If it is deemed to be a promising acquisition that we propose, the funds are added from them.

Regarding budget, they are evidently not in any dire need if the opportunity to acquire many firms shows itself at the same time, as long as the acquisitions shows themselves promising. They are not seeking to miss out on growth, or firms with potential, the acquisitions must be made, and the hit of the purchase and administration will be dealt with any way it comes.

Speaking on the question of there being "openings on the market" to grow at a faster rate, at certain times, in different parts in Europe. Especially in the Nordic countries as of late, Fjällman comments:

> Yes, of course there are some other actors in addition to us, seeking to grow, that also seeks to acquire firms, but we seem to be successful as of now. Although, it is often a long process. Longer than some might assume. Many of the clinics we acquire have been researched and the process started long before the acquisition itself. But they might not have been ready to sell their clinic until the moment arrives. Many of the dentists that have had the clinics have built up their own clinics as their life's work, built up over time periods of 25-40 years, thereby adding an emotional aspect to the process. However, there are many dentists that chooses to stay with us, they are close to their pension when they sell, and we get the last few years with them.

It seems to be an integrated way of acquiring new firms and they know exactly what they wish to acquire. Experience have showed them the benefits there are, and they have gathered that knowledge in order to succeed in their growth through acquiring smaller competitors on the market.

5.2 Case Study: Smile Tandvård

Smile Tandvård was in the introduction introduced as being a firm that have used M&A as a great strategy for growth. With this in mind, and the fact that the purpose is to examine business growth through M&A, a case study of Smile Tandvård's methods for growth in comparison to what have been explained in the theory chapter is a natural continuation for the paper. Especially with the distinct characterization of Smile Tandvård in several parts of the theory. Following a similar order to that in the theory, connections will be discussed and there will be pinpointed aspects of Smile Tandvård in connection to the theory.

When talking about mergers, you divide the term into two types: horizontal mergers and vertical mergers. The horizontal merger is characterized by it involving firms that are competitors on the market. Which is the type of merger Smile Tandvård uses as their strategy, acquiring (smaller) competitors in order to grow and allow them to increase their patient stock and number of employees. In other words, achieving a greater market share. Acquisitions can add positive aspects as customers bases and expertise through human capital, among other aspects (Kotler et al. 2013). Which in a clear way aligns with what Ulf Fjällman told us in the interview-section of this paper:

> …we usually buy their business (including patient stock) and integrate them in our existing clinic. What we prefer the most, and get the best effect from, is when the dentists continue to work for a couple of years (2-3).

The re-packaging of the target firms to only include the patient stock, together with the preferred process of keeping the dentists that came with the customer base, should point towards that Smile Tandvård has found a well-functioning strategy within the main strategy of mergers and acquisitions. Prior mergers and prior acquisitions have given them the experience needed to maximize the effect they get from the purchase.

With the efficiency gains to gather from M&A, when exploiting scale and learning economies, it is a rapid way of growth. Considering the fact that Smile Tandvård, and Colosseum Dental Group, has seen an opening on the market for dental care, they naturally wish to fill that opening and benefit from it as long as it’s still there. Therefore, using M&A as their dominant strategy, with funds added from a supporting business group, has enabled them to succeed with their idea and therefrom gain competitive advantages. With the growth showing signs of continuing and the business strategy keeping is effectiveness.

Although, the fact that Smile Tandvård, through Colosseum Dental Group, present their constant availability to acquire others’ firms or clinics on their website. By that in a clear way showing outwards, in addition to their track record of acquisitions, their strategy of M&A. It should be considered counter-productive. Besanko et al. (2016) writes about these types of public announcements of merger proposals and states that it encourages other potential acquirors to bid for the same target firms. With further counter-productive aspects of it being that “bidding wars reduce the profits an acquiring firm can hope to earn through a merger” (ibid). Should Smile Tandvård win the bidding war, despite their announcements of merger proposals, there is also a question whether “Winner’s curse” plays a role. The explanation being that the firm with the assessment of the target firm that is the most optimistic, wins. Which could be interpreted as an indication of overpaying, unless the acquiring firm has more knowledge of the target firm than other bidders (ibid). However, the counter-productive aspects might be insufficient for them to stop the firm, as it might be the case that not many competitors have the same backing of funds, through Jacobs Foundation, to seize the opportunities. The presentation of availability to acquire on Colosseum Dental Group's website:

> Selling your practice to Colosseum Dental Group provides an opportunity to develop your career. Whether it's continuing your employment or reducing the workload, your practice will continue to thrive within the Group (Colosseum Dental Group 2021).

On the question of why to engage in M&A, the competitive edge talked about in chapter 2, referencing Akdogu (2009), mentions the positive aspects of competitive advantage. Competitive advantage that focuses on acquisitions being strategic investments and restructuring tools, instead of needing direct returns. As Ulf Fjällman explained in the interview-section:

> We prefer not to but an old firm that has been built-up over time, we would rather buy the re-packaged version of the firm, where we choose what parts that suits us. The patient stock is the most valuable aspect of the firm.

The need for direct returns from a well-established firm is not something Smile Tandvård searches after, they acquire the dental practices' parts that suits them the best. They focus on the merger or acquisition being a strategic investment, a tool to restructure, instead of direct results from the purchase.

Market strategies on a competitive market changes depending on the firm's position. Kotler et al. (2013) explains one of the four roles on a market, a market challenger, as being a firm that fights hard to increase its market share, in order to gain on the market leader with the largest market share. The role of a market challenger suits Smile Tandvård on the dental care market in Sweden. They also follow a divisive choice of challenging the market leader for leadership (high risk, high gain) or challenging other parties on the market to wrest more market share, where they fit into the second explanation (ibid). They take on the market leader by increasing their market share through mergers and acquisitions of smaller parties on the market, expanding their patient stock and their human capital, as well as gaining competitive advantages from expanding out into new locations.

Regarding Smile Tandvård's connection to strategic planning, is the part of adapting the firm in its changing environment to able to take advantage of opportunities that might occur, strongly characterized by Smile Tandvård's start. The three original firms who saw an opportunity on the market as it changed (with Colosseum Dental Group's help in the venture) fits perfectly into Kotler et al.'s (ibid) description, especially when comparing to the words of Ulf Fjällman:

> They (the original three firms) saw that the dental care market, and the people owning the clinics, started to grow old. There was no one to sell these clinics to, and the up-and-coming dentists were not aiming for a working life in a "small box" with one or two dentists/colleagues…
> …through this point of view, and through scoping the possibilities of acquisitions on the market, these three firms grew in the same space and later merged.

Smile Tandvård has adapted to the changed environment on the market and aim to continue to take advantage of the opportunities at hand, which they scoped individually and now reap the rewards from under the same umbrella of Colosseum Dental Group.

The business cycle's correlation with the number of mergers and acquisitions completed on the markets is tested in the results. Which proved there to be a correlation between the fluctuations in GDP and the number of notified cases of mergers and acquisitions. The availability of merging and acquiring targeted firms is thereby connected to the economy's well-being, and Smile Tandvård's possibilities of merging and acquiring their targeted firms naturally follows the same path. The amount of merger and acquisitions have steadily increased in the recent years but can be seen to decline again in the last two years. The numbers fluctuate, naturally. As this is the case, Smile Tandvård can expect to fall into the same waves of fluctuations. However, considering Smile Tandvård's size in comparison to the total of notified cases in the whole of Europe, the level of mergers and acquisition completed annually by Smile Tandvård could be harder to correlate with the business cycle. The fluctuations in the number of notified case completed annually can be read from the European Commission's (EC) statistics, with the latest years' numbers being presented in table 11 (European Commission (EC) 2021).

Table 11: Number of Notified Cases, Completed Annually

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
NoNC	283	277	303	337	362	380	414	382	361
Change	-	-2,12	+9,38	+11,22	+7,41	+4,97	+8,95	-7,73	-5,49

European Commission (EC) (2021).

Note: NoNC: Number of Notified Cases. Change: Changes in percentage for each year.

The theory around a diversified firm's overall plan, consisting of a competitive strategy and a corporate strategy, could be connected to the similar goals of Smile Tandvård, Colosseum Dental Group and Jacobs Foundation. As all levels of the hierarchy expresses the same wish to be the leading actor: Smile Tandvård in Sweden, Colosseum Dental Group in Europe, and Jacobs in the World. It is a great way to connect a firm and the other actors in the business group to unite through the same set of goals and objectives. Additionally, should a matching fit for beneficiaries, investors, business groups and firms not be neglected when working together and deciding on which path to follow. As the structure of activities is heavily centered around the overall aim.

Smile Tandvård's process for M&A, with the way they research the competitors to be able to choose what parts suits them, and how to integrate the newly acquired firms, can be seen in the theory of Porter's (1987) four concepts of corporate strategy. Especially in the concepts of restructuring and transferring skills. A firm that chooses to be active in restructuring business units are by Porter (ibid) also more active in trying to release unrealized potential in acquired firms, with this explanation the parallel is not hard to draw to Smile Tandvård's ways of releasing the potential in smaller firms when they have been acquired. Transferring skills involves synergies and capturing the benefits, business to business. The way that Smile Tandvård works with their integration is to be compared to capturing the synergies in connection to the acquisition, and the way that Smile Tandvård scopes out the best parts (often being the patient stock and the human capital) is to be compared to the capturing of benefits. Between the potential in the targeted firm and the management of Smile Tandvård.

The network effects that comes with an increased patient stock and an increased number of locations at which Smile Tandvård is available is to be considered as beneficial. Acquiring new dental practices, both in old locations and new locations, is beneficial when you think about it as both an attack and a defense. The attack (taking the battle on the market) of amassing customers is beneficial in creating further value in quantity, the defense of amassing customers is beneficial in blocking and deterring new entries on the market, both vital parts of succeeding. Acquiring new dental practices, in Smile Tandvård's case, might not be beneficial in the short-term, but show greater potential of being beneficial in the long-term. With the long-term benefits including being accessible to potentially new customers and to amass loyal customers (from the acquired firm). The strategy to boost the mass of customers by acquisitions of smaller firms, a firm such as Smile Tandvård can challenge bigger firms and business groups without having to steal customers from those organizations in particular.

In connection to network effects and the long-term aim of some actions a firm take, economies of scale must be taken into consideration as well. With the additional connection to amassing customers and dental practices. Amassing customers could in practice be exemplified by filling up the time slots in the dental practices for Smile Tandvård's dentists, thereby increasing the efficiency of the time available. There are also benefits to organizing the newly acquired firms under the umbrella of Smile Tandvård to be able to find where they can reduce costs. Porter (ibid) also talks about the benefits of achieving economies of scale by sharing activities, through that activating synergies. Businesses sharing departments, knowledge, processes, etc. can lower their costs. Smile Tandvård have considered whether they are sensitive to economies of scale, as they benefit from merging activities and coordinate the integrations of newly acquired/merged firms in a well-functioning way.

5.3 Results

To enable a discussion around the likely link between business cycles and the number of M&A, a test was made on the correlation (Pearson Correlation) between the two variables over a time period of 1990-2020. The data available for notifications, from the European Commission (EC) (2021) is for the whole of the EU. Because of the fact that domestic authorities do not keep track on the number of M&A, there had to be made a small selection of countries to represent the whole of Europe. With the assumption that if there is a correlation to be seen, then that correlation can be assumed to exist in the whole of Europe, thereby matching the data for M&A. The countries chosen for the test were nine in numbers, and specifically chosen as they are the nine countries in which Smile Tandvård is active. The data for GDP was gathered from the OECD (2021) and the data for notifications of mergers and acquisitions was gathered from the European Commission (EC) (2021).

The results showed there to be a correlation between GDP and the number of notified cases of mergers and acquisitions which are completed. Thereby linking business cycles to M&A. The overall results of the nine representative countries that were tested showed consistent results with relatively high bivariates of correlation. With few values differing from the others, or from the bivariate mean, that comes out at the value of 0,832. Smile Tandvård acting on the Swedish market gets further reinforcement as a case study when you compare the value of the Pearson correlation bivariate for Sweden: 0,833, with the mean of the nine countries. Assuming Sweden to be a great representation of the nine countries, and assuming the nine countries to be a representation of the EU, the test has merit.

The results from the test, as well as descriptive statistics of what data the correlation was tested between, are shown in the following tables (Table 12, 13 and 14):

Table 12: GDP, Total, US Dollars/Capita

Year	Swe	Nor	Dnk	Fin	Deu	Gbr	Che	Fra	Ita
1990	20 376	18 419	18 203	18 102	19 433	16 994	2 8079	17 603	18 593
1995	23 050	24 303	22 656	19 539	23 615	20 503	30 537	20 732	22 341
2000	29 631	36 952	28 679	26 796	27 463	26 424	36 442	26 106	27 084
2005	34 244	47 801	34 153	32 052	32 237	32 586	41 467	30 504	30 016
2010	42 256	57 967	43 041	38 986	39 707	36 468	54 810	35 939	34 861
2015	49 103	60 353	49 058	42 490	47 610	42 572	66 020	40 830	36 899
2020	53 719	68 112	59 842	50 247	53 810	43 903	71 026	45 949	41 108

OECD (2021).

Note: Levels of GDP, in total, for US Dollars/Capita, in the time period of 1990-2020, with five year-gaps.

Table 13: Number of Notified Cases

Year	Number of Notified Cases
1990	11
1995	110
2000	330
2005	318
2010	274
2015	362
2020	361

European Commission (EC) (2021).

Note: Number of cases notified to the European Commission (EC), completed annually in the time period of 1990-2020, with five year-gaps.

Table 14: Pearson Correlation

	Swe	Nor	Den	Fin	Ger	UK	Swi	Fra	Ita
NoNC	0,833	0,846	0,817	0,852	0,792	0,862	0,780	0,839	0,870

Note: NoNC: Number of Notified Cases. Correlation bivariates for GDP and notifications of mergers and acquisitions. Three decimals.

5.4 Discussion

The theories focused on in this paper has proven to include many aspects that could be applied to Smile Tandvård. This could of course be the case of a broad theory that includes whole markets. However, should the link to Smile Tandvård show how the firm has pinpointed certain strategies, processes and behaviour from the economic theories. Smile Tandvård can be treated as showing how a firm should interpret its position and opportunities, and subsequently take advantage of them, from focusing on the firm's best aspects. Furthermore, in the way that you can apply theoretical explanations of businesses, of firms, of market structure, and from that see how a firm acts och strategizes, the results from the case study can be deemed as a success. Of both the theories and the firm itself.

There has been discussions of the creation of value in connection to M&A, if the strategy comes with positive returns, negative returns, or even a less negative return than if the firm was to be non-merging. The interpretation of the motives for mergers could perhaps not be singled out by simply observing the acquirors' returns from mergers. Instead one must take into consideration the interpretations of gains in the long-term, gains from restructuring, and gains from insignificant negative returns for the acquiror whereas the acquired firm earns significant positive returns, as Akdogu (2009) reports. On the topic of insignificant negative returns, a firm that uses acquisitions could also brush off these insignificant negative returns if there are competitive advantages in that the rivals earn significant negative returns. As from an announcement of their rivals' acquisitions (ibid).

The test of Pearson correlation gave results of between 0,78 and 0,87, which can be interpreted as a clear correlation. Which was to be expected as it was a likely link between business cycles and M&A. The result of the bivariate correlation value is always being between -1 and 1, with 1 being a perfect linear correlation with the X-variable and Y-variable increasing as the other increases. -1 implies that the Y-variable decreases as the X-variable increases, for all data points on the linear correlation. 0 implies no linear correlation between the variables. Therefore can a value of 0,833 (Sweden) as an example be considered as a clear linear correlation where X and Y increase with each other to a high degree. There are indications that help explain why business cycles and M&A as a strategy follow each other. In the way that M&A allow for quick adjustments in economic shocks and to accelerate strategic shifts, it is a great strategy to position the firm to emerge from crises, troughs or downturns in good health and perhaps even profitable. Troughs in the economy's business cycle can benefit firms using M&A if they take advantage of lower valuations. Even though the cycle of M&A in general is volatile, it can prove to be less volatile in terms of returns during, and emerging from, downturns.

When talking about the test made in this paper, the assumption of a subset of countries as representatives of the whole EU was decided by the fact that domestic authorities do not keep statistics of the amount of mergers and acquisitions completed annually. The European Commission (EC) however does, with additional information of the cases withdrawn as well, which have been a handful each year. The withdrawn cases are either withdrawn in phase 1 or phase 2 and add extra information to the data on M&A annually. The subset of countries was chosen as they are the countries in which Colosseum Dental Group have clinics. The countries chosen are however to be considered as great representatives when taking into account their sizes and the state of their economy in comparison to the whole of the EU. Table 15 shows the number of merger cases notified to the European Commission (EC) annually that were withdrawn.

Table 15: Number of Cases Withdrawn in Phase 1 and Phase 2

Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Phase 1	9	4	1	6	6	8	7	10	12	7
Phase 2	1	1	0	0	2	1	2	2	0	2

European Commission (EC) (2021).

The case study of Smile Tandvård showed clear connections between the business and the existing theory which have been brought up in this paper. Smile Tandvård as a business can be put into several molds of what theory suggests a firm of that caliber to be in. With their strategy being "right" for where they position themselves on the market, with their whole process of mergers and acquisitions being thought thoroughly through before a deal is struck, and with their aim of growth being made possible by their ideas, funds and processes.

5.4.1 Empirical Evidence

In connection to M&A as a strategy, Akdogu (2009) studied the announcement effects of acquisitions and how they could result in a competitive edge against competitors. Akdogu (ibid) finds evidence that are consistent with the competitive advantage hypothesis, which states (posits) that: "acquisitions are a means of corporate restructuring in a changing environment" (ibid). The award for the acquiror, the competitive edge, is that the acquisitions makes it costly for the non-merging competitors. The non-merging competitors experience negative returns of -0,38% on average, when an non-horizontal acquisition is announced from a rival. The closer proximity to the rival, the more negative is the effect. With competitors that provide primarily the same service as the acquiror earning negative returns of -0,65%, on average, and the ones of similar sizes losing -0,50% (ibid). Akdogu's (ibid) findings were consistent with prior studies, with the prior literature and with the theory of the competitive advantage.

The data used by Akdogu (2009) comes from the telecommunications industry from 1996 to 2002. The merger activity specifically from the US Mergers and Acquisitions database for domestic mergers, from 1996-2001. The years chosen are focused on the aftermath of the Telecommunications act of 1996, as it by Akdogu (ibid): "led to an era of intense M&A activity".

The study was primarily based around the announcement effect of specified acquisitions on the acquiror, the target, and the competitors.

Aktas and Dupire-Declerck (2015) examines whether and how increased entry threat drives industry merger activity. Additionally, whether and how product market competition affects takeover activity. With results indicating that "competition drives M&A towards more efficient resource allocation". The argument being that increased entry threat intensifies takeover activity. The increased competition stimulates external growth decisions, the takeover activity (with-in-industry and cross-industry) intensifies significantly. An interesting aspect to this is that it follows the argument of mergers and acquisitions as efficient reactions to economic shocks (ibid). Further results found in the paper by Aktas and Dupire-Declerck (ibid) suggest that "efficient non-horizontal deals signal the existences of investment opportunities outside the industry for the industry peers", interpreted from the selection of target outside the industry, which the rivals in the same industry react more positively to. Moreover, the selection of targets becomes more efficient. Following the adoption of ITR's (Import Tariff Reductions), the results from Aktas Dupire-Declerck (ibid) show that non-horizontal deals are more value creating. Competitive pressure market could by this be indicated to lead acquiring firms to undertake transactions that are more efficiently diversifying. Which in turn could be interpreted to signal investment opportunities outside the industry, for the firms in the industry (ibid).

The data uses by Aktas and Dupire-Declerck (ibid comes from completed M&A deals announced by U.S. listed acquirors during the time period of 1985-2005, with there being 10 498 in total. Additionally, Aktas and Dupire-Declerck (ibid) use a list of large ITR's in the manufacturing sector, to be able to consider 24 import tariff reductions that were adopted during 1990-2000, for the purpose of their study. The methodology used is difference-in-differences, to be able to "neutralize aggregate time fluctuations and fixed differences between industries that are subject to ITR's and industries that are not" (ibid).

5.4.2 Problem Statement

Taking the questions in the problem statement into the discussion:

> To what extent is M&A an effective business strategy for firm growth?
>
> Will the acquiror gain a competitive advantage through M&A,
> through efficiency gains and by gaining a competitive edge
> over its non-merging competitors?

The first statement showed through the theories and empirical evidence how it can be an effective business strategy for firm growth. Although, the main answer to the question can be linked to the case study. Smile Tandvård presents as an example firm to what extent the business strategy's efficiency for firm growth can be used, even single it out as the primary reason for growth for a firm. Especially when discussing what the most rapid and efficient strategy for firm growth can be, M&A is highly relevant to add to the discussion and point towards its benefits.

The secondary statement proved to be answered by the different ways an acquiror gains competitive advantages, and competitive edges, from M&A. However must I add that there are prior studies written that show the negative results from acquisitions in direct returns, etc. but there is far more diversity in the ways of interpreting successful mergers or motives for M&A, which have been discussed by Akdogu (2009), among others. The existence of failed mergers should not deter, there are plentiful of successful mergers to point towards instead, with the success sometimes even being that it results in being less negatively affected than a non-merging competitor that is worse off from avoiding the opportunity as a whole. The examination of the theory and the empirical evidence show there to be many diverse interpretations of success from M&A, where one can lead the successes to being competitive edges towards a firm's competitors.

The efficiency gains to be had are only an approved merger proposal away, which although can be difficult to get approved by the authorities, there are clear ways in which they could be the result from a Merger or Acquisition (M&A) that exploits economies of scale and learning economies.

6. Conclusion

There are many ways in which you could interpret why firms merge or acquire other firms and as such, also why firms can grow by M&A. Studies similar to this one ends up in a discussion about the potential of M&A as a tool for firm growth, with the focus of different mergers and acquisitions varying between the firms executing on the strategy. Focuses that may not be connected to if the results from the merger are bad, or if the newly acquired firm is divested in the forthcoming years. The empirical evidence presented in the analysis, by Akdogu (2009) and Aktas & Dupire-Declerck (2015), show examples of this. Through my examination of business strategies I found that M&A stands tall as a tool for rapid growth, and further that it can to a great extent allow firms in certain market positions to prosper. By the efficiency gains and the competitive advantages it brings. The efficiency of the business strategy is only limited by the status of the market, the firm's funds and the process of integration for the new firms. Which opens up for innovative thinking and executing on the ideas if there are funds to be gathered and the whole process of M&A is well thought out.

The examination of business growth through M&A showed there to be clear indications of the benefits of growing by having M&A as a strategy. Especially, when there could be found opportunities on a market that suits M&A better than other strategies, as it can be adapted quickly and result in rapid growth. A firm that focuses on M&A as their main way of growth can through the case study be seen to result in what the theory and empirical evidence pointed towards. Smile Tandvård has succeeded in using M&A as a beneficial tool to take on the battle with the larger parties on the market, which up until now have shown great results. The firm shows how using M&A have enabled gained market shares and growth. By the decision on a strategy of horizontal mergers, Smile Tandvård has located its position and its market role correctly in relation to other firms, which may lead it to gain competitive advantages and efficiency gains.

The link between business cycles and the amount of M&A made annually is expected, nevertheless, is it an interesting factor to take into consideration when both studying the business strategy of M&A, and for firms using M&A. There are indications of there being specific time periods suited for M&A in the business cycle, although, the opportunities of making prosperous M&A are not bound by them.

In summary, the many ways of interpreting M&A, and to what extent the business strategy of M&A is effective for firm growth, have been showed. The interpretation of its success is divided, however, the strategy can be pointed towards being an effective tool for firm growth. Mergers and acquisitions cannot be interpreted as black and white, and motives for M&A cannot be singled out, there are however competitive advantages that the acquiror can gain, as well as efficiency gains. Not only in the direct gains, the acquiror also gain a competitive edge over the non-merging competitors. The study is thereby in line with Akdogu's (2009) results and follows Besanko et al.'s (2016), Kotler et al.'s (2013) and Porter's (1987) theories. M&A is a strategy that is not going to disappear out of sight in the forthcoming years, quite the opposite, in my opinion.

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