Mergers, Acquisitions and Strategic Alliances in the Film Industry in Mexico

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Abstract

Mergers, acquisitions and alliances of companies are a major study in today's economies phenomenon. The purpose of this paper is to present an overview of the theories on mergers, acquisitions and strategic alliances. In this regard a case study is performed where companies Cinepolis and Cinemex are analyzed. The subject of these strategies will be developed to provide knowledge.

Key words: Mergers, acquisitions, alliances, strategies

JEL: M100, M200, D000

Resumen

Las fusiones, adquisiciones y alianzas de las empresas son un fenómeno muy importante a estudiar en las economías actuales. El propósito de este trabajo es presentar una panorámica de las teorías sobre fusiones, adquisiciones y alianzas estratégicas. En este sentido se realiza un estudio de caso donde se analizan las empresas Cinepolis y Cinemex. Se desarrollara el tema de estas estrategias para proveer de conocimiento.

Palabras clave: Fusiones, adquisiciones, alianzas, estrategias

1. Introduction

In recent decades, the world economy has been involved in a transformation every time faster and more intense ways. This process of globalization has created monopoly and oligopoly trends in business and is no stranger to Mexico and its film industry. All this is being carried out by key strategies for entrepreneurs such as mergers, acquisitions and alliances.

Acquisitions and mergers in the business world are associated with several factors including among others: improving competitiveness, respond to the changing environment, concentrating the market, reduce costs, etc. In this paper, it is found that there are two major companies in Mexico dedicated to the exhibition of film. Competition between them is fierce because the industry of cinema exhibition in Mexico ranks fourth in worldwide box office which shows it is a highly attractive market.

The two largest companies in Mexico are Cinapolis and Cinemex. These two companies have the largest market concentration in the film exhibition in Mexico. Cinemex in recent years has acquired other companies in the same business in such a way that their increased market concentration has increased. Yet, Cinemex still remains well below Cinepolis. In this regard, through the information it is available about this acquisition and film exhibition industry it is pretended to analyze why companies mergers, acquisitions, and strategic alliances are made.

It can be seen that throughout the world the needs of businesses increased in so far as the environment is constantly changing. In this sense, it is essential to conduct the following study because other companies can make these strategies to grow the market and take precedence over the strong competition. In this sense, the present work aims to contribute to the understanding of the strategies of these companies, through an understanding of these two great companies.

The text is structured as follows. In the first half it is described a history of these two companies in which the readers will have a perspective of how these have developed. Second is the boundary where it is delineated the problem under investigation. Thirdly is the justification for the next job, a move it because it is important to know these strategies and a simple way that the reader can associate these strategies is through an example that in this case is performed is that have been found two companies which can be studied.

Fourth it can be found the course that tracks the research. Fifth place are found the theories in which mergers, acquisitions and alliances. Sixth is to be found how the two companies are now and what their strategies on the market were. In seventh place is the method by which this research was conducted. Finally, based on the analytical and descriptive analysis, the conclusion was found which is reached in this investigation, mainly being helpful to the reader.

2. Background

Cinepolis began in 1947, when Mr. Enrique Ramirez Miguel began operations in the city of Morelia, Michoacan with the opening film exhibition room Morelos. By the year 1971 the organization Ramirez was founded, with the opening of the film La Raza in the City of Mexico. In 1972 the first Twin Cinemas theaters arise with more rooms. By the year 1973 the expansion occurs with the concept of Multicinemas. In 1994 the brand emerges

Cinepolis theaters multiplex type. By the year 1999 the concept of VIP Cinepolis and Cinepolis Intranet (2011) is created.

Cinemex arises in the year 1993, due to the result of a project of some students who sought reinventions film screenings in Mexico. In August 1995 Cinemex began its operations with the opening of its first resort in Altavista Pavilion. In June 2002, the Canadian conglomerate ONEX Corp. and Oaktree Capital Management acquired Cinemex. Two years later, in 2004, Cinemex ONEX and Oaktree sold to The Carlyle Group, Bain Capital and Spectrum, investment fund companies. Currently the representatives of each of these three companies are part of the board of Cinemex. The aim of Cinemex has always been placed as the leading company in its field in the metropolitan area, and has achieved, Cinemex. (2013).

It is noteworthy that large companies in Mexico come from the evolution of new forms of economic organization, and the general process of economic modernization. It is understood by this that as the economy has been growing, companies have excelled. To understand the concept of economic organization will leave saying (Nicholson & Snyder, 2010, p 4) "the study of the allocation of scarce resources among alternative uses."

In other words, the economy seeks to meet the needs of people through the production of goods and services (Porter, Lawler & Hackman 1975). Organizations are composed of individuals or groups, in order to achieve certain goals and objectives, through differentiated features that seek to be rationally coordinated and directed with certain continuity over time.

Historically, the film beginning was on December 28, 1895, at the Grand Cafe on the Boulevard of the Capuchins in Paris, where Louis and Auguste Lumiere made their first film screening. In this sense, the film came to Mexico eight months after its appearance in Paris thanks to President Porfirio Diaz, who together with his family and cabinet members were to the theater the night of 6 of August 1896. Mexico was the first country of the Americas that could appreciate the new invention of cinema.

The first actor in the Mexican cinema was and President Porfirio Diaz, with the first film made in the country, "President of the Republic Walking Horseback Chapultepec Castle (1896)". The success of the film in Mexico was immediately, and the drugstore "Plateros" quickly went on to become the country's first hall calling "Red Room". During 1896, Bernad and Vayre filmed 35 films in Mexico City, Guadalajara and Veracruz. The reason which had an outstanding development in the country was due to the Mexican Revolution because it was the first fully historic event documented in film (Aguilar, 2008).

3. Delimitation of the problem

It is indicated that markets are constantly changing because this is essential for companies to adapt to these changes. For them, it is important that the strategies implemented to help adapt to these changes. In this sense, as the economy of a country grows, businesses can evolve, but these strategies create greater market concentration, leading to monopolies in the country which affects consumer companies that these strategies will bring a profit.

The implementation of these strategies creates greater value to companies, suggesting benefits for the same that value. Acquired by performing any of these strategies is the main objective of this research as this knowledge that spills can be acquired by other companies and transmitted in the world of business and research. An analysis of the theories underlying these strategies and it is also analyzed the cinema display industry, landing on the case study of two large film companies in Mexico. Based on this research question what are the levels of growth and consolidation of the two companies from the implementation of strategies mergers, acquisitions and alliances?

4. Justification

Develop this research in the first place shows that there is a growth in research and development and training of researchers to help the country stand today, providing knowledge that not only complement prior knowledge, but also allows to develop new knowledge today and allowing the emergence of new ideas. It is intended that more people can gain more knowledge, and apply them to achieve well in the environment, which is to talk about a transfer of knowledge.

Secondly, knowledge transmitted from this work can also be acquired by entrepreneurs allowing them a greater understanding of the market. Based on the case study they will have a clear vision of the strategies undertaken by the companies considering that these can be carried by this light considering all the advantages and disadvantages of the same

At present the companies have very high standards. As when competition increases, companies need to implement strategies to acquire a large share of the market. So companies concentrate the market although this concentration is not part of the good practices but generate benefits for businesses, through strategies which can give the companies a competitive advantage.

In the specific case of Cinepolis and Cinemex both have fundamental strategies. For example Cinepolis has its strategy of reinvesting 90% of its revenues over the value generated by services. With its large market strategies, reinvestment is used to open new rooms and this creates further market concentration. For Cinemex, strategies have been acquiring other companies in the film industry and completely remodel those rooms that take. In this sense, it is essential the development and understanding of these strategies to the implementation of the new entrepreneurial company or possibly to the development of research.

5. Assumption

Mergers, alliances and acquisitions are growth and consolidation strategies of Cinepolis and Cinemex.

6. Conceptual framework

A strategic alliance is a voluntary agreement between firms and companies to exchange share and jointly develop products, technologies or services. It occurs in two ways: through contractual partnerships, without share capital, and alliances to share capital. The first are alliances between companies based on contracts and do not require share ownership. The second is based on ownership or financial interest alliances between companies including strategic investment that is a company that invests in another strategic investor. Also, the cross-shareholding where both companies invest in each other to become crossed joint venture participants (Peng, 2012).

Table 1 Advantages and disadvantages of alliances

Advantages	Disadvantages
Reducing cost, risk and uncertainty	Election of wrong partners
Access to complementary assets and learning opportunities	Opportunism potential partners
Possibilities of using partnerships as real options	Risk help nurture competitors

Source: Based on data from Peng (2012)

How are partnerships formed?

In the first stage, the company must decide whether it is possible to achieve growth through market transactions, acquisitions or through cooperative alliances (Arya & Zhang, 2009). In the second stage, the company must decide whether to adopt a contractual or equity approach. The third step is to specify the relationship then formalizing alliances as shown. An acquisition is a transfer of control of the operations and management of a company (target) to another (acquirer), when the first becomes the second unit.

What motivates acquisitions?

There are three causes for acquisitions: 1) reasons of synergies; 2) arrogance, and 3) management. In the first, synergy can be seen from two perspectives. The first is the vision-based institutions. In this sense, the reason for procurement synergy occurs because of a response to the limitations of formal institutions and market transitions. The second perspective the resource-based view, the reason of the synergy is to leverage superior resources (Economist, 2009).

A merger is the combining operations and management of two companies to establish a new legal entity. First, the merger is given to seize an advantage, whether technological, financial, fiscal, strategic or organizational, so that the merger will increase the ability of the company and benefits the synergy of the merged companies are obtained.

It is important to understand that mergers and acquisitions are different. In this regard, a merger is one that integrates the best financial and management of both companies to integrate into one company strategies. In an acquisition, the dominant partner in one of the firms is the person who handles financial and administrative processes of integration (Greenwood, Hining & Brown, 1994).

There are two types of companies in mergers. One company called combined and the other is called the nuclear company. The first are the ones that have gone through a legal reorganization process and formed a single firm. The second is that which has not been subjected to a major reorganization and continues to maintain a direct link with its original founders (Fumer & Gilkey, 1990).

In this sense there are four types of mergers. The first is the vertical merger in which there is a parameter between buyer and seller that is between the two companies. The second is the horizontal mergers that occurs between the two companies with identical products and operate in the same or different market. Third is the concentrated merger, is the one between companies with high similarity in products or distribution. Finally, the conglomerate merger is the one between two companies that have no any relationship, (Walter & Barney, 1990).

A very important aspect to mention is that the implementation of these strategies creates monopolies and oligopolies in the market. This means that the market concentrated to a single or very few companies and puts the consumer under these companies. With this it is meant that the companies have the power and set the market price.

The monopoly industry is that there is only one company that meets the market specifically. Varian (2010) mentions that because there is only one company in the market, it is very likely that this deemed given the price, in this sense, the company will realize that it can influence the price and choose the level of prices and production maximizing its benefits

Oligopolies are that concentration where there are very few companies in the market. Varian (2010) indicates that an oligopoly is a market in which there are some companies who realize their strategic interdependence. In this sense it is placed the duopoly in the case regarding market concentration that manage the two companies studied.

7. Contextual framework

Cinepolis constantly use strategic alliances in this regard. The alliance formation is determined by elements such as market conditions, adapt to the market, market concentration etc. In this regard the formalization of a partnership can be seen as an alternative answer to carry out a concrete strategy, however, can be addressed through the implementation of other strategic options (Hitt, Hoskisson, & Kim, 1997). A strategic alliance leagues specific facets of the business of two or more companies. In essence, it is a society that enhances the effectiveness of the competitive strategies of the participating companies through the exchange of technologies, skills and products based on them (Prado, 2013).

Cinepolis is a Mexican company dedicated to the exhibition of cinema, owned by the Ramirez Organization, based in the city of Morelia, Michoacan. For the March 31, 2015 operates 461 theaters with 3859 rooms, with a market concentration of about 65.46% of the exhibition market. The company currently continues with opening of new facilities as their main strategy is focused on reinventing, what is generating new complex. Its main business lines are: the exhibition of films, sale of drinks and food and selling advertising on the screen. The main partnerships are with: The Coca Cola Company, IMAX Corporation, Banamex and 4DX.

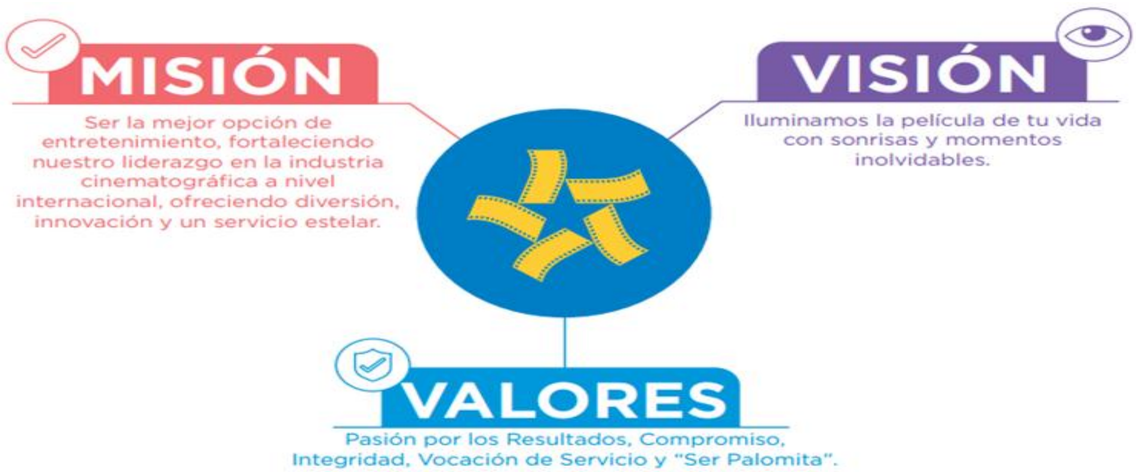

Figure 1, Mission, Vision, Values
Source: Intranet Cinépolis (2011).

One of the most important partnerships to Cinepolis has been with The Coca Cola Company. In this sense, it is offered exclusively products of the brand. Also Cinepolis participate in joint activities in marketing and image at the beginning of the implementation of this growth strategy increasing presence in presence in Mexican halls. In the other direction, the drink is preferred by consumers. For each 8 out of 10 consumers preferred the drink, thus obtained a greater number of people in theaters. In this sense, this partnership has been beneficial for both companies.

As it can be observed, in principle the main strategy in this regard is the implementation of partnerships to benefit both companies without committing to a higher level with the merger and benefits in this regard. Cinepolis has a variety of alliances that benefit the company while not leaving aside the benefit of the other companies in a joint effort that enable them to create a closer relationship with the consumer.

Cinemex is a Mexican company dedicated to the exhibition of film, founded in 1995. It has sold out more than 271 complex resorts and 2361 screens around the country, and continues to grow. It has a market concentration of 30.94%, which makes it the second company in Mexico on display behind Cinepolis cinema. This company has implemented a strategy of acquiring other companies involved in the industry; thereby acquire a greater market share. However, generated costs to the company are very high, which is why it should be applied an evaluation of cost - benefit. Cinemex acquisitions are MM Cinemas, Lumiere and the latest Cinemark.

Thus, it can be observed the difference between these two companies. One focuses on growth strategy in partnerships and other on growth strategy through acquisitions. The current outlook showing these two companies is a duopoly in the country, because almost all the market share is held by the two companies and those that remain are independent cinemas. These are very few and are disappearing. In this way, they are erasing the only other competition for these are the two companies to remain in the market. In this sense, the second company in this industry is trying to achieve a competitive balance with the company Cinepolis, which has seen acquisitions as an opportunity to reach that sense.

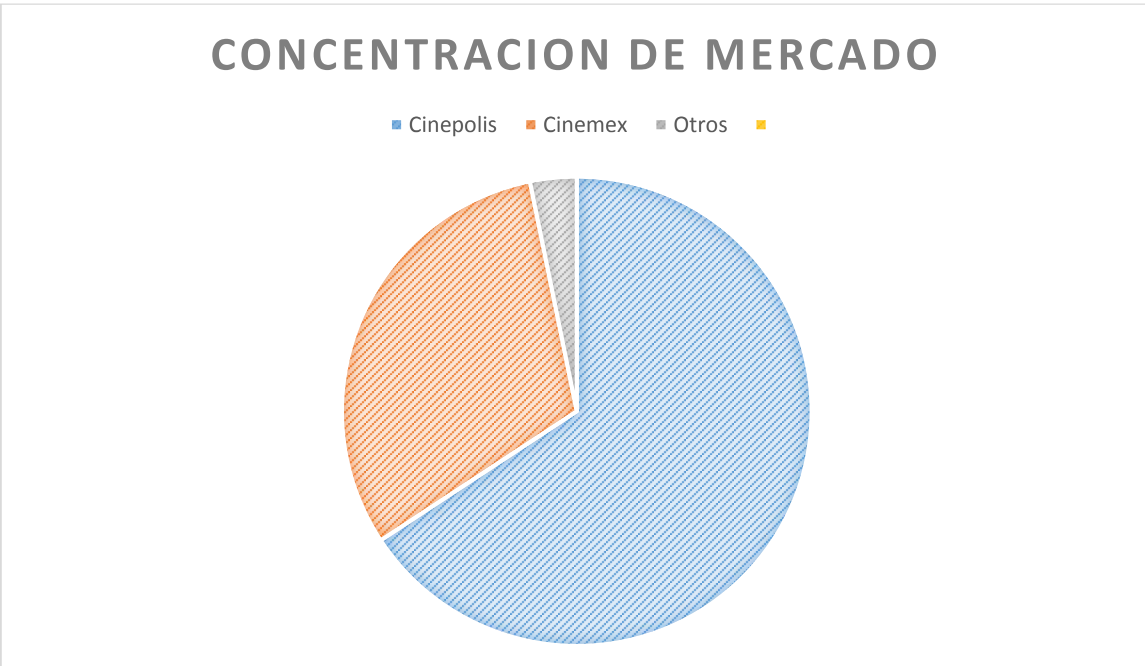

Figure 2 Market concentration
Source: Based on data from Intranet Cinépolis (2011).

8. Analytical method

For the development of this study, it will be necessary to take into account all the contributions made by different theoretical and practical concepts on the subject under investigation. For both, it was to depart from the historical method to seek all information of companies and phenomena that have passed in this regard in the strategies of companies, and that through this process will be verified or display various aspects and history that have given rise to the situation in which are found these companies on strategies and market concentration.

In this sense a study of empirical case has been carried out with information collected from companies, and thus it will be substantiated the study of the following research, and in this way substantiate the findings to answer the research question and evaluate descriptively the effect. The deductive method is also be considered, given that from the general context must reach the particularity of the problem or proposal for the integration of these strategies for other entrepreneurs. The analytical method allows equally demonstrate the results of this investigation from the whole context studied in this investigation.

9. Conclusion

Compared with acquisitions, alliances cost less and offer opportunities to learn to work with each other before committing to total purchases. Although not exclusive alliances and acquisitions can lead to these, often the latter are agreements stakeholders allow to seize both excellent capabilities as mediocre units of target companies, which causes problems. In this sense, many acquisitions have begun to function better if you first had sought to form an alliance. The experience gained by companies in previous partnerships is an element directly related to learning that provides companies with greater knowledge which will result in improving the management and development of future agreements.

What determines the success or failure of alliances?

This is answered by the two perspectives previously discussed. The view-based institutions, alliances and acquisitions depend on a thorough knowledge and skillful manipulation of the rules governing both strategies. The view-based resources require the development of specific capabilities of the company to make a difference to the improved performance of alliances and additions.

For this, there are three extensions for action. First, managers need to understand and master the rules of the game, both formal and informal, that govern the alliances and acquisitions. The second implication indicates that, in handling alliances, managers should pay attention to the relational skills that often make or break the reactions. The third implication in handling acquisitions is that is advised managers not to overpay for the target companies and focus on strategic and organizational adjustment

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