Mergers and Acquisitions in Hotel Industry: With special reference to Accor Group of Hotels

Harshita Vijay[1]* & Dr. Jayesh J. Tanna[2]

[1]Research Scholar, Kadi Sarva Vishwavidyalaya, Gandhinagar.

Faculty, LDRP-ITR, Kadi Sarva Vishwavidyalaya, Gandhinagar.

[2]Assistant Professor, BPCBA, Kadi Sarva Vishwavidyalaya, Gandhinagar.

[1]harshitavij@yahoo.co.in, [2] jayesh.tanna2002@gmail.com

Abstract

Size, Magnitude, a very quantitative term, but no doubt it gives you power to stand, to stay ahead in current competitive market. Mergers and Acquisitions are the recent trends to get this magnitude for every industry whether it is banking industry, pharmaceutical industry, FMCG or hospitality industry. This paper is an effort to analyze the merger impacts in hospitality industry. In this study various pre- merger and post- merger ratios are taken to analyze and compare the financial performance before and after the merger. Here financial data of Accor group of Hotels is been taken to conclude the impact using p-value and t-value statistics. Significance of change is judged to get the outcome. This work gave the mixed results but in most of the cases mergers remained successful.

Keywords – Merger, Acquisition, Magnitude, Industry, Competitive

Introduction –

Industries are competing now days for gaining the size. Merger and Acquisition, an inorganic mode of growth is an efficient strategy as it allows firms to achieve their best possible size, market share, economies of scale in the different geography at a quick rate. Hospitality industry is one of the booming industries in the world which refers to a variety of businesses and services linked to leisure and customer satisfaction. The increased spending power of people giving a push to the industry. It focuses on ideas of luxury, pleasure, enjoyment and experiences. The global hotel industry contributed 8.81 trillion U.S. dollars to the global economy in 2018. There were more than 13,800 merger deals in the hotel and lodging industry since 1985, with the total value of $809.7 billion. Last decade witnessed a number of merger and acquisitions deal.

Merger Deals in Hotel Industry-

Table 1:

Year	Number of Deals	Value (US $ bn)
2017	358	69
2016	354	73.7
2015	344	200.3
2014	375	67.7
2013	274	26.4
2012	257	31.8

Note: This table contains the number and value of merger deals in year 2012 to 2017.
Source- Megamerger

Company Overview – Accor S.A.

Accor S.A., a French multinational hospitality company that owns franchises hotels, resorts and vacation properties. It is Single largest in Europe and sixth largest worldwide. It operates brands that cover every segment such as Luxury (Raffles, Banyan Tree Hotels and Resorts, Fairmont etc), Premium (Swissotel, Mondrian etc), Midscale (Mantra, Novotel) and Economy (ibis etc). Accor operates in 100 countries, with more than 4800 hotels and 280,000 employees in worldwide. As a strategic move in July 2016 Accor Hotel finalized $2.7bn purchase of FRHI Hotels & Resort (FRHI) and its three prestigious luxury hotel brands: Fairmont, Raffles and Swissotel. It positioned Accor Hotels as a key leading player in the luxury hotel market, diversified its group and enhanced the area of its business.

Literature Review -

In last few decades mergers and acquisitions has become the most fashionable mode of expansion. Li-Tzang (Jane) Hsu and SooCheong (Shawn) Jang (2006) in his paper used ROA and ROE to analyze to assess the accounting measures for the financial performance of acquiring firms, and found they become significantly lower after mergers.

Few study showed Mergers & acquisitions is found to have a significant impact on ROA, ROE and EPS, Momodou Sailou Jallow, Massirah Masazing, Abdul Basit (2017) while Sidharth Saboo, Sunil Gopi (2009) in his research paper concluded that Mergers have had a positive effect on key financial ratios of firms acquiring domestic firms while a slightly negative impact on the firms acquiring cross-border firms.

In their paper Atul Sheel, Amit Nagpal (2000) reflected significantly negative equity value performance of the acquiring firm for the studied period.

Research Statement-

To measure the effect of mergers on the financial performance of acquiring firms in hospitality industry with special reference to Accor Hotel.

Objectives of the Study-

To measure the performance of Accor hotel post-merger
To measure the effect of merger on various ratios i.e. ROE, ROA, Gross Margin, Operating Margin and EPS of Accor.

Research Hypothesis-

H1- There is a significant improvement in ROE post-merger.
H2- There is significant improvement in ROA post-merger.
H3- There is a significant improvement in Gross Margin post-merger.
H4- There is a significant improvement in Operating Margin post-merger.
H5- There is a significant improvement in EPS post-merger.

Research Methodology-

DATA Collection- Secondary Data on operating performance ratios for up to three years prior and three years after the acquisition year for acquiring company in the sample was extracted.
Financial performance is measured using ratios Return on equity, Return on assets, Gross margin, Operating margin, EPS
Statistical tools used – Paired T test

Analysis-

Table 2: Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	ACCPROEPRE	5.8433	3	1.24605	0.71941
	ACCPROEPOST	15.5333	3	18.42526	10.63783
Pair 2	ACCPROEPOST	15.5333	3	18.42526	10.63783
	ACCPROAPOST	7.7067	3	8.55848	4.94124
Pair 3	ACCPGRMPRE	94.0233	3	1.29817	0.74950
	ACCPGRMPOST	97.3900	3	0.16523	0.09539
Pair 4	ACCPOPMPRE	15.8967	3	9.68587	5.59214
	ACCPOPMPOST	13.1533	3	2.79429	1.61328
Pair 5	ACCPEPSPRE	0.8000	3	0.22113	0.12767
	ACCPEPSPOST	0.8967	3	0.91522	0.52840

Note: This table contains the mean value, standard deviation value and standard error mean.

Harshita Vijay

Table 3: Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	ACCPROEPRE - ACCPROEPOST	1.03000	3.26035	1.88237	-7.06917	9.12917	0.547	2	.639
Pair 2	ACCPROAPRE - ACCPROAPOST	-0.14333	1.00127	0.57808	-2.63062	2.34395	-0.248	2	.827
Pair 3	ACCPGRMPRE - ACCPGRMPOST	-3.36667	1.13580	0.65575	-6.18814	-0.54519	-5.134	2	.036
Pair 4	ACCPOPMPRE - ACCPOPMPOST	2.74333	8.82423	5.09467	-19.17727	24.66394	0.538	2	.644
Pair 5	ACCPEPSPRE - ACCPEPSPOST	-0.09667	1.07747	0.62208	-2.77324	2.57991	-0.155	2	.891

Note: This table contains t-values and p-values.

Results

Table 3:

Parameter	Pre-Merger Value	Post-Merger Value	P Value (Significance when p<0.05)	Result
ROE	5.8433	4.8133	0.639	There is no significant improvement. (Null Hypothesis accepted)
ROA	2.44	2.5833	0.827	There is no significant improvement. (Null Hypothesis accepted)
Gross Margin	94.0233	97.39	0.036	There is significant improvement. (Null Hypothesis rejected)
Operating Margin	15.8967	13.1533	0.644	There is no significant improvement. (Null Hypothesis accepted)
EPS	0.8	0.8967	0.891	There is no significant improvement. (Null Hypothesis accepted)

Note: This table contains the result of analysis work.

Harshita Vijay

Interpretation-

Following interpretation can be drawn by above table. Only gross margin has improved significantly with 0.036 p- value, which shows significant change after the merger hence null hypothesis rejected. Return on Assets increased with 0.827 p- value which is not significant hence null hypothesis accepted. Earnings per Share have also increased, but not with statistical significance hence null hypothesis accepted. Operating margin and Return on Equity showed affected negatively with 0.644 and 0.639 p- values respectively hence here also null hypothesis accepted.

Conclusion-

Mergers and Acquisitions affect the performance in most of the cases positively. In this paper we get the mixed result as only Gross Margin is increasing, but rest of the values are showing negative impact. Still we cannot avoid the impact of other factors which also influence the financial performance.

Limitations and Suggestions-

Study is based on secondary data available. Analysis of the study may affected by the other economic incidents took place during the period of the study. It is recommended to use other financial ratios that have not been used in the study with a wider time span and greater sample size to portray a clearer picture for the topic. The research will give the community, shareholders and directors advantage whether to consolidate other firms to gain profit.

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