Internationalization of firms through acquisition

---A case of post-acquisition market integration management in Chinese market

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ACKNOWLEDGEMENTS

This Master’s dissertation was written during the spring of 2011 for the program of International Marketing at Halmstad University. Hereby we would like to sincerely thank the persons who have helped us finish this dissertation.

Firstly, we would like to express our gratitude to our supervisor, Gabriel Awuah. He guided us when we need guidance, and gave us excellent supervision; he inspired us to continue our work when we felt depressed. We honestly believe that without his help, we would never be able to complete this dissertation.

Secondly, we are thankful to Ms Dai, who is the CEO of Company A China, she provided us a great number of primary resources in spite of her busy schedule. So we can do this study.

Thirdly, we greatly appreciate our friend, who is working in Company A. Without his help, we cannot connect the CEO of Company A China.

Fourthly, we would like to say thanks to all the members in this seminar group, especially our opponent who gave us many constructive suggestions.

Last but not least, we would also like to express our appreciation to our families and friends, who supported us as well during the whole process of our dissertation.

Halmstad University, Halmstad, May, 2011
Yinzi Shui and Yuesi Wu
ABSTRACT

There are a lot of theories which have been propounded that post-acquisition is a vital part of the whole acquisition process, especially the management of integration has taken the majority of post-acquisition. However, no acceptable conclusion has been made on the market integration during the post-acquisition and how to successfully manage it. And our purpose is to investigate how companies successfully manage the market integration through post-acquisition.

Hence the research was explorative in nature and a method of case study was chosen to conduct the research. In the methodology part, a semi-structured interview was implemented to collect the data (from Company A). These findings were also complemented with secondary data such as corporate websites.

In this thesis, the findings of the study show that types and motive of the acquiring company, macro environment for market integration, market segmentations, market positioning strategy, and marketing mix are really important categories for successful market integration management of post-acquisition. Meanwhile, high interaction also can be found inside these categories. More specifically, the authors find Company A use horizontal acquisition type to undertake internationalization of Company B, which leads to the result of carrying out horizontal market integration through post-acquisition process. Gradually adapting the Chinese local environment, Company A uses “psychological segmentations” to divide the segments and makes its strategy to cover all levels of positioning of Chinese biscuits markets. Integration of marketing mix is a complex process which concerning the combinations of advantages from both acquiring company (Company A) and acquired company (Company B). Consequently, these categories help authors well understand the successful ways of management of integrating market during post-acquisition.

Keywords: post-acquisition, market integration, marketing mix
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1 INTRODUCTION

In this chapter, we will present what internationalization of firms is and the entry mode of the firms’ internationalization. After that, we will present the importance of corporation acquisition for internationalization and discuss the importance of the post-acquisition integration. Meanwhile, the research question and the purpose will be explored, and the delimitations will be clarified.

1.1 Background

With the rapid development of global economy, a large number of firms realize the importance of expanding their business in foreign markets and getting involved in international activities as well, especially the vast majority of firms from mature countries who are going to gain the market share in the foreign markets (Gao, 2008). Therefore, internationalization of firms has become a significant means for corporations to grow.

A large number of researchers have defined internationalization of firms for some years. White, Griffith and Javalgi (2003) stress internationalization of firms is “the process through which firms move from operating solely in their domestic marketplace to international markets” (White, Griffith & Javalgi, 2003, pp. 186). Morgan and Katsikeas (1997), Johanson and Vahlne (1990) consider firms’ internationalization is the stepwise process of growing involvement in international operations which are complex. Both definitions display that there are two major issues that firms have to face in their international development. One of the issues concerns internationalization strategy; it handles the globalization of business by the company’s expansion to foreign markets (Jansson, 2007). The second issue concerns the entry strategy, which is the most important factor in a firm’s international growth. It mainly refers to how firms get access to new geographic markets, and how the firms initiate their business and market and eventually maintain their position in foreign markets (Riaz & Arshad, 2010).

When firms want to enter into international markets, how they should enter these new markets is the most important marketing decision (Doole & Lowe, 2008). Kiruba (2006) indicates that there are five different modes for companies to expand their operations to foreign markets.

The first one is exporting, which is the transfer of goods or services across different countries. A large number of firms use this mode to initiate their expansion into the
international arena (Kiruba, 2006). The second is licensing, through this mode, the foreign licensee is allowed by the licensor to use one or more rights like patent rights, trademark rights, copyrights and/or product or process know-how (Doole & Lowe, 2008). Franchising is the third mode, when the marketing goods and services are transferred to a third party, the franchisee has limited rights from the franchiser to employ branding, trademarks and products, in return for a franchise fee (Ibid). The next mode is strategic alliance or joint venture which demands the sharing of the ownership stake and operating control by both parent companies. Generally speaking, the successful strategic alliance leads to a joint venture (Kiruba, 2006). The last one is the wholly owned subsidiary in which the parent company owns 100% subsidiary’s stock, acquisition or establishes that a new firm can set up a wholly owned subsidiary (Ibid)

These decisions will affect a company’s future progress of internationalization, thus choosing an appropriate entry method is crucial for the firms to go abroad. Among the different entry strategies of internationalization, in order to implement the scale economies in internationalization, numerous multinational firms are increasingly adopting the mode of acquisition (Shimizu, Hitt, Vaidyanath, & Pisano, 2004; Stahl, Mendenhall, Pablo, & Javidan, 2005). According to UNCTAD (2000), the value through acquisition increased rapidly from less than $100 billion in 1987 to $720 billion in 1999. This means that the acquisition has become the dominant strategy for expanding foreign markets (Slangen, 2006).

As McDaniel (1999) indicates, an acquisition strategy is a comprehensive approach of high-level technical and business whose purpose is to achieve program objectives with constrained resources. These program objectives may be varied, such as the corporate growth, competitive advantage’s achievement in existing product markets, market or product extension, or risk reduction (Sudarsanam, 1995). In order to gain these objectives, the acquisition strategy provides an approach for activities like planning, organizing, staffing, controlling, and leading a program which are essential for program success (Smit, 2001). Consequently, the business organizations usually utilize acquisition strategy to survive and grow in foreign markets (Kim & Olsen, 1999).

When the company needs to go international, how to minimize the time and cost of satisfying the local market, which is one advantage of developing acquisition strategy, is significant for the company (McDaniel, 1999). For companies found in European countries, the most efficient way to produce short-term profits is to grasp the market entry speed, which can be realized by obtaining an existing company in the local market (Doole & Lowe, 2008). What’s more, acquisition companies will give prompt access to a well trained labor force, existing customers, and contacts of former suppliers, brand loyalty, a well established network of distribution and an abundant source of revenue (Ibid).
Therefore, acquisition strategy becomes the big step for companies when they plan to enter into the international market. In order to occupy the local market immediately, it is necessary for the firms to acquire a company which has already entered the market.

However, between the companies performing the acquiring and the acquired companies, these acquisitions have usually led to slower and looser integration and this will finally lead companies to gain fewer synergistic benefits than were expected initially (Vaara, 2003). In other words, the post-acquisition integration is crucial for final success.

According to Lohrum (1996), the post-acquisition integration includes all changes such as creating value (Haspeslagh & Jemison, 1991), improving learning (Leroy & Ramanantsoa, 1997) and adopting different cultures (Vaara, 2003) implemented in the acquired company after an acquisition. All these changes are the challenge for the firms to obtain success in the acquisition.

Once acquiring firms want to achieve success, how to gain a host of market related competitive advantages quickly are important (Weber & Dholakia, 2000). Birkinshaw and Bresman (2000) stress that superior performance in market will lead acquiring firms obtain final success. These mean market integration is an important element for acquiring firms’ final success.

1.2 Research question

Although market integration will lead acquiring companies gain success, a lot of acquisitions cannot realize the synergistic benefits of market exactly, because of the competitive pressures in today’s market (Weber & Dholakia, 2000). Therefore, many unforeseen post-acquisition integration problems are market related (Ibid). Thus, the main research question will focus on the following area:

-How do companies successfully manage the market integration during the post-acquisition?

1.3 Purpose

Since there are several ways of managing the market integration during post-acquisition, it is very important to find a successful way to manage it. In this thesis, the authors want to exploit successful management of market while companies are executing post-acquisition integration.

1.4 Delimitations

Certain delimitations evident should be taken into consideration in this dissertation.
Since this study is based on internationalization, the acquisition is only about cross-border acquisitions which are made by firms in foreign countries (Sudarsanam, 1995), the domestic acquisitions are not concerned in this dissertation.

Furthermore, previous researches about internationalization through acquisition have mostly emphasized the process of acquisition; various acquisition processes are employed in order to explain how to achieve successful acquisition. In this study, the authors will not research the acquisition process, and the post-acquisition integration about market integration management is the main research target in our study.

Meanwhile, a great number of researches about “acquisition” study the developed countries. Therefore, in this dissertation, the authors will focus the developing country. However, we cannot collect enough market resources from different developing countries, and China is a large market in developing countries, so we only focus on Chinese market. In addition, this dissertation is focused only on the biscuit industry and the company’s marketing form is only based on Business to Customer (B-to-C).
2 LITERATURE REVIEW

In this chapter, we reviewed what previous researchers have found about the importance of acquisition strategy, its major process stages and among the different acquisition stages, and the necessity of studying post-acquisition integration. To complete the successful post-acquisition integration, integration of marketing has also been explored.

Since acquisition has become an increasing important vehicle for companies to undertake internationalization, researches about how to achieve successful cross-broad acquisition outcomes have been discussed since the 1980s (Clifford & Smith, 1985; Duncan & Mtar, 2006; Kim & Olsen, 1999; Lin & Wei, 2006; Parsons, 1994; Ranft & Lord, 2002; Rao & Mahajan & Varaiya, 1991; Very & Schweiger, 2001; McDaniel, 1999). During that time, acquisition had become the biggest process in the world. Over 29 thousand contracts which valued $2.5 trillion had been signed all over the world up until 1998 (cited in Very & Schweiger, 2001).

Making an acquisition program is a sophisticated activity with a lot of stages (Very & Schweiger, 2001). The activity specifically involves several phrases. First of all is the pre-acquisition stage, which encompasses developing a strategy for the target, making an acquisition strategy, searching and screening for target firms and evaluating the candidates. The second stage is the acquisition stage containing screening and negotiating with the target firm and other stakeholders. The last stage is the post-acquisition stage which obtains integration between the acquiring firm and the target firm as well as culture (Very & Schweiger, 2001; Hubbard, 2001; Parsons, 1984; Krüger & Stewageens, 1994; Schniederjans & Karen, 1989; Krogh, 1994; Hubbard, 2001; Cartwright & Cooper, 1996; Daniel & Metcalf, 2001). And among these factors, post-acquisition integration is obvious an important factor to explore, because of its high contribution on the final acquisition success (Child et al., 2001; Haspeslah & Jamison, 1991; Kearney, 1988).

Quah and Young (2005) have explored that successful post-acquisition management, based on the North American acquisition companies, should be divided into several stages, involving in level of integration, post-acquisition changes, changes of time, cultural influences and employee reactions. Among these factors, level of integration, an important aspect of post-acquisition integration has been exploited to be influenced by lots of factors, which includes strategic task needs, organizational needs (Haspeslah and Jemison, 1991), and environmental factors (Pablo, 1994). Moreover, researches also show process of post-acquisition integration can also be a crucial factor (Birkinshaw & Bresman, 2000). In their research, separation of task integration process and human integration process is a big step forward for the final acquisition success.
However, authors of this thesis find there is a gap between these researches: although previous researches have explored several areas of post-acquisition integration, very few researches have noticed the importance of market integration. Therefore, in this thesis the authors will focus on the market integration area to explore how company successfully manages the market integration during the whole post-acquisition process.
3 THEORETICAL FRAMEWORKS

In this chapter, we will present the objectives and types of acquisition, which will lead a proper way to integrate market of post-acquisition. Moreover, details about how to integrate market of post-acquisition will be present.

3.1 Acquisition types and motives

Melin (1992) points out that a far-reaching concentration processes develop rapidly in foreign ownership in many markets. McKiernan (1992) indicates that according to recent empirical evidence, the acquisition has been a main feature of internationalization. As a major route to internationalization (Melin, 1992), when companies want to enter in foreign markets through acquisition, they should define their objectives clearly, without random or speculative acquisition (Hanson, 1991). According to the Federal Trade Commission (e.g., FTC, 1973), there are five different types of acquisition named as horizontal, vertical, product extension, market extension, and unrelated. Each type of acquisition has its own strategic focus, desired synergies, and friendliness’s degree, therefore, the resources, levels of expertise, and pre- and post-combination integration are required differently for each acquisition to be successful (Buono & Bowditch, 2003). This classification also indicates the degree of the firms’ relation and may suggest what the way is for the acquiring firm to position itself in the long run (Lohrüm, 1996).

**Horizontal** Horizontal acquisition refers to establishing a presence for an existing product or service range in prospective new markets (Hanson, 1991). This type of acquisition allows the growth of market share, product differentiation and barriers to entry or market power to companies (Brozen, 1982). As a number of researches manifest, this type is the most common, in general, it is also the most successful form of acquisition (Hanson, 1991).

**Vertical** A vertical acquisition is one between two firms that had a possible buyer-seller relationship, thereby combining together. The acquiring companies expect that they can control the sources of supply and distribution increasingly (Cromley & Green, 1982). This type of acquisition tends to be prevalent in high growth industries (Buono & Bowditch, 2003). Larsson and Finkelstein (1999) indicate that two sequentially or mutually interdependent organizations often employ this kind of acquisition.

**Product Extension** While the acquiring and acquired companies are functionally related in distribution and/or production, but the products’ sales are not affected by
each other, this acquisition can be seen as product extension. Such an organizational combination is usually referred to as *concentric diversification* (Buono & Bowditch, 2003).

**Market Extension** When the two organizations produce the same products but sell them in different geographical markets (Cromley & Green, 1982), this acquisition can be considered a market extension, which has a fine distinction with product extension (Buono & Bowditch, 2003). It emphasizes the different market regions.

**Unrelated** An acquisition is considered to be unrelated when the two constitutionally unconnected firms are combined (ibid). It also can be named as a *conglomerate acquisition* which the aim is to expand products’ or services’ range, or diversifying out of recessionary products and services (Hanson, 1991).

Generally speaking, all the types of acquisition can be referred to by two categories of motives: financial or value maximizing motives, and managerial or non value maximizing motives (Napier, 1989). Trautwein (1990) indicates that for the motives of financial or value maximizing, the main objective is to create value for the shareholder. Larsson and Finkelstein (1999) also suggest such sort of motives to be economic rationality. In addition to the managerial motives, which belong to the second sort, Larsson and Finkelstein (1999) illustrate that there are two other motives for the non value maximization, which are named as personal and organizational motives. Personal motive is in order to augment personal gains for becoming leaders (Lohrum, 1996) and organizational motive is in order to decrease uncertainty through controlling resource dependence (cf. Thompson, 1967; Pfeffer, 1972).

### 3.2 Market integration management of post-acquisition

#### 3.2.1 Macro environment for the market integration

After acquisition, market integration for companies has become significant for their final success. In order to achieve acquisition’s motive, acquiring firms have to consider the element of international marketing environment. Doole and Lowe (2008) indicate that the aspects of social/cultural, legal, economic, political and technological should be considered when the firms enter into international marketing.

The social and cultural factors on the international marketing are huge (Doole & Lowe, 2008) and difficult to evaluate (Lancaster & Reynolds, 2005). The customers’ perceptions and patterns of buying behavior are all affected by different social conditions, religion and material culture (Doole & Lowe, 2008). Bearnish and Ashford (2006) indicate that culture differences like religion, languages, education and symbols are crucial, as all these factors can cause operational problems with the marketing mix (Bearnish & Ashford, 2006).
Legal systems will invariably be different in terms of content and interpretation and it is important for firms to know the legal environment in each of its markets, especially when firms go abroad (Doole & Lowe, 2008). The domestic laws in the home country, local domestic laws, international laws, and laws and international marketing activity are the four key considerations for international law (Bearnish & Ashford, 2006).

One key challenge for the company is to develop an integrated strategy across numbers of international markets when there are different levels of economic development, therefore, the international marketer must understand divergent levels of economic developments and how they impinge on the marketing strategy so that firms can satisfy market demand as far as possible and compete with firms already in the market (Doole & Lowe, 2008) and obtain finally benefit.

When the company wants to invest and develop new foreign markets, the political climate of a country or region is an important factor for the companies to make international business decision (Ace, 2001). Therefore, when the firm intends to enter a new market, it must clearly understand the government’s attitude to business and which the government allows the firm to operate (Doole & Lowe, 2008).

Technology is a macro-environmental variable that influences business in international marketing (Lancaster & Reynolds, 2005). It also affects the development of products with research (Ibid). The ability to gather a collection of data on markets, control the management effectively and carry out the business function internationally are significant in the marketing process, and can be improved with the advancement of electronic communications (Doole & Lowe, 2008).

3.2.2 Market segmentations

After knowing the macro environment well, it is easier for the acquiring company to divide the market segments and choose the proper segmentations. Segmentation is a process involving dividing market into explicit segments, where customers behave in the same way or have the same demands (Bennett, 1995). For most firms, having segmentations is a better way to discover potential customers and satisfy their needs (Market segmentation, 2011). Segmentation based in consumer markets can be divided into the following categories:

**Geographic segmentation** is dividing the world into several pieces depending on geographic variables, is beneficial to all kinds of businesses, because it enables the marketing team of a company to easily identify and separate the market into different units, such as region, climate, language, (What Is Geographic Segmentation? 2011);

**Demographic segmentation** is the basic market segmentation with various measurable factors of population, such as gender, age, career, income, education,
social class etc., and it is one of the easiest segmentation strategies to unearth potential market costumers (Demographic Segmentation, 2011).

**Psychographic segmentation** is dividing markets depending on the basic psychology of customers in potential and allows the marketing team to decide how they should approach customers who come from the same segmentation. Further understanding of the customers' psychology is required when marketing a product, in order to satisfy customers’ demands and increase the probability of acceptation of the products, the whole marketing group will carry out a large amount of activities to understand the psychology and habits of customers, like interests, attitudes, behavioral patterns, and lifestyle (Psychographic Segmentation, 2011);

**Behavioral segmentation** is referred to probability and rate of customer to buy or use a product. They can be categorized into heavy, medium and light (Lancaster & Reynolds, 2005; Keegan & Schlegelmilch, 2001).

### 3.2.3 Market positioning strategy

After the market has been specifically segmented, and some of the segmentations have been selected, it is essential to find a position in the market (Keegan & Schlegelmilch, 2001).

A product positioning is determined by the segmentations which company has chosen (Lancaster & Reynolds, 2005). “Positioning is the location of your product in the mind of your customer” (Keegan & Schlegelmilch, 2001, p228). Nevertheless, the position which a product occupies in the head of a customer counts on the various variables, which are determined by the marketer (Keegan & Schlegelmilch, 2001).

Developing a positioning strategy is highly relative to the competitor’s position (Learn marketing, 2011), because the aim of positioning is to ensure the effect of coming up the brands of the company from the customers’ mind instead of its competitors (Kotler & Armstrong, 2007). Therefore, when concerning making the positioning strategy from one perspective, the marketing group could make the position very close to the competitor’s position, so that customer could have a clearer comparison when they want to buy the product. From another perspective, they could also make the position away from the competitors’ to put forward some advantages which are superior to the competitors’ products (Learn marketing, 2011).

### 3.2.4 Marketing mix

Among the marketing mix, product is the key factor above all, because the market decision of other elements are mostly dependent on product and the product positioning strategy (Kashiani & Turpin, 1999).
What’s more, the marketing mix alters because of its association with the external environment, where customers live, work and how they make the buying decisions (Carl & Roger, 1998). For example, if a company’s brand varies from domestic to international, the marketing mix for the brand, which deeply indicates the product or service, price, promotion and place, will also alter geographically (Keegan & Schlegelmilch, 2001).

3.2.4.1 Product

Brand, as a part of a product, can be very similar or related between the acquiring and acquired companies if it is a horizontal acquisition (Vu & Shi & Hanby, 2009). Perrier (1997) indicated that researches showed that for any organization, the source of earning comes from basically three types: brand, assets tangible and assets intangible. What is obvious is, among these, earnings attributed to brand can range from 70% of the whole market (Lindemann, 2003). Therefore, brand integration of products could be the most important area to deliberate among all the important post-acquisition integration factors (Vu & Shi & Hanby, 2009).

Products between the acquiring company and acquired company share something in common, however gaps of characteristics can be found. Therefore, the integration task of the newly established company is to fill the gap between the products belonging to the two companies (Weber & Dholakia, 2000). Tangible product gaps and intangible product gaps will be discussed.

Tangible product gaps involve the weakness of relative brands in the area of product dimensions, such as scale, technology, bearing capacity and some physical characteristics demanded by customers. If the new company after acquisition keeps on using the separate brands, simply using the acquired company’s facility to compete against the acquiring company’ product, gaps will produced more or less. If the new company combines the separated brands into one, then it will produce joint benefits for the product. Gaps can also emerge in the situation that the acquiring company has specialized requirements for the producing process or the facility, and nevertheless the acquired company has limitations of product capacity, the final products produced by two companies could still have gaps (Weber & Dholakia, 2000). No matter if the acquisitioned company wants to separate the brands or combine them into one during the integration, it all depends on the product positioning and its market strategies.

When it comes to the intangible products, it contains relative brand shortcoming in the areas of service, quality, and aesthetics. If the acquired company has a better service level than the acquiring company, strategies like moving the process of production to be more available to customers, making integration of physical distribution, and training the service personnel in how to deal with specialized customers would enhance the responsiveness to the customers of the whole company. Moreover, the
consolidation of service and the scale of the newly built company are in a leaner relationship. To have expertise from the acquired company can also improve all the aspects of service (Weber & Dholakia, 2000).

What’s more, despite filling the gaps from the acquired company, the acquiring firm would still face problems. For example, when entering different countries through acquisition, they may face the practical problem like cultural difference, such as people from different countries carry different tastes or habits or buying behaviors. Therefore, the original product may not be attractive enough to the new market, differentiating products with new features is required during the integration of post-acquisition (Haberer, 2008). It may be caused by the status of some products belonging to the new company, during the “saturation and decline stage” of the product life cycle, sales volume of the product declines or stabilizes, profitability decreases, and it is hard to produce more profits on the same product (Day, 1982). Under this situation, developing new product will be a new task during the integration.

During the development of the new product, market analysis is necessary, for its objective is to understand the product position in the market compared with the competitors, also to develop the new product characteristics which are connecting with the needs of potential customers. The technical development of a new product contains the process of engineering studies of producing the new product, the establishment of specialized design of new product and specifications and confirming of the final designs (Swinj & Song, 2007).

It is manifested by Song et al. (1996) that effective communication and internal organizational information exchange have become the key points of new product development integration. Depending on the internal exchanged information about market orientation and availability of resources, the innovation group in the new company could make precise decisions during the new product development (Song & Neeley & Zhao, 1996).

3.2.4.2 Place

In accordance with Lancaster and Reynolds (2005), the place is referred as distribution, and it is the activity about moving the product from the seller to the buyer. The distribution can create time utility, place utility, possession utility and form utility, and it is a structure through which transactions are made so that the products can be delivered to final users, it also wants to ascertain what are the customer requires and ensure they get satisfying products, the company must move its products through the distributive system (Lancaster & Reynolds, 2005). Certainly, in order to fulfill consumers’ needs, consideration of the financial cost is necessary (Doyle, 2002).

A “regional approach” is usually used for estimating the distribution gap (Weber &
Dholakia, 2000). Meanwhile, Weber and Dholakia (2000) indicate that in the different regions of the country, the combined firm should achieve good distribution in all regions although each firm has the different superiority of distribution. Therefore, if the acquiring firm wants to obtain the synergistic benefits from distribution, it must utilize and employ the strength from the acquired firm (Weber & Dholakia, 2000).

3.2.4.3 Price

Factors like how the competitors devise their prices, cost of production, cost of channel distribution and the acquiring company’s objective will deeply influence the decision how to make the price appropriate (Haberer, 2008). When it comes to the setting of the price, the vital approach is research of the market: what the standard of paying is and what the capacity for customers to pay is (Haberer, 2008).

Concerning the price gap between acquiring company and acquired company, if the acquired company has segmentation with a low market price, and the acquiring company wants to therefore open the new market with low position, there is no need for the new company to change the price. Moreover, joining with two companies, the competitiveness of price of the newly built company may be influenced in various ways (Weber & Dholakia, 2000).

3.2.4.4 Promotion

In accordance with the type of product, as an element of the marketing mix, promotion is subject to much variation (Lancaster & Reynolds, 2005). They also indicate that promotion receives much attention as a marketing function, since promotion usually has the highest budget allocation of all marketing mix elements in consumer markets, particularly after the product has been launched. Haberer (2008) suggest that the term promotion encompasses four traditional tools, such as advertising, personal selling, sales promotion and public relations (Kashani & Turpin, 1999). Each activity should be used by the company to communicate customer value convincingly and build customer relationships (Kotler & Armstrong, 2008).

*Advertising* is the function under focus in the economic effects volume (Borden, 1984) which includes different forms of presentation without personal and promotion of ideas, goods or services by an identified sponsor (Kotler & Armstrong, 2008). Through different forms of media, such as advertising covers billboards, magazines, newspapers, radio and television, advertisements can help companies reach a lot of consumers simultaneously and convey diversity regarding messages (Kashani & Turpin, 1999).

According to Hopkins (1987), high advertising costs can promote an acquiring firm’s entry into the new market. When the acquiring company wants to present its new
products in the new market, since advertising can let it repeat a message many times and let people understand the product they wish to purchase, the company always employs this means to enter the market (Kotler & Armstrong, 1994).

*Personal selling* is the most effective tool of the buying process (Kotler & Armstrong, 1994) by the firm’s sales, and its purpose is to make sales and build customer relationships (Kotler & Armstrong, 2008). Through personal selling, the sales can observe the customers’ needs and characteristics to make adjustments quickly, and a long-term relationship can be built (Kotler & Armstrong, 1994). However, it can also be expensive for the sales’ salaries (Lancaster & Reynolds, 2005). Therefore, when the acquiring company integrates the employees of the acquired company, how to utilize the employees whom have compact relationships with markets is crucial (Daniel & Metcalf, 2001).

*Sales promotion* involves various tools like temporary price reductions, displays, coupons, in-short demonstrations and free samples and so on (Lancaster & Reynolds, 2005). All these means of sales promotions aim to attract consumer’s attention and provide information of their products that may lead to purchase. Compared with the advertising, sales promotion can gain a stronger and quicker response from consumers, although the effects of it are usually short-lived (Kotler & Armstrong, 1994). Weber and Dholakia (2000) illustrate that while the acquisition wants to enhance marketing effectiveness, the sales promotion efforts may help the firm achieve synergistic benefits.

*Public relations* is a major mass-promotion tool whose purpose is to set up good relationships between the different company’s public, by achieving favorable publicity, setting up a good corporate image to the market and dealing with or heading off adverse rumors, stories, and events (Kotler & Armstrong, 2008). When the consumers avoid salespeople and advertisements, the message of the products may get to the buyers as “news” through the means of public relations (Kotler & Armstrong, 1994). Post-acquisition integration may cause many unforeseen problems like the downsizing (Lohrum, 1996) and influence the corporation image and finally affect product sales.

Generally speaking, acquiring firms and acquired firms have different means for promotion tools. The acquisition will enable the acquiring firm to consolidate promotion efforts for the brands of the acquired firm, if any brands are consolidated, more promotional resources will be useful for the rest brands, and the sales will be enhanced as well (Weber & Dholakia, 2000). Therefore, combining the best promotion tools from acquired firms can create a better benefit.
4 METHODOLOGY

In this chapter, we will explore what approach of research is used. The case study with the case collection, data collection and case analysis will also be presented for the purpose of this study. Meanwhile, in order to reveal the quality of this qualitative research, reliability and validity of this study will be presented.

4.1 Research approach

Bryman and Bell (2007) indicate that quantitative and qualitative research are the two types of research strategy. Quantitative research is used to collect data concerned with numbers and figures to investigate the extent of behavior or attitude (Jonsson & Hägg, 2009) while qualitative research enables the researcher to study selected issues like social behaviors in depth and detail (Patton, 2001). According to Bryman and Bell (2007), qualitative research normally emphasizes words rather than quantification in the collection and data’s analysis. It mainly emphasizes an inductive approach and be employed to create the theory (Bryman & Bell, 2007). Simultaneously, its epistemological orientation is interpretivism, and the ontological orientation of qualitative research is constructionism that embodies a social reality’s point as a constantly shifting emergent property of individuals' creation (Ibid).

In this study, the authors need to exploit successful management of market while companies are executing post-acquisition integration, since there are several ways for managing the market integration. In order to achieve this purpose, the management of market integration is required to analyze in a deep and detailed manner. Analysis with words can help authors explain the ways of management in depth. In view of all these, qualitative research is suitable for this study.

Besides, inductive theory which is characterized by empirical data collected and lead theory’s generation (Bryman & Bell, 2007) is employed in this study.

4.2 Case study

According to Cassell and Symon (2005), the case study research is widely used in organizational studies and across the social sciences, like organizational psychology, employment relations, political science and so on. Cassell and Symon (2005) also illuminate the case study consists of a detailed investigation which is often the case with data collected over a period of time of phenomena, within their context. The purpose of it is to provide the context and processes’ analysis which clarify the theoretical problems being studied. When the researcher’s objective is to elucidate the
case thoroughly and the case is an aim of interest in its own right, the case study is useful (Bryman & Bell, 2007). Furthermore, Yin (1994) states that the case studies can answer questions such as “how” and “why”.

As to this research, we want to get an in-depth comprehension of the internationalization of firms through acquisition. The success of acquisition is a phenomenon in acquisition, therefore, the context of the companies how they manage the market integration are required. In addition, the research question in this study is characterized by “how”. Therefore, a case study approach is deemed appropriate.

4.2.1 Case selection

In accordance with Blaxter, Hughes and Tight (2001), when the most convenient sample is selected, it is named as a convenient case selection. While the researcher has knowledge of what they are going to investigate, the most valuable information can be selected by the researchers, this situation is a subjective case selection (Denscombe, 2000). Based on the objective of this study, the above two means of case selections are used to search the related cases. Through consulting a mass of resources from internet and connecting with the company and with our friend who is working in the company which we want to research, we eventually choose a company which comes from America and which has acquired Chinese companies to develop the Chinese market. As a case of this research, it is one of the largest food companies in the world and acquisition in its history is quite abundant. Concurrently, some of the acquisitions of this company affect the Chinese market directly, we also can get more information from China. Hence we have chosen this company in the Chinese market as our case study. As the company does not want its name to be shown in this thesis, we use “Company A” to replace it and “Company B” to replace the acquired company.

4.2.2 Data collection

Lewis (2003) states that there are two types of data, they are primary and secondary data. We searched information from company’s websites, company annual reports and the publication in order to collect a huge number of secondary data. These are all the documents which cover the different sources widely. Bryman and Bell (2007) illustrate that organizational documents can provide valuable company background information to the research, simultaneously, in the case study research, documents can be used for describing the firm and its history since documents can offer at least partial insights into past managerial decisions and actions, they can also be useful in building up a “timeline”, particularly in processual studies of organizational change (pp. 566). Besides, four criteria for evaluating the quality of documents such as authenticity, credibility, representativeness and meaning are required for this secondary data (Bryman & Bell, 2007).
Although the secondary data is quite useful for our research, Andersson and Wictor (2003) stress that using secondary data only is not enough to understand the research study in depth. Bryman and Bell (2007) indicate that the semi-structured interview is one of the major types in qualitative interviewing but also can be replied in whatever manner the interviewee wants. According to Bryman and Bell (2007), researchers have a certain amount of room to ask further questions based on the context of the conversations when they use semi-structured interview. In this case study, in order to gain much more related information about the acquisition and ensure the resources’ reliability and validity, we connected the CEO of Company A China—Ms Dai through our friend, since she knew the whole integration process of Company A. Because Ms Dai was quite busy for business, she could accept our interview by e-mails instead of a face to face interview. So we designed a semi-structured interview guide with open questions with loosely specified areas of interest (the information about the company’s acquisition and post-acquisition integration, and its basic information), and sent it to Ms Dai by e-mail, she replied to us in detail and supply several other information which we never thought before. After Ms Dai’s reply, we found several new questions and sent them to Ms Dai again, she also replied to us in detail. Through such communication with Ms Dai by e-mails several times, we got a lot of useful and detailed resources for our thesis eventually, the interview guide in appendix was also adjusted after we communicated with Ms Dai.

### 4.2.3 Case analysis

Since the data of qualitative research from semi-structured interview transcripts or documents are characterized as large, cumbersome, and not straightforward to analyze, it is important to avoid failing to carry out true words (Bryman & Bell, 2007).

Yin (1994) indicates that there are three strategies to analyze the case. Proposition strategy is always used when researchers have to answer “how” and “why”. The explanatory strategy is used when the researchers know the research question and problem related to this question very well. (Saeed & Arshad, 2007). The descriptive framework’s purpose is to organize a case study (Yin, 1994).

In this case study, we use the proposition strategy which is relying on theoretical proposition where secondary data should be compared with primary data (Yin, 1994). We also analyze the empirical data with the help of theoretical frameworks.

### 4.3 Reliability and validity

Patton (2001) states that while the researchers are designing a study, analyzing results and judging the study’s quality in the qualitative research, they should consider the factors of reliability and validity. While the qualitative study has the purpose of
“generating understanding”, reliability is crucial for a good quality research (Golafshani, 2003) which refers to measure a concept’s consistency (Breman & Bell, 2007). Validity refers to measure the authenticity of the observation, identifying or what the researchers say they are (Ibid), it is influenced by the researchers’ perspectives of validity in the qualitative research and their options of paradigm assumptions (Creswell & Miller, 2000). Generally speaking, in the qualitative paradigm, reliability and validity are conceptualized as trustworthiness, rigor and quality (Golafshani, 2003).

In order to achieve the reliability and validity in this research study, we select a huge number of primary and secondary data from Chinese, so that we can understand what the company’s operation philosophy is precisely. The CEO of company A also replied us detailed questions from semi-structured interview guide, almost of the replies are concerning to our topic, therefore, it helped us research this study.
5 EMPIRICAL DATA

In this chapter, the information for empirical data will be collected by both Internet and interview. Empirical data about company background, motivation for acquisition, marketing macro-environment, market segmentation and product positioning, and marking mix integration will be clarified.

5.1 Company brief Background

Company A is a leading food company in North America, with 117000 employees, 6 global research and development centers, and several rational research and development centers, which cover the areas of categories: confectionery, biscuits, beverages, cheese, convenient meals and grocery. It processes two major operating units: Company A - North America, and Company A – International. The products of Company A are produced by more than 220 manufacturing facilities and sold in more than 155 countries. To hold the slogan of “To help make food a simpler, easier, more enjoyable part of life”, Company A has become a company which is famous for hundreds of years (References for business, 2011).

In 2007, Nov. 30th, Company A announced the accomplishment of acquisition for the global biscuits industry from Company B. The acquisition project cost 53 billion euro and was involved in more than 20 countries, and entailed 32 factories, operating organizations, capitals and all the leading biscuits brands from Company B. For the Chinese market, it took 2 years to integrate the markets, and in 2010 the integration was finished (References for business, 2011).

Company A China, one subsidiary of Company A – International in the developing countries, which was established in 1984, now with 4000 employees, operating in the areas of categories of biscuits, coffee, confectionery and powdered beverage. After the integration, the company’s headquarter has moved from Beijing to Shanghai in 2008, with offices now set up in more than 250 cities in China. It is equipped with factories in Beijing, Shanghai, Guangzhou, Suzhou, Zhujiang and elsewhere. In the year 2009, the Asia Pacific research and development center was built in Suzhou (References for business, 2011).

5.2 Acquisition types and motives

An interview was conducted with the CEO of Company A China, Ms Dai, about the reason of choosing acquisition strategy as their strategy. As explained by her, Company A’s world market has been separated into three parts: North American
markets, European markets and developing markets. Among all of these (as can be seen in Figure 1), half of the business is outside the headquarters in North America, 28% of the business is in developing countries and 23 % in European markets (2010 face sheet, 2010, p.2). Therefore, to gain the markets globally and to expand the market shares in the world, Ms Dai mentioned acquisition is the quickest way to enter the global markets as a step for their internationalization.

![More than half of our business is outside North America.](image)

**Figure 1(2010 face sheet, 2010, p.2)**

Ms Dai explained that the reason for choosing Company B and the reason for the choice of the biscuit industry can be somehow connected. Because Company A’s biscuit markets has now occupied 22% of the whole markets (can be seen in Figure 2), it shows a great growing tendency (2010 face sheet, 2010, p.2). On the other hand, the biscuit market of Company B has also occupied large parts of the whole global market, which closely followed Company A's market position. She indicated, the acquisition of Company B’s biscuit industry can not only enable the jumping into the No.1 position of the Chinese biscuit market because of defeating the biggest competitor, but can also utilize all the manufacturing factories, all the available distribution channels and the whole leading brands loyalty from Company B to develop further and more quickly. Also, more importantly, the acquisition of Company B enables Company A’s international business to become the most vital donator for the whole global revenue of Company A. Ms Dai continued to explain, the global biscuits business has doubled from that which it used to be and occupied 20% of the whole products of Company A, which has become the biggest business Company A operates.
5.3 Market integration management of post-acquisition

5.3.1 Macro environment for the market integration

The CEO of Company A China mentioned that Company A attaches importance to the Chinese market and invests a huge amount of capital in China. They make great efforts to adapt to the macro environment in China.

In the respect of social and cultural aspects and attitudes, in accordance with different tastes in China and America, Company A decreased the sugar content of the Biscuit A, and because of these measures, in 2009, biscuit A’s amount of consumption increased by 41.9%. Therefore, Company A realized the customer demanded further changes. After acquiring the Company B, on the basis of consumers’ taste, Company A kept the brands which have good sales and eliminated several products of sub-brand for which sales were not great. But the CEO of Company A China also indicates that different regions in China are keen of different taste and the specification of packaging. For instance, Biscuit B is popular in Beijing but not popular in Guangzhou, so they put Biscuit B in Beijing’s supermarket much more than Guangzhou’s. Besides, a majority of customers in Shanghai prefer the big size of packaging, but the customers in Beijing usually prefer a small one.

With regards to legal aspects, there are a lot of by-laws regarding food companies in China, like Food Sanitation Law, Product Quality Law and so on. Company A set up a special department by the top managers in the company, named as the committee of Global Corporate Responsibility, and its responsibility is to pay close attention to the agricultural supply base, and the quality and safety of products.
In economic aspect, with the development of the economy and people’s living standard, the eating habits and diet of consumers in China have changed a lot, as the demands for convenience food are growing rapidly. In 2008, the influences of American subprime crisis lead to the worldwide financial crisis, but in the Chinese market, there was little impact to Company A. Its sales were increased by 12% in the Chinese market.

In political aspect, the sustainable development has become an important topic for the Chinese government and the protection of environment has been stressed particularly. As the resource from Company A indicates, they do several changes in order to achieve energy saving and environmental protection. From 2006 to 2008, Company A decreased nearly 120 million liters of water in the production processes, which could fill 5000 standard swimming pools. Meanwhile, Company A also takes measures to decrease energy consumption by 17% during the production process.

In technology aspect, Company A established the largest biscuit research and development center of Asia in Suzhou to research and develop new products for local demands. The recipes have appeared first in the Chinese market which can suggest some collocation with different biscuits.

5.3.2 Market segmentations

According to Ms Dai, there are various exiting types of segmentations in the market, people who want to find healthy and nutrition through the biscuits will be classified into one segment. Such as people who will eat biscuits for breakfast because they think it is healthy, usually this type of segmentation is belonging to the low and medium positioning; on the other hand, people who look for entertainment when they eat biscuits will be sorted into another segmentation, which the positioning is more higher. From another point of view, biscuits can also be sorted by types which are especially suitable for children and old people, such as those with more calcium to promote the growing of children, and to assist old people to become healthier hale and hearty.

Another example might be a type for adults, maybe with chocolates inside, which provide more energy whilst they are working without time for lunch. Moreover, it can also be sorted by people who are busy, like those who have no time for meals, therefore they have to take food which can be consumed quickly, like biscuits. Usually this kind of biscuit will be full of calories to supply the energy quickly. Also, there are people who have leisure time and just want to enjoy life and eat desserts such as biscuits, therefore this kind of biscuits will both be emphasized by shape and taste.
5.3.3 Market positioning strategy

Ms Dai stated that according to the segmentation they had already divided and targeted, positioning of the products showed up clearly. For example, they target the products in the segmentation of health and nutrition, resource of elements in this kind of biscuit cost very little, therefore, when it comes to a low price, the product positioning will be low. However, if the competitors follow the steps of this type of product, but with some innovated features, the positioning of this kind of product will rise. To compete in the market with full advantages, Company A wants to occupy all levels of positioning in the Chinese biscuit markets.

Originally, the products of Company A have already reached the high and medium level of positioning, and Company A wants to expand the market with low positioning through the acquisition by utilizing the products of Company B. Therefore, all level of positioning will be covered.

5.3.4 Marketing mix

5.3.4.1 Product and price

Statistics from table 1 can show that after the integration of Company B, all the products from these two companies will compensate for each others’ market gaps. What is more, the price and the position of the products from Company A and Company B are quite different for they are both aimed at different markets, which can be shown in Table 1.

<table>
<thead>
<tr>
<th>Products of Company A</th>
<th>Price/Positioning</th>
<th>Logo</th>
<th>Products of Company B</th>
<th>Price/Positioning</th>
<th>Logo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product A</td>
<td>5kr/high</td>
<td>Company A</td>
<td>Product I</td>
<td>1.5kr/low</td>
<td>Company B</td>
</tr>
<tr>
<td>Product B</td>
<td>3.5kr/high</td>
<td>Company A</td>
<td>Product II</td>
<td>2.5kr/medium</td>
<td>Company B</td>
</tr>
<tr>
<td>Product C</td>
<td>2kr/medium</td>
<td>Company A</td>
<td>Product III</td>
<td>1.5kr/low</td>
<td>Company B</td>
</tr>
<tr>
<td>Product D</td>
<td>2.5kr/medium</td>
<td>Company A</td>
<td>Product IV</td>
<td>1.5kr/low</td>
<td>Company B</td>
</tr>
<tr>
<td>Product E</td>
<td>3.5kr/high</td>
<td>Company A</td>
<td>Product V</td>
<td>1kr/low</td>
<td>Company B</td>
</tr>
</tbody>
</table>

Table 1 before the integration (*The figures of the price were provided by Ms Dai, and the units for Chinese money have been equally transferred to Swedish Kronor.*)

Ms Dai mentioned one of the goals to acquire Company B is that they have the products in the second and third – line markets, and it is a good chance to expand to all the cities in China, because for the company itself had occupied most of the first-line cities in China. Therefore, after the acquisition, Company A wants to further all the market positioning of the biscuits markets. Meanwhile, they tended to
gradually change the company logo for the products from Company B in the following time. Ms Dai stated that it is not wise to change the logo of Company B immediately, because the products of Company B still obtain a large number of populations in the second and third-line markets. They need time for all the customers to adjust and accept the changes, during the time, both logos of Company A and Company B will appear on the packages of these products, which can be seen in Table 2 in the red area. It was mentioned by Ms Dai that most of the products will be kept except one exception, because the positioning for this product is too low, therefore, it cannot survive during the integration, which can be seen in the last line of the Table 2.

<table>
<thead>
<tr>
<th>Products of Company A</th>
<th>Price/ Positioning</th>
<th>Logo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product A</td>
<td>5kr/high</td>
<td>Company A</td>
</tr>
<tr>
<td>Product B</td>
<td>3.5kr/high</td>
<td>Company A</td>
</tr>
<tr>
<td>Product C</td>
<td>2kr/medium</td>
<td>Company A</td>
</tr>
<tr>
<td>Product D</td>
<td>2.5kr/medium</td>
<td>Company A</td>
</tr>
<tr>
<td>Product E</td>
<td>3.5kr/high</td>
<td>Company A</td>
</tr>
<tr>
<td>Product I</td>
<td>1.5kr/low</td>
<td>Company A/B</td>
</tr>
<tr>
<td>Product II</td>
<td>2.5kr/medium</td>
<td>Company A/B</td>
</tr>
<tr>
<td>Product III</td>
<td>1.5kr/low</td>
<td>Company A/B</td>
</tr>
<tr>
<td>Product IV</td>
<td>1.5kr/low</td>
<td>Company A/B</td>
</tr>
<tr>
<td>Product V</td>
<td>\</td>
<td>\</td>
</tr>
<tr>
<td>Product F</td>
<td>4kr/high</td>
<td>Company A</td>
</tr>
</tbody>
</table>

Table 2 during the integration *(The figures of the price were provided by Ms Dai, and the units for Chinese money have been equally transferred to Swedish Kronor.)*

What’s more, Ms Dai stated that it is still necessary to have an innovation of new product for the new market. Since Feb. 2nd of 2010, Company A announced the new “Product F” (seen in Table 2) has faced the world, which contains “Germ, Endosperm and Bran” with the aim of swapping all the cluttering grains markets to create a completely Chinese style of biscuit. Its price has been set at 4kr, which is also at the level of high positioning. It is the first grain biscuit entirely suitable for Chinese people’s stomachs, because before this time, “germ” is usually a very unstable resource for company to create and conserve. Company A with its special “stable germ technique” solved the problem in the end. This is a big step for Company A, because although the tastes of grain biscuits are less tasty, they still have a large amount of potential markets for people who care for their health, for people who gain diabetes or for someone who wants to lose weight. Additionally, before this innovation, there is no clear clarification about how much amount of the “grains” should be put in the biscuit, the market was in a mess. Ms Dai told us there is potential rule that companies in the first - line set the rules for the industry, and companies in second and third - line will follow the steps. Therefore, the innovation not only gives the whole industry a clear standard, but also consolidates its leading company’s position in the biscuit industry.
We can see from Table 3 that, after the integration all the products have found their positioning, products originally from Company A will continuously focus on the medium and high positioning. Furthermore, since logos of Company A and Company B have all changed into Company A’s logo, the products will all follow the steps of Company A's positioning strategy (seen in Table 3). However, Ms Dai explained although all the brands have “worn the clothes” of Company A, which means the products will carry the Company A's style, but still the products originally from Company B will keep on as they currently are. There is no plan to change them.

### 5.3.4.2 Place

Once the Company A integrated the Company B about the place, it can be divided into three parts, Ms Dai said.

The first one is purchasing, since for the biscuit companies, the fundamental raw materials are the same. Generally speaking, for instance, Product D and Product III are two products that belong to Company A and Company B separately, when the sales are large enough, the purchasing can be conducted together. So that it must decrease the cost of raw materials and also accelerate the production process. Therefore, when the two companies combined, the two managers of purchasing from Company A and Company B communicate together for the purchasing.

According to Ms Dai, the integration of factories is significant for Company A. Before Company A acquired Company B, Company A owned four factories in Beijing, Tianjin, Suzhou and Guangzhou, of which, the two factories which were located at Beijing and Suzhou are producing biscuits. On the other hand, Company B owned three biscuits factories which were located at Shanghai, Suzhou and Jiangmen respectively. Besides, Company B also had a sales company in Shanghai. In 2008, during the integration of Company B, Company A took over all the factories from Company B and maintained its own factories as well as. Ms Dai also indicated that through the integration of factories, these factories can study some advantages from each other. For Company A, the high costs are a problem, and Company B can provide several experiences like producing and transporting to decrease the costs. As Company A’s technology is better than Company B’s, it can be employed to the
Company B’ factories like the packing, since Company B cannot pack the biscuits tight enough so that the biscuits may break during the transportations.

In 2009, after integrating the factories of Company B, Company A became the largest biscuit manufacturer, meanwhile, Company A set up the biggest biscuit research and development center of Asia, costing 2 billion dollars, in Suzhou, China. Currently, in the Australian, New Zealand, Korean and Southeast Asian markets, all of the biscuits of Company A are coming from China, and the special Muslim cookies for Jordan, Pakistan and other Islamic countries are also supplied with the biscuit base in China, it means that China becomes the world’s biscuit factory.

Meanwhile, they constitute a distribution group with 12 persons, and the number is equal from Company A and Company B, and the headquarters of Company A moved from Beijing to Shanghai.

The integration of distribution channels is also stressed by Ms Dai. Actually, in Company A, the biscuits’ sales channels were not so strong. Since the position is high relatively, Company A’s biscuits only entered into the first-tier cities like Beijing, Shanghai and so on and the majority of products can only spread in stores and supermarkets.

On the contrary, since 1992, Company B has occupied the East China market, its products have seeped into the second and third-tier cities. According to the research, the traditional channel still occupied the marketing sales more than 50% in China mainland, Ms Dai thought the development of traditional channel can help Company A sells its products in the cities deeply.

Through the integration of Company B’s distribution channel, Company A owns the whole market channels in China. Ms Dai indicated that currently, the Chinese market has been divided into three parts, big stores and supermarkets, small and median stores and supermarkets, and retail stores. The customers of big stores and supermarkets in the North of China are responsible by their own direct sales force, and in the South of China, the salesmen from factories and the agents develop the big stores and supermarkets together. For the small and median stores and supermarkets and retail stores, they are responsible by the wholesalers in each area.

5.3.4.3 Promotion

In 2009, the strategy of advertisement of Company A has adjusted significantly, Ms Dai indicated that Company A increased the investment in advertisement during the integration of Company B. They expected that the new company can strengthen the different brands’ communication with consumers in order to increase popularity and reputation.
Since the coverage, rates and ratings of China Central Television (CCTV) are the best in China, Company A selected CCTV in China as their advertising platform, and finally chose a program—Topics in Focus, which has a quite high audience ratings and is also trusted and respected by the national audience. Ms Dai stressed that from Key Performance Indication and the arrival rate of data, investment in large advertisements has achieved their desired objectives, and more customers realize the new products in Company A.

In the second and third-tier cities, Company B always assigned their factories’ staffs to promote their products, during the post-acquisition integration, Company A integrated this distribution and also constituted the distribution team as we mentioned before. Company A decided to employ all the employees in Company B’s factories and took advantage of their experience to sell products.
6 ANALYSIS

In this chapter, we will analyze different aspects according to the theoretical framework and empirical data, and each aspect we mentioned in the theoretical framework and empirical data will be discussed for the purpose of this thesis.

6.1 Acquisition types and motives

According to Hanson (1991) and Brozen (1982), when a company wants to increase market share in the new markets with existing product ranges, the type of the acquisition is referred to horizontal acquisition. As we can find in Figure 1, Company A’s main business is in North America, but only 28% in developing markets. Meanwhile, the biscuit is one of the most important businesses for Company A and China is a huge market that they want to occupy. In order to enhance the market share in developing markets and achieve the internationalization finally, Company A acquired Company B’s biscuit business which also occupied large parts of the whole global market, especially in the Chinese market. After acquiring the biggest competitor in China, Company A can develop the market shares in China much more easily and quickly, and increase the market shares in developing countries to ultimately implement internationalization. It means that Company A’s acquisition is a horizontal acquisition.

Simultaneously, while the Company A increases the market shares and achieves internationalization, although it takes over Company B’s factories and employees, its final goal is to enhance the revenues in the global markets through the biscuit business. Therefore, Company A’s acquisition’s motive is a financial one or value maximizing motives (Napier, 1989), their principal objective is to create value for the shareholder (Trautwein, 1990).

6.2 Market integration management of post-acquisition

6.2.1 Macro environment for the market integration

Doole and Lowe (2008) indicate that different social conditions, religion and material culture may affect customers’ perceptions and patterns of buying behavior. Company A realized this and adjusted the taste of sugar content of the Biscuit A, since the Chinese prefer less sugar than the American market. Even in China, the demand for taste and the specification of packaging are disparate in the different regions. Consequently, according to the different demands in Chinese, during the integration, Company A keeps several popular brands and obsoletes some unpopular products in
China, meanwhile, according to the different sales volume in different regions, Company A increases or decreases the shelf area for distinct brands in different regions. Although Company A was conscious of the different demands for packaging, they have not adjusted the size of packaging.

When a company is developing the international business, the different laws in the international marketing must be complied with (Doole & Lowe, 2008). In China, Food Sanitation Law, Product Quality Law and such legal items are used for the food companies and the quality and safety of food is attended to especially. The special apartment named as the committee of Global Corporate Responsibility in Company A is in charge of the products’ quality and safety and the agricultural supply base both from Company A and Company B, this can guarantee their products correspond with China’s standards.

Doole and Lowe (2008) point out that in order to satisfy the market demands and finally obtain benefit, the company must realize international markets’ different economic development’s levels and how they influence on the marketing strategy. In China, the demands of convenience food are increasing quickly because of the development of the economy and people’s living standards. Company A seized this opportunity and acquired their biggest competitor in China, therefore, Company A enhanced 12% of their sales in 2008 although the American subprime crisis impacted the global economic environment.

The government’s attitude influences the company’s operation directly (Doole & Lowe, 2008) and the company should make different business decisions when they enter in the different market according to the local political climate (Ace, 2001). Company A catered to the environment protection political of Chinese government, they decrease water use and energy consumption during the production to achieve sustainable development. This way of operation is encouraged by the Chinese government, so Company A can develop their business in China smoothly.

The ability to research and develop the products is important for the companies to do business in international markets (Lancaster & Reynolds, 2005). The biscuits research and development center of Asia’s establishment can improve Company A research and aid the development of new products for local demands and also research products for other foreign markets. The development of delicious recipes for different biscuits from Company A can also affect the sale proportion.

6.2.2 Market segmentations

From the empirical data, we can find that segmentations of Company A are divided according to the regulations of psychological segmentations, therefore the Chinese biscuit market can be divided by consumers who pay attention to healthy and nutrition, taste and shape, calories content, or convenience.
In order to understand the customers’ demand, basic psychology like interests, attitude and lifestyles will be discussed to find the rules of categories. First of all, not all the people like to eat biscuits, because they regard biscuits as a food lacking in nutrition, therefore they never or seldom eat biscuits, once they choose biscuits, most of times they will pay attention to the health and nutrition content. Also, there are people who like to eat biscuits, however the only standard for they to select is health or nutrition, for example, people who want to lose weight or people who gain diabetes, and they have to choose lower sugar content biscuits in order to keep healthy.

Secondly, according to different people’s lifestyles, those who do not have enough time for meals will both care for calories content and convenience when choosing biscuits. As Ms Dai mentioned in the interview, high calories will easily supply the energy they want, plastic packaging will provide great convenience for people to carry. For example, in the high rapid of the society, office workers usually have no time for lunch, they will prefer biscuits with high calories to support them; on the other hand, for teenager students who are in the growing stages, sufficient breakfast will be an important part in one’s life, therefore, they will also be fond of high calorie and convenient biscuits.

Furthermore, for people who have strong interests in eating biscuits, usually this kind of people will sometimes look for leisure time to have fun with friends, like a picnic, or an afternoon tea. Under these situations, taste and shape become a very important element when choosing biscuits, because they treat biscuit as more like a dessert than as food for meals.

6.2.3 Market positioning strategy

From the theories, we realized that “positioning is the location of your product in the mind of customers” (Keegan & Schlegelmilch, 2001, p228), it is very important to set a proper positioning for a company, because this is how customers think of you when mention the name of the company or any brand of the company. Developing a positioning strategy is highly relevant to the competitors’ positioning (Learn marketing, 2011), according to the positioning strategy theories, there are two choices of setting the positioning: one is to occupy the positioning very close to the competitors’ positioning, to let the customers themselves choose which brand is better. The other is to make an obvious contrary to the positioning of them, so that to emphasize the strengths of the acquiring company it to attract customers.

We can find in the empirical data that Company A has already occupied the high and medium positioning of the Chinese biscuits market, most of its competitors occupied the low and medium positioning. For Company A, it not only sets the positioning close to the competitor who has already occupied the high level of positioning, but
also occupies the low and medium market positioning to make they own strength of characteristics through the acquisition of its biggest competitor. As a conclusion, after the integration, Company A is aimed at all levels of positioning to expand its own products in the Chinese biscuits markets.

6.2.4 Marketing mix

6.2.4.1 Product

Products between the acquiring and acquired companies share something in common, however they have different gaps because of the different characteristics of the products (Weber & Dholakia, 2000). Thus, Company A and Company B are large companies in the industry of biscuits, they have the same aim to occupy the biggest Chinese biscuit markets, however, the products of these two companies differ from different orientations. Products from Company A are mostly focused on the high and medium positioning of markets, meanwhile products from Company B pay more attentions to low and medium market positioning (see figures in Table 1).

Therefore, the integration task of the acquiring company is to fill the gaps between two products from two companies (Weber & Dholakia, 2000). Generally speaking, products contain tangible products like real materials and intangible products like service, biscuits here belong to tangible products. We have already known from the theoretical framework part, that tangible products gaps involves the area of scale, technology, bearing capacity and some physical characteristics demanded by customers (Weber & Dholakia, 2000). If the acquiring company wants to keep on using separate brands, there will be gaps in quality between the two areas of brands if using the same facilities from the acquired company. However, according to the interview from Ms Dai, the CEO of Company A, we realized that Company A wants to occupy all levels of positioning in the Chinese biscuits markets, therefore, after the integration, the products they produce will reach different levels of positioning in the market, and the gaps between different products can just right make up the various markets demands. For Company A, the integration is a large activity for the different products to compensate each other’s market positioning.

To speak of, since Company A wants to further all the market positioning of the biscuits market, we realize a problem in Table 1, that logos from the acquiring and acquired companies present huge diversities. Considering the high brand loyalty which Company B contains because of the special physical characteristics (Weber & Dholakia, 2000) of products which meet customers’ demands in second and third-line markets, it is better to fill the logo gaps gradually through the integration. Therefore, from the red areas in Table 2, we realize the change of the logos. During the integration, Company A changes the logos of products originally from Company B into logos both of Company A and Company B. It is a strategy not only to appear to
customers who are fond of products from Company B to notice the changes, but also let all the customers know these popular brands are now belonging to Company A, it is a time for them to accept and adjust.

However as mentioned by Ms Dai, even in the end, logo of Company B will all be replaced by Company A, products originally from Company B will continue as they are in the low and medium positioning so that Company A could cover the markets in the second and third-line markets. Therefore, they realize the new positioning strategy of covering all the Chinese biscuits markets through integration.

Since we have already discussed above, the positioning of Company A is to occupy all the Chinese biscuits markets, the company should adjust the products from two companies. Markets whose products have entered the “saturation and decline stage” are better to be abandoned (Day, 1982), and it shows up a new task to develop new products. As can be seen in Table 2, product V originally from company B has already been put away, product F has been innovated.

Developing new products should properly analyze the market, for its objective is to find the new product’s positioning in the market comparing with the competitors, also to develop the new product characteristics which are connecting with the needs of potential customers (Swinj & Song, 2007). As discussed in the empirical data, the new product, ‘product F’ is aimed at the products composed of “Germ, Endosperm and Bran”, with motivation to swap all the cluttering grains markets to create a completely Chinese style of biscuit in the whole “grain” biscuits market. Obviously, according to the markets situations, before Company A’s big step of producing the new grain biscuits, there are different kinds of standards of “grains” content, since Company A’s special “stable germ technique”, it sets the standard of the whole industry, and let the competitors in the second and third-line know the new product’s positioning is high and confirms Company A’s leading position further.

6.2.4.2 Place

As we can see through empirical data, the integration of place of Company A and Company B can be divided into three parts. The integration of purchasing can create time utility, place utility and possession utility. For Company A, after acquiring Company B, purchasing same raw materials for different products of biscuits can not only save the cost of raw materials but also save time to deliver the raw materials to accelerate the production process. Meanwhile, the uniform purchasing will help company manage the quality of raw materials, and ensure the customers get the satisfy products finally (Lancaster & Reynolds, 2005). Company A can also utilize Company B’s channel of purchasing, the cost, and the quality and so on can be compared and choose the better one for Company A, it also has synergistic benefits for acquiring the firm (Weber & Dholakia, 2000).
After Company A integrated the factories of Company B, they utilized and employed the strengths from the acquired firm (Weber & Dholakia, 2000). Company A realized that the integration of all the factories enabled the company to increase the capability of biscuit production, so they maintained all the factories and set up the biggest biscuit research and development center of Asia in Suzhou, it made them become the largest biscuit manufacturer in the world. Simultaneously, after the integration, all the factories from Company A and Company B studied each other’s strengths. The high technology for the packing from Company A is used in the original factories of Company B, and the experiences of decreasing the costs from Company B are also shared to Company A, it achieved the synergistic benefits for the final firm. Through this integration, Company A can both save costs and improve the quality for all products. Furthermore, after integrating Company B’s factories, since the factories’ locations are enlarged, products can be delivered from the nearest location, and customers’ requires will be satisfied as soon as possible (Lancaster & Reynolds, 2005).

When the distribution gap is estimated, the “regional approach” is usually used (Weber & Dholakia, 2000). In China, Company A’s superiority is in the first-tier cities like Beijing and Shanghai, but the Company B’s superiority is in the second and third-tier cities and the majority of the East China market. Weber and Dholakia (2000) indicate that although different firms have different superiority of the distribution, the combined firm should achieve good distribution in all regions of the country. Therefore, after acquiring Company B, Company A can occupy the second and third-tier cities quickly and expediently, so that Company A can own all the market channels in China. Meanwhile, since Company A constituted a distribution group and the members come from two companies equally, these members are acquainted with the distribution channels of their companies, and combining them enables the distribution channels to operate at optimal levels, and improve the sales of products to increase revenue.

In addition, according to the semi-structured interview, Company A set up a distribution group with 12 persons both from original Company A and Company B, these persons played key roles to integrate the distribution. Therefore, the integration of human resource must be considered while companies are integrating market.

6.2.4.3 Price

As can be seen from Table 1, products in Company A are set at a higher price, from product A to product E, the highest price can reach 5kr, even the lowest price still keeps above 2kr, therefore its positioning are mostly at the high and medium levels. Also, we can see prices for product I to product V are kept at a low level: the highest price can reach 2.5kr, and the lowest costs only 1kr. As a conclusion, positioning for Company B is aimed at low and medium markets, which are generally a level lower
than Company A.

From the theories, we can know that when integrating the prices of two companies after the main integration, if the acquired company has a lower segmentation with a low market price, and the acquiring company wants to therefore open the new market with a low positioning, there is no need for the new company to change the price (Weber & Dholakia, 2000). As Ms Dai stated in the interview from the empirical data, Company A want to occupy all levels of Chinese biscuits markets positioning. Since the products from Company A are set at high and medium levels and products originally from Company B are set at low and medium market positioning, there is no need to change the price after the integration, because it is a good opportunity for Company A to open the low markets in utilizing Company B’s products.

Meanwhile, the price of newly innovated product should be set according to the latest market orientations like the standard of paying and the capacity of customers’ paying (Haberer, 2008). As shown in the empirical data, the markets are paying more attention to healthy biscuits with nutritional elements, “grains” biscuits are becoming increasingly popular. Since the “germ” is very unstable to be conserved and is indispensable for the new product, innovation for the “stable germ technique” can raise the general positioning as well as the price of the new product. Consequently, the price for the new product “product F” is set at “4kr” (see table 2), which reaches the high positioning of the biscuits market. On one hand, the high technique raises the cost of the producing, and on the other hand, although Company A starts to occupy the low and medium market positioning, it still need to keep the high positioning products in production to target people who only focus on the products that satisfy them.

6.2.4.4 Promotion

According to Weber and Dholakia (2000), the acquiring firm should consolidate promotion efforts for the brands of the acquired firm. At the beginning of the post-acquisition integration, many brands come from Company B and customers know those brands belong to Company B. Therefore, Company A must enable customers to know these brands belong to them currently. Advertising is a function that can help Company A reach a lot of consumers at the same time and convey diversity regarding messages (Kashani & Turpin,, 1999). Company A chose the television as their advertising platform, and played it after a popular program, this would increase the rates for noticing the products by audience, although the costs of advertising were high, through this advertisement, Company A achieved their desired objectives. More and more customers knew the new products in Company A. This means the customers who choose Company A’s brands will increase and know these brands belong to Company A as well. It corresponds with Hopkins (1987)’s point that high advertising costs may promote the acquiring firm’s entry into new markets.
Kotler and Armstrong (1994) point out that personal selling’s purpose is to make sales and build customer relationships. Therefore, the persons who have full experience are helpful for the company to sell products. Since Company B assigned their factories’ staffs to promote their products in the second and third-tier cities, and these persons are familiar with those products, company A employed all the employees in Company B’s factories so that these staffs can keep on promoting using their experience. Although the sales’ salaries are expensive for Company A, these experienced staff members are crucial for Company A to establish the relationships with markets.

Although the sales promotion like temporary price reductions, displays, coupons and so on (Lancaster & Reynolds, 2005) may help companies achieve synergistic benefits (Weber & Dholakia, 2000), Company A did not use this tool. Similarly, the means of public relations may enable the message of products get to the buys, which is avoided by salespeople or advertisements. However, during the post-acquisition integration, Company A did not utilize this way to expand its popularity.
7 CONCLUSIONS AND IMPLICATIONS

In this chapter, we will conclude what we have discussed in the analysis part and to give out the implication of the study, also further researches about what we haven’t done can be discovered.

7.1 Conclusions

Our research question of this thesis is: How do companies successfully manage the market integration during the post-acquisition? And the purpose is to exploit successful management of market while company is executing post-acquisition integration in this thesis.

During the whole thesis, authors have answered the research question through the analysis of the empirical data with theories which are referenced. The question is answered through five categories, which are acquisition types and motives, market macro environments, market segmentations, market positioning strategy, and marketing mix.

First of all, in order to choose the correct post-acquisition integration type and to well manage the market integration, it is very important to understand the type and motive of the whole acquisition project itself. Since the Company A acquired Company B to develop the biscuit market in China and enhance the revenues in the global markets, it chose the horizontal acquisition to create the value.

Then, when it comes to management of market integration, macro environment become the first condition to be considered. They seized the opportunity of biscuit market in China, and satisfied Chinese social, legal, political environmental conditions which helped them develop the business in China smoothly. The improvement of technology enable Company A increases the production and quality, besides supplying for the Chinese market, it can also supply for the other countries in the worldwide, this improved the internationalization for Company A as well as.

After analyzing the external macro environment, it is easier for the whole Company A to divide the market segmentations and formulate the positioning strategy. As the authors have found out, Company A uses the “psychological segmentations” to divide the Chinese biscuit markets into several segmentations, namely healthy and nutrition, taste and shape, calories content, or convenience. What’s more, since Company A’s original market positioning has occupied the high and medium positioning, and as Company B, one of the biggest competitor which has occupied in the medium and low market positioning, it is a good opportunity to cover all the market positioning
from high to low, and to consider customers in all levels from old to young.

Since Company A chooses the proper market positioning strategy, it moves to focus on categories of marketing mix, which contains product, place, price and promotion. The authors discover that all the marketing mix is depending on the positioning strategy Company A made. Since Company A wants to explore in all the positioning levels, they integrate Company B’s products under its own logo however without changing the biscuit styles, because Company B’s products gain a large population in the low market positioning. What’s specially, during the process of changing the logo of Company B, Company A took a transition to use both logos of Company A and Company B, for they hope the customers who are loyal to products from Company B can get used to the change and become their new customers owing to Company B. What’s more, innovative product with special technique has been made to attract more customers and to set up the NO.1 position of Company A.

Still, Company A has not changed a lot about the price of products originally from Company B, because they still need Company B’s products to cover the medium and low markets. Prices of Company A’s biscuits products will cover from the most expensive level to the cheapest level. Moreover, in order to clear the situation existing in the “grain” biscuit markets, Company A launches a new product with high context standard, with the new innovative technique, it is obviously set at the highest level of price, for it is not only the authority of the “grain” market, but also the leading company in the biscuit market.

The integration of place is crucial for Company A during its post-acquisition integration. Through integrating purchasing with Company B, Company A can save costs and time for the purchasing, after integrating Company B’s factories, the technology from each factories are complementary, the production of biscuit are also increased for the Chinese market and other countries. In addition, Company A got the second and third-tier cities in China speedily through the integration of Company B’s distribution channels, it enables Company A expand the market in Chinese market and own the whole market channels in China.

In addition, Company A utilized the promotion of advertisement let consumers know their new brands from Company B, through the advertisement, Company A expands the brand’s popularity so that they occupy the larger market. The integration of staff also made Company A gain a lot of staff who have rich experience to promote. However, Company A can also utilize the tools of sales promotion and public relations to increase its popularity and finally enhance its sales.

Finally, the authors also find the integration of human resource is important during the post-acquisition integration, since the managers from Company B were familiar with their original distributions and the staffs from Company B owned experience to sell products in second and third-tier cities. Therefore, once the human resource
integration succeeds, market integration could be implemented effectively.

7.2 Implications of this study

After analysis, we found that when a company wants to achieve internationalization through acquisition, the market integration during the post-acquisition is important and necessary. Through the research of different aspects, the acquiring companies will not just satisfy the different markets itself, but also utilize the acquired companies’ superiority to occupy the new market speedily. The acquiring companies want to clear what the strengths and weaknesses are in different markets, and then retain the strengths and get rid of, or mitigate the weaknesses.

Furthermore, since this research is based on the Chinese market, so it is meaningful for the companies which want to enter in Chinese market, especially for companies similar to Company A. For those companies, they can realize what they want to consider and operate when they manage the market integration during the post-acquisition.

7.3 Future research

Since the limitation of the time and resource, only one biscuit company which entered in Chinese market was chosen. In addition, we only connected the acquiring company, but the acquired company was not connected. For future research, it will be better if the researchers can gather information from acquiring company and acquired company in the meantime, so that the integration information from both companies will be complete and the researchers can compare them between two companies and find the impacts not only for the acquiring companies but also for the acquired companies.

Furthermore, the human resource integration is also very important for market integration, it will impact companies’ final success of acquisition. When future researchers study market integration, they can study human resource integration meanwhile.

Additionally, we only chose Chinese market as the developing country, and there may be several different conditions in other developing countries. Therefore, future researches can choose more cases in different developing countries to compare it. Furthermore, the industry can be expanded and companies’ marketing form can also be diversification.
8 REFERENCES

Articles:


**Books:**


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**Others:**


9 APPENDIX: SEMI-STRUCTURED INTERVIEW GUIDE

The following questions will be used only for the authors’ intended academic study.

A. FACE SHEET QUESTION
1. What is your position in the company?
2. How long have you been working in this company?
3. Do you have any cross-broad acquisition experience? If the answer is yes, could you please tell us about it?

B. COMPANY’S BASIC INFORMATION
1. When and where did your company found?
2. How long have you been in the Biscuit Industry?
3. How many employees do you have in your company?

C. INFORMATION ABOUT ACQUISITION
1. Why do you want to use the acquisition strategy as an entry strategy of internationalization? In other words, what are the main objectives for acquisition?
2. How many cross-broad acquisitions have your company engaged in the past?
3. How do you think about your acquisition of Company B in China?

D. INFORMATION ABOUT POST-ACQUISITION INTEGRATION
1. During the post-acquisition, how long does integration of two companies (your company and Company B) lasted?
2. How many factors do you think are crucial during the integration process?
3. During these factors, how many efforts have you put in the area of market integration?
4. How do you separate the segmentations of the Chinese biscuit market?
5. How do you think about the macro-environment of china, and based on these environment, how do you make the positioning strategy?
6. Depend on your market positioning, how to integrate the brands from your company and Company B?
7. If some brands of Company B gain a large population, will you replace Company B’s logo with yours immediately after acquisition or still keep it?
8. According to the product life cycle, when your product is trend to decline or/and the market is nearly saturated, would you use Company B’s product to compensate the market or innovate new product?

9. What’s your experience of taking advantage of the factories, warehouses, transportation, and distribution channel of Company B during your integration?

10. In the process of integration, cost will fluctuate by various impacts, based on this will you adjust the price of products?

11. In order to communicate information with customers more efficiently, you will certainly utilize the promotional channels of Company B, could you tell us the detail of it?

12. One of the advantages of acquisition is to obtain the promotional resources of Company B, could you explain about it?