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Case study of failed merger of Sony and Zee: Paving ahead the consolidations in the industry

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Abstract

The much-touted merger between Culver Max Entertainment (Sony India) and Zee Entertainment Enterprises (Zee) has been officially abandoned. The decision comes a little over two years after the merger was initially announced with considerable fanfare. The envisaged deal, had it been successful, aimed to establish a broadcasting powerhouse boasting 75 channels and two OTT platforms. This unified entity would have wielded a robust influence across various domains, including entertainment, sports, and regional channels Notably, the proposed merger presented a strategically sound proposition as there was minimal overlap between the two entities. The absence of significant duplications made it a clear and well-thought-out strategic fit. However, despite the initial enthusiasm and potential synergies, the merger faced challenges and hurdles that ultimately led to its cancellation. The termination of this merger marks a significant development in the media and entertainment landscape, shaping the trajectories of Culver Max Entertainment and Zee Entertainment Enterprises in distinct directions. Keywords: mergers, OTT, rule of three, consolidation

Introduction to companies:

Culver Max:

Culver Max Entertainment, a dynamic entity in the realm of media and entertainment, has carved a distinctive niche for itself in the industry landscape. As a subsidiary of the renowned Sony Corporation, Culver Max operates under the umbrella of a global conglomerate, benefitting from the rich legacy and innovative spirit that defines the Sony brand. Founded on the principles of creativity, innovation, and a passion for delivering exceptional content, Culver Max is instrumental in shaping the narrative of entertainment in various forms. The company's portfolio spans a diverse range of offerings, including television production, film development, digital content creation, and immersive storytelling experiences.

Culver Max has positioned itself as a powerhouse in the entertainment sector, leveraging its strategic collaborations, cutting-edge technology, and a keen understanding of audience preferences. With a commitment to producing content that resonates globally, the company contributes significantly to the vibrant tapestry of entertainment across platforms. Guided by a forward-thinking approach and a relentless pursuit of excellence, Culver Max Entertainment stands poised at the forefront of the ever-evolving media landscape, ready to redefine and elevate the standards of entertainment for audiences worldwide.

Zee India:

Zee Entertainment Enterprises Limited (ZEEL), an iconic name in the Indian media and entertainment industry, has been a trailblazer in shaping the country's diverse and vibrant entertainment landscape. Established with a vision to provide compelling content that resonates with a wide audience, Zee India Entertainment has become synonymous with creativity, innovation, and cultural richness. Since its inception, Zee has been a pioneer in introducing a plethora of television channels covering genres such as drama, music, news, and lifestyle, catering to the diverse tastes of the Indian audience. The company's commitment to delivering quality programming has earned it a dedicated viewership, making it one of the most influential players in the Indian television market.

Beyond traditional television, Zee India Entertainment has embraced digital platforms, venturing into the world of over-the-top (OTT) services, providing on-the-go access to its rich content library. ZEE5, the digital arm of ZEEL, has further strengthened its foothold in the digital space, offering a diverse range of content in multiple languages.

Guided by a passion for storytelling, cultural diversity, and a keen understanding of audience preferences, Zee India Entertainment continues to evolve, setting new benchmarks and contributing significantly to the dynamic and ever-expanding Indian entertainment ecosystem. With a legacy spanning decades, Zee remains at the forefront of entertainment, resonating with millions of households across the nation.

Details of the case:

The merger encountered numerous challenges throughout its course. A significant obstacle emerged when the Securities and Exchange Board of India (Sebi) issued an interim order in June of last year, prohibiting Essel Group Chairman Subhash Chandra and his son Punit Goenka from assuming key managerial roles in Zee. Sebi alleged that they had redirected funds to private entities. Subhash Chandra serves as the Promoter of Zee, while Punit Goenka holds the positions of MD and CEO. Crucially, Goenka was slated to become the MD and CEO of the amalgamated Sony-Zee entity. With the case reaching the judicial system, it was not entirely surprising when Sony decided to withdraw from the deal. The current dilemma revolves around how Zee and Sony will navigate the complex media and entertainment terrain independently. Over the past two years, significant transformations have occurred, and there's a prospect that each entity might find itself contending with a formidable media giant. This potential scenario arises as Reliance Industries' media business and Disney Star explore a merger of their operations, raising apprehensions about the merged entity's potential impact on smaller players. The merged broadcasting business is anticipated to wield influence over nearly 110 channels, further intensifying competition and prompting industry participants to assess and strategize for the evolving landscape.

Utkarsh Sinha, Managing Director of Bexley Advisors, a specialized investment bank focused on the technology and media sectors in India, highlights the crucial role of scale and heft in navigating the current fragmented landscape of media and over-the-top (OTT) businesses. Sinha speculates that, with the termination of the Zee-Sony merger, both entities may face increased challenges in content acquisition. Notably, Zee has an outstanding debt of over $1 billion to Disney Star for the ICC tournament rights, making meeting these financial obligations more challenging in the absence of the anticipated merger. Sinha emphasizes how the merger would have been financially beneficial for both parties. Examining the financials, it becomes evident that the potential merger would have brought substantial advantages. In the fiscal year 2023, Zee reported revenues exceeding ₹8,000 crore, while Sony's revenues stood at ₹6,700 crore. The figures underscore the significant financial synergy that a successful merger could have generated for the combined entity.

Anticipating a wave of consolidation in the sector within the next two to three years, Utkarsh Sinha, MD of Bexley Advisors, notes that Sony-Zee initiated this trend, with Reliance-Disney now joining the competition. In the changed landscape, Sinha suggests that with Sony no longer pursuing Zee, there could be a surprising move by Reliance to include Zee in its consolidation strategy. This potential integration would not replace Disney, given its richer content base, but rather serve as a means to attract more viewers, alleviate consumer spending pressure, and minimize competition.

Vivek Menon, Managing Partner at NV Capital, a media and entertainment credit fund, asserts that Zee and Sony will continue to function as separate entities, as they did two years ago. He emphasizes the need to assess the legal implications, anticipating a prolonged legal process. Menon highlights the industry's current plateauing of linear television growth, with cord-cutting gaining momentum. He suggests that broadcasters seamlessly transitioning between linear and non-linear formats will be well-positioned to capitalize on the expanding digital market, emphasizing the critical importance of finding the right balance between cost and profitability. The repercussions of the unsuccessful merger are poised to endure, with both Zee and Sony resorting to legal avenues. Sony has opted for recourse through the Singapore International Arbitration Centre (SIAC), seeking resolution through arbitration. Simultaneously, Zee has initiated legal proceedings by approaching the National Company Law Tribunal (NCLT), urging it to enforce the previously proposed merger scheme. The legal maneuvers indicate a protracted period of legal scrutiny and deliberation as the two entities seek resolution through established legal frameworks.

Investors have witnessed a significant setback in Zee's stock performance, with a staggering 30% drop on the day the merger was officially abandoned. Emkay Global's report characterizes this decline as a "major setback" for the company, attributing it to weak competitive positioning and heightened corporate governance concerns. Despite Punit Goenka's agreement to step down as the MD and CEO of the merged entity, the termination has raised the possibility of shareholder activism against Zee's management. The report suggests that Zee may now attract other potential suitors for future deals. In response to the situation, Chandra, the Promoter of Zee, has indicated that the promoter group is contemplating increasing its stake in Zee by five percentage points. Looking ahead for the industry, Utkarsh Sinha of Bexley Advisors foresees a consumer base becoming even more cost-conscious in an inflationary environment. Predicting a substantial wave of media consolidation, he anticipates an overall reduction in the number of platforms along with decreased spending on content in the medium term.

Envisioning the landscape five years ahead, Utkarsh Sinha predicts a scenario dominated by a select few prominent entities that have assimilated numerous players currently scattered across the media landscape. These major players are anticipated to wield a comparable percentage of the consumer wallet, albeit with a more substantial individual share for each surviving entity. Sinha's outlook suggests a significant transformation and consolidation in the media industry, with a brewing landscape of strategic mergers and acquisitions that will reshape the competitive dynamics. The evolving nature of this space hints at substantial changes and challenges on the horizon.

Industry Consolidations:

After the above failed deal, in month of February,2024, the Walt Disney Company and Mukesh Ambani's Reliance Industries have officially combined their extensive Indian television and streaming ventures, putting an end to months of speculation. According to the agreement, Reliance's Viacom18 is merging with Disney's Star India, with the deal valued at approximately $8.5 billion on a 'post-money basis,' as announced by the companies.

Following the merger, Reliance Industries will hold a 16.3% stake in the combined entity, Viacom18 will possess 46.8%, and Disney will have 36.8%. To fuel the joint venture, the Reliance duo is committing a $1.4 billion investment. Nita Ambani will assume the role of chair for the merged entity, while former Disney India chair Uday Shankar is appointed as vice chair and strategic advisor.

Rule of Three:

The "Rule of Three" in mergers and acquisitions refers to a strategic principle suggesting that, in a given market or industry, the most stable and sustainable competitive structure is often characterized by the presence of three major competitors. This concept is rooted in the idea that having three significant players promotes a balanced level of competition, preventing the emergence of a monopoly or a highly fragmented market. In the context of mergers and acquisitions (M&A), the Rule of Three can influence strategic decisions. Companies may pursue mergers or acquisitions to achieve or maintain a position among the top three competitors in their industry. This could involve acquiring competitors, merging with other key players, or divesting certain assets to concentrate on core businesses.

The Rule of Three is based on the observation that, over time, markets tend to stabilize around three dominant competitors due to various economic and competitive factors. This structure often results in greater efficiency, innovation, and competition. However, it's important to note that the Rule of Three is a general guideline and may not apply universally to all industries. Market dynamics can vary, and some sectors may have more or fewer dominant players. Additionally, disruptive changes, technological advancements, or regulatory shifts can influence the competitive landscape and alter the applicability of the Rule of Three in specific cases. The industry is on consolidation spree; it will be interesting to watch how smaller company will survive or just merge themselves in the existing bigger competitors.

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