Financing synergies

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Cost synergy effects reflect the advantages of large-scale production which bring about economies of scale (Farrell and Shapiro, 2001). The new organisation which is now larger gains a higher bargaining power vis-a-vis suppliers so that discounts and lower prices for supplies reduce costs (Bower, 2002: 12-23; David, 2001: 187). Again, there is the elimination of some intermediaries with mergers and acquisitions as well as laying off workers thus reducing the overall input costs (Ferris and 2001: 96). Reduction in costs is associated with cheaper products that will guarantee a market for the company.

It also benefits consumers who can now afford quality service at more affordable prices (Kaplan, 2000: 33-45). The concept of worker retrenchment however raises ethical issues and companies undertaking M&A have been blamed for fuelling unemployment (Scherer, 2002: 102-105). The Avaya merger shows just how firms are optimistic about synergy effects that they are likely to benefit from in the event of a merger. In June 2007, Avaya merged with Silver Lake which is an investment company and which focuses on industries that are technologically driven and TPG capital, a private investment company as well (Avaya, 2007: 1).

On making this announcement, Avaya CEO Louis D'Ambrosio said that the merger would enhance service delivery in communications solutions due to pooling of resources and know-how (Avaya, 2007). Reduction in costs associated with economies of scale is also some of the benefits that Avaya, TPG and Silver Lake are going to obtain. As a result, Avaya will become stronger and more aggressive in the market (Follet, 2007: 1). Benefits of

reduction in cost come in handy now that companies have to spend more in research and development to keep their products going in the market.

Given the soaring costs of research and development out of the global need advancetechnology, telecommunication firms often find it hard to make it on their own (Kang, 2001: 38). M; As provide a convenient solution to enhance innovation and development. Companies can pool together financial resources, manpower and technology making it easier for them to maneuver through the challenges rather than when they could have done it alone (Farrell and Shapiro, 2001: 689-71). Consequently, more innovative products and services are produced (Matsusaka, 1993: 371).

This not only works to the benefit of the company from increased sales but also gives consumers better products to choose from (Clemente and Greenp, 1998). Financing synergies mostly result from the large asset base that is likely to emerge following M; A. This means that the companies can put together resources that can be used as security in accessing credit (Eckbo, 1983). Increased credit-worthiness means that the newly formed company can now access finances for development.

Smaller companies that cannot afford certain amounts of credit have been known to take advantage of this synergy effect to advance their businesses (Reel and Lajoux, 1998: 42). For instance, when McCaw Cellullar Communications was sold to AT; T in 1995, the company was facing constraints that could not allow it to get into the wirelesscommunicationbusiness (Bruner and Parella, 2004: 329). By selling

to AT; T, the company whose credit ratings at the time were CCC could benefit from AT; T's AA credit rating.

This means that McCaw Cellular gained from financial synergies resulting from the acquisition. This is exactly the case for T-Mobile which is facing danger of shutting down. Further, the revenue of consolidating firms will most definitely rise not only from the sale of the joint products but also as a result of the reduction in costs. The increased customer base also helps to ensure that more revenue is collected by the company from increased sales. This leaves the companies with more finances at their disposal.