Merger in the business world

Business

1. Economies of scale: By combining operations, the merged entity gets enormous benefits in terms of economies of scale. The merged and bigger entity gets stronger bargaining power both with vendors and clients. Additionally, there are cost savings as redundant support function teams like IT, HR, Purchase, legal, etc can be eliminated thereby resulting in higher profits.
2. Forward/backward integration: By merging itself with a client or a vendor company, a company can result in assured raw materials/sales, minimize uncertainty, and get better pricing. For example, an Iron and Steel manufacturer may merge itself with a mining company to secure its raw material supply.
3. Expanding product/services bouquet: By merging with similar but noncompeting firms, companies can increase their product offering, enter new markets, and cross-sell their products. For example, a website development firm may merge itself with Internet analytics and Internet marketing firm and cross-sell its services. Similarly, an Iron and steel manufacturing company may merge with a Sheet rolling company to move up the value chain.
4. Expanding in other geographical markets: Business organizations also use cross border mergers and acquisitions to expand into new geographical markets. Mergers and acquisitions are perhaps the fastest way of entering a new geographical market.

There have been numerous studies and researches conducted that tried to enumerate the reasons behind successful mergers. While the list of factors that influence the success or failure of mergers can be varied, they can be broadly categorized under the following heads:

Evaluation of possible synergies and due diligence: Both the merging entities should do a thorough, independent, and detailed evaluation of the possible post-merger synergies. A clear understanding of individual strengths, weaknesses, and possible domains of symbiotic synergy is a must for any merger to be successful.

Planning post-merger integration: A detailed, well-defined post-merger roadmap is the key to the successful integration of two entities. Each business organization has its own business and financial protocols and merging two different protocols require considerable planning.

Communication: Mergers create an atmosphere of uncertainty for both the merging entities. Employees face a range of uncertainties - the probability of termination of employment, adapting to new organizational hierarchy, a new set of protocols, and rules. In this scenario, it is extremely important to have open communication channels for employees to discuss their problems and apprehensions.

Adapting to a new culture: An organization culture is the soul of an organization, and it is important to take proper steps to create a culture that is a superset of the cultures of both the merging entities. This will ensure minimal problems during the transition.

The above-mentioned causes, along with external factors like management competence, business environment, regulatory frameworks, and money supply, are the core factors that influence the success of any merger or takeover.