

Hp: economics and compaq proposed merger essay sample

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Compaq? What are the pros and cons?

Yes, We Support Fiorina's Proposal to acquire Compaq in view of the following Merits:

- ☛ The merger would enable both companies to achieve economies of scale and increased market share thereby enabling them to compete with market leader i. e Dell

- ☛ Leadership in key Markets: HP and Compaq both had some core strength areas such as Industry standard servers made by Compaq and HP's strength in high end servers would make them leaders in these key market areas

- ☛ Gain to IT services: With both firms together would get considerable mass of 65000 It professionals across 160 countries and support staff to foster double digit growth

- ☛ Cost Saving and enhanced NPV: The merger would help HP in a cost saving to the tune of \$2. 5 billion and improve overall profit.

- ☛ Increased and sustained profits would help HP in increasing investment in Its Imaging and printing business which was company's primary cash generator

Probable Cons/Demerits of Merger:

- ☛ The proposed merger would led to the dilution of stockholders interest from profitable printing business to non profitable computing business.

- ☛ Integration risk of proposed merger was substantial in terms of losses and was predicted at 15% to 17% that would offset the saving due to cost synergy achieved
- ☛ The Integration of two companies was a daunting task as both of them were undergoing transformation in their own and economy was undergoing difficult times
- ☛ The financial impact on HP's stockholder would be negative as its credit rating is likely to fall due to worsened balance sheet as compared to stand alone basis ☛ Merger would lead company usher in a low end and highly competitive market of PC's for which online distribution channel is not yet fully developed by either HP or Compaq
- ☛ Proposed merger is less likely to improve condition in high end server or services market and hence, may not be helpful in improving HP's strategic position.