Prove why this merger would be beneficial for the company

Merger Merging is a process where two or more initially separate firms combine to form one single entity. The companies combine their efforts and resources in different areas, such as marketing, administration, technology, and staffing. When a company acquires a rival firm, it will benefit from the merging. The company will enjoy reduced costs that will help it lower prices of its goods and services. Secondly, the company will be able to penetrate the market and reach more customers than ever before. Furthermore, merging will help the company to diversify its products and services, hence strengthening its market. Thus, a company that merges with a competing firm will benefit from economies of scale, market penetration, and diversification.

INCREASED ECONOMIES OF SCALE

When the two firms come together to form a single firm, the output increases and the average costs reduce. Budgets for activities such as marketing might be lowered. The new company enjoys increased purchasing power, leading to lowering of the costs of raw materials and other things. Consumers, therefore, enjoy the reduced prices due to the reduced costs. One of the different economies of scale that the merger will bring includes the bulk buying: the merged company will enjoy discounts that come with purchasing large quantities of raw materials. The company will also enjoy a better rate of interest and hence boost its financial position. Additionally, the company will enjoy from technical economies especially if the firm has significant fixed costs since the average costs reduce. Furthermore, the merger will reduce organizational costs since they will merge their operational officer (Tejvan, 2014).

MARKET PENETRATION

The companies will quickly access more customers than before since they have merged their marketing, sales and distribution efforts. If the individual firms had demonstrated success in separate markets, the merger would benefit greatly. For instance, the merger of American automaker Chrysler Corp. and the German automaker Daimler-Benz enabled the new firm, Daimler-Benz, to penetrate markets in both North America and Europe. If both companies competed initially in the same market, they might fail to enjoy the benefit of market penetration since the customers will still see them as separate (Reddy, 2011). Thus, merging of companies that operated in various geographic markets may be more beneficial than those that worked in the same market.

DIVERSIFICATION

Merging allows companies to either combine or start producing a variety of goods and services. Businesses that produce the same products or offer similar services may have different types of products and services (Ernst & Young, 2010). Additionally, the individual company may fail to provide a variety of goods and services due to the costs involved. Merging allows such firms to combine the various products and services. Customers like varieties. Hence, the merging will enable the companies to attract more clients than they would if they remained separate entities. For instance, two travel firms that come together and form one large company may efficiently provide their customers with an increased range of options at the point of sale.

A company, therefore, benefits a lot when it merges with a competing firm. It will significantly reduce its costs of operations hence allowing the company to cut prices on goods and services, thereby attracting more customers. The merger will also see the company accessing more customers than if it would have remained single. Additionally, it will be able to diversify its products and services thus increasing customer's experience. Therefore, the CEO of the company should allow his/her company to merge with the rival company to enjoy these and many more benefits. The benefits far outweigh the risks of combining companies. Thank you for reading and feel free to ask any question concerning merging.

References

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