

# Strategic management

Business



Merger and Acquisition of small companies would increase the output of the company. A good example is the case of HP and Compaq. After Compaq was overtaken by Dell sometime in 2001 (Rivkin and Porter, 1999), HP decided to acquire Compaq for USD25 billion in 2002 (Hewlett-Packard Development Company, 2001; Sorkin and Norris, 2001). After acquiring Compaq, HP was able to improve the technological quality of its imaging and printing, servers, personal computers and hand-held devices including its storage and management software and overall IT services (Hewlett-Packard Development Company, 2001). All these made HP earn the position as one of the most competitive IT companies back in early part of 2000s.

Improve the technological quality of its imaging and printing, servers, personal computers and hand-held devices including its storage and management software and overall IT services;

Better economies of scale;

Better product innovation;

Wider or bigger market;

Bigger portfolio of IT-related products and services;

Better customer satisfaction;

Higher sales and profit;

Better business opportunities.

Merger and acquisition can also positively affect the financial performance of companies. One of the secrets behind the business success of Apple Inc. can be explained through strategic management such as mergers and acquisitions. For instance, Apple acquired not only Logic Pro but also Emagic in 2002 (Hesseldahl, 2007; Wherry, 2006). This particular business strategy subsequently improved Apple's ability to create digital audio software which

is now being used in its iLife software (Hesseldahl, 2007). In August 2014, Apple decided to purchase Beats Electronics for USD3 billion (Stelle, 2014). Due to continuous transfer of knowledge and technologies, Apple has recently experienced a 9.5% increase in its 2013 sales growth (Market Watch, 2014).

Apple was able to adapt technology used by its acquired companies which include digital audio software, etc.;

Apple was able to expand its product portfolio;

Apple was able to expand its target market;

Apple was able to develop and benefit from its IP protected products like iPhone.

Financial restructuring ensures that there are higher sales and productivity and better use of the financial resources thus enabling it to take advantage of the possible opportunities. Such financial opportunities include the advantage of sustaining competitive advantage, as well as adopting marketing strategies that can effectively sustain the business in a competitive environment. For example, in the case of Caterpillar, the company's 1st quarter profit increased right after implementing cost reduction strategies and increasing sales of construction equipment (Forbes, 2014).

Caterpillar's 1st quarter profit increased because of reducing its daily operational costs;

Caterpillar's 1st quarter profit increased by increasing its quarterly sales on construction equipments.

However, in some instances restructuring is disadvantages to the firms because the process is costly and the shareholders suffer from the heavy

burden of financing the restructuring strategies. There is also loss of companies' assets such as workforce especially in situations where downsizing occurs. Additionally, the procedures and processes of merging are at times lengthy and tiresome. Due to heavy market competition with Komatsu, Caterpillar was losing USD1 million each day back in 1980s (Selko, 2013). Since the cost of restructuring is very high, the only way for Caterpillar to regain its full potential in the market is to reduce its fixed operational costs by laying-off some of its employees (Forbes, 2014; Selko, 2013).

One of the disadvantages of restructuring is that it requires a lot of money for Caterpillar to be able to restructure its business plan and operations; The high cost of restructuring plan does not mean that the company will 100% benefit from the strategy;

Restructuring requires the company to cut down the number of its employees.

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