Strategic planning case study

Business, Company

Strategic Management

A merger is the process by which two or more companies come together to form one entity (Michael, & Duane, 2010, p. 23). It takes place ideally out of mutual consent of the stockholders of one company are offered securities by the other company in exchange for their stock. This strategy is usually common with companies in the same industry. An acquisition is the process by which a company buys out more than half or the entire ownership stake of another company with the sole intention of taking over the operation and control of the target company. There are several types of mergers and acquisitions: horizontal, vertical and related. A horizontal merger or acquisition involves a company in the same industry. A vertical merger or acquisition involves a firm buying out a supplier or distributor of one or more of its products or services. Finally the other type is the related merger or acquisition. This is where a firm buys out another firm that is in a highly related industry (Michael & Duane, 2010, p. 44).

Acquisitions are strategic growth plans that a company engages in when it is more beneficial to take over a company already in existence and its operations rather than start from scratch. For this to happen the company to be acquired is paid in cash or through stock of the acquiring company and in some cases through both means. There are two types of acquisitions: hostile and friendly. A friendly acquisition is one in which there is mutual consent and agreement especially from the company to be acquired whereas a hostile acquisition is one in which agreement is not necessarily established more-so from the acquired company which requires the acquiring company to buy a majority stake to control the acquired company.

Mergers and acquisitions are increasingly becoming a popular strategy in firms both domestically and internationally. There are a myriad of reasons as to why companies merge and make acquisitions. The most common reason is to create synergy(Michael & Duane, 2010, p. 123). In synergy, it is said that one plus one equals three and thus the combination of two or more companies is believed to increase performance and decrease costs. This can be achieved because now both businesses will become one entity and the combination of their operations, portfolios and customers will result in huge returns than if both companies were operating alone. Growth is another major reason for mergers and acquisitions. Growth is established in terms of market share. See, the acquired company had its own market share and thus the acquiring company doesn't have to do the hard work of looking for customers. For instance a beverage company can acquire or merge with another beverage company that may be relatively smaller to enable the acquired company to produce more and sell more to its loyal customers. Companies merge and make acquisitions because of diversification and/or sharpening business focus. For diversification, a company may merge with or acquire another company in a completely unrelated industry for the sake of reducing the impact of a particular industry's performance on its profitability. Also companies bent on sharpening business focus can merge with or acquire businesses/ companies that have a deep market penetration. Elimination of competition is another reason for mergers and acquisitions. Firms take this strategy to get rid of present and future competition by acquiring or merging with a major competitor. This increases market share substantially but it could lead to monopolization of an industry in some

instances (Michael & Duane, 2010, p. 253). Premium shares are a commonality so as to convince the shareholders of the acquired company to sell of their shares to the acquiring company. Another reason for acquisition and mergers is to increase the supply chain pricing power. This is achieved through the acquisition or merger with a distributor or a supplier of a certain company so that it can reduce and possibly eliminate some level costs. In terms of reducing costs, the firm can buy out its distributor and reduce freight charges or buy out its supplier to save up on the margins that the supplier use to add to their costs (Michael & Duane, 2010, p. 289).

REFERENCES

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