Vertical and horizontal mergers in apparel industry

Business

Vertical and Horizontal Mergers in Apparel Industry A merger is a company that is formed when two or more companies come together to form a single company. These companies that come together to form a single company may be dealing in the same line of products or different lines of products, but with a common finished product. If they deal in a similar line of product, a horizontal merger is formed. If they deal in different line of products but with a common finished product, a vertical merger is formed. In the illustrations below, the paper shall focus on vertical merger and a horizontal merger in the apparel industry.

To begin with a vertical merger, an analysis of study two clothing industries shall be done. That is the VF Corporation and the Timberland Company. The VF Corporation is an American clothing industry that deals in work wear, jeanswear, underwear and daypacks (De La Merced 1). On the other hand, the Timberland Company is equally an American retailer and wholesaler of outdoors wear, but with a focus on footwear. As it can be noticed, the two companies deal in different lines of product, but with a common finished product of outdoors wear (Carter 1).

In June 2011, the VF Corporation acquired the Timberland Company thus forming a vertical merger. The primary objective of this merger was to make the production process and the distribution process more efficient and cost effective. In the agreement, VF was confident of keeping Timberland going by adding Timberland’s strong brands to its brands. It estimated that by doing this, the annual growth for Timberland would be at least 10%.

Besides that, VF was confident that it would increase Timberland’s profit base in several ways. Such profitability and ease of operations was expected to bring changes to the management of their expenses to improve SG & A ratios. The merger also looked forward to improved management on their logistics to reduce sourcing costs and establishing positive customer relationships for them. Noticeable, all the approaches in improving Timberland's profitability by VF brings about cost effectiveness.

Secondly, the case study of horizontal mergers will also focus on two apparel industries: The Warnaco Group and the PVH Corporation. PVH Corporation is an American clothing firm that owns several brands. It also licenses particular clothing brands. The Warnaco Group is also an American clothing corporation owning diverse brands, just like PVH. The two corporations thus deal in a similar line of products (PVH Corp 1).

In February 2013, PVH acquired the Warnaco Group, thus forming a horizontal merger. The primary objective of a horizontal merger is to create economies of scale. In their agreement, PVH was sure that acquiring the Warnaco Group will give it more control over Calvin Klein- a clothing brand owned by the Warnaco Group. It is thus evident that by having more control over the brand, it shall have expanded its economies of scale.

Observably, the Calvin Klein clothing brand is initially owned by the two corporations. However, as competition stiffened and the companies strived to have a greater market share, a horizontal merger was seen as the best option (Carter et al. 1). It was expected to create about potentialities in gains from the market share. This is expected to trigger economies of scale in turn when the two firms operate as a knit, which reflects back to the key objective of a horizontal merger.

From the above case studies of the four apparel firms, we can conclude that mergers are important for businesses dealing in the same line of products. It can enable a collapsing company to continue with its operations and profitability. Similarly, it can increase the market shares of two independent companies if they operate as a single firm. Therefore, mergers are recommended for enterprises. It is a foundation to a strong business managed efficiently and effectively.

Works Cited

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