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Mergers and acquisition is one the strategies that many companies are using to help in strengthening their position in the market.

Globalization has facilitated this process where companies from any part of the world can easily come together to form a large global corporation. Companies are merging to benefit from capabilities and strengths of each other. This paper analyses a joint venture formed by coming together of Sony Corporation and Ericsson Telecommunication Company.

Historical Background

Sony Ericsson is a global company that was established in 2001 after the merger of Sony Corporation and Ericsson Telecommunication Company. Sony Corporation was a powerhouse for consumer electronics based in Japan and enjoyed a large market share in the global electronics' market. On the other hand, Ericsson Telecommunication Company based in Sweden was the market leader in making mobile communications devices. The two corporations were performing well separately but they realized they could do better by coming together to form a merger.

As noted by Gorton, Kahl, and Rosen, mergers will be more successful if the companies merging are well established in their industries (1291). Ericsson was a mobile company that dealt more with software while Sony Corporation mainly dealt with consumer electronics and by forming a joint venture, Sony Ericsson aimed to be the best mobile solution provider. The merger had great impact in the market and the coming together of the companies changed the market share in the mobile market (Chidambaran, John, Shangguan, and Vasudevan 327). The two companies had just finished making mobile phones on their own and after forming a joint venture, they can now make mobile phones together.

The main aim of coming together was to combine the technological leadership of the Ericsson in communication sector with the global skills in marketing of the Sony Corporation. The global management of the company is now based in London though it has many research and development branches based in other regions. After the merger, Sony Ericsson continued to grow and at the end of 2009, it was ranked the fourth largest mobile phone company in the world behind Nokia, LG, and Samsung. Currently, the corporation employs about 2500 contractors and 9400 employees worldwide. It has six different mobile phone products in the market viz. the walkman, the cyber-shot, Bravia, UIQ, XPERIA and the Greenheart. After the merger, Sony Ericsson started registering improved financial performance, which reached its peak in 2007 when the company registered a sale volume of 103. 4 million units.

However, the sale trend started to decline in the following years with a sale volume of 43. 1 million units in 2010.

Market definition

The largest market share Sony Ericsson has achieved since 2001 was in 2009 when the company was placed fourth in the world rankings. Nokia dominates the mobile market with 37.

8%, followed by Samsung with 21%, while LG comes third with 11%.

However, Sony Ericsson is ranked position one in the Nordic countries where it is followed by Nokia. In the market, Sony Ericsson mainly concentrates on the following areas, camera, music, business (email and web), all-rounder, design, budget focused, and eco-friendly phones. The six brands (Bravia, UIQ, Xperia, Greenheart, walkman and cyber-shot) offer all these services in different version. The company uses three methods to name their phone products. The mobile products are named using three, four, or five characters depending the time it is being released in the market.

Type of merger

Mergers and acquisition refers to the process where two or more companies come together to form one unit. Mergers can be friendly where the executives of the merging companies successfully work together to combine the two companies. The merging process can also be hostile where one company successfully buys majority shares in the other company.

In the case of Sony Ericsson, the merger was friendly since the executives of two companies successfully combined the two companies in 2001. The companies realized the potential they had when they combined their synergies and therefore showed the need of forming a merger. Mergers can also be categorized in three ways viz. joint venture, an alliance, or merger and acquisition depending with how the two companies come together.

The merger between Sony Corporation and Ericsson Company can be categorized as a joint venture. In a joint venture, two or more companies come together to accomplish a given economic activity. The two companies came together and decided to be creating units where both make their contribution in shares. This type of venture can be just for one project or it can be a long-term agreement like in the case of Sony Ericsson.

Analysis of the motive

The goal of every company is to increase its market share with the help of its executives. There are many reasons that motivate companies to come together depending with their nature. By coming together, the two companies pool their strengths and capabilities, which give them a competitive advantage in the market. For instance, Sony Corporation was a global leader in selling consumer electronic products while Ericsson was global leader in telecommunication devices.

By forming a joint venture, the two companies combined technological knowhow of the Ericson Telecommunication and the global market skills of the Sony Corporation. The two companies were able to access expertise and knowledge that is more than their own. The companies were mainly forming a joint venture to help them acquire customers and new technologies. Cornett, Mcnutt, and Tehranian indicate that, successful mergers will improve the performance of the new company (1013). Sony Corporation would benefit by accessing new technology from Ericsson while on the other hand, the Ericsson would benefit by acquiring new customers possessed by the Sony Corporation globally.

Another reason why the two companies formed a joint venture was to enable them to benefit from the economies of scale. Both companies were operating globally and therefore, their coming together meant benefits from large economies of scales in their operations. After merging, most of the objectives of two companies were realized. As Akdogu argues, forming mergers will help to maximize the value of the two companies (83). For almost eight continuous years after the merger in 2001, Sony Ericsson reported increased performance year after another.

The company attained a sale volume of 103. 4 million units in 2007, which could not have been attained if the companies never formed a merger. The strengths of the two companies were combined, which could be reflected in the increased financial performance of the Sony Ericsson. This has also contributed to the increased market of the company in the global market. Achievement of fourth position globally in 2009 demonstrated the benefits of forming a merger.

Other possible benefits of merger

The coming together of the two companies has also made possible to compete effectively in the global market. Hitherto, each company had its own advertising strategies but upon merging, these strategies were combined to attract more customers globally.

The customer base of the companies was also put together to enable the new corporation to enjoy greater market share. Other benefit that arises from large-scale productions has also contributed to the increased performance of the corporation.

Possible impacts of the market

Since 2008, the competition in the global mobile market has drastically increased thus reducing the market share of Sony Ericsson.

The sale volume of the company has also declined in the last two years. Prices of the mobile products are pushed down due to increased competition among the mobile phone manufacturing companies. Thus, the company has to look for other strategies that will help it to regain and increase its market share.

Conclusion

The merger of the Sony Corporation and Ericsson telecommunication company in 2001 has helped to improve the performance of the new corporation. The merger brought together new technology and customers who have helped to increase the market share of the new company.

The two companies have also benefited from economies of scale and combined resources for strategic marketing. However, Sony Ericsson performance has started to decline due to increased pressure in the mobile market, which has pushed the prices down. Thus, it is important for the corporation to look for other strategies to retain and increase its market share but with the heights that the merger has scaled in the past, the probability that it will turn around events and compete effectively in the coming days.

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