Mergers and Multinationals

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Merger

- The corporate combination of two or more independent business corporations into a single enterprise. A merger is usually the absorption of one or more firms by a dominant one. A merger may take place by one firm purchasing the other's assets with cash or securities, by buying the other's shares or stock, or by issuing its stock to the other firm's stockholders in exchange for their shares in the acquired firm, acquiring the other company's assets and liabilities.

Multinational

- A corporation that is registered in more than one country or has operations in more than one country.
Multinationals are large corporations which produces and sells goods or services in various countries.

Types of Mergers

- There are five common types of mergers.
- Conglomerate merger, horizontal merger, market extension merger, vertical merger and product extension merger.
- The term chosen to describe the merger depends on the economic function, purpose of the business transaction and relationship between the merging companies.

Conglomerate Merger

- Occurs between two firms that have completely unrelated businesses.
- In a conglomerate, no one business earns the majority of the firm's profits. The government usually allows this kind of merger, because it does not result in decreased competition.
- Two types: pure and mixed.
- Pure conglomerate mergers involve firms with nothing in common.
- Mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

Conglomerate Merger

- Example: A leading manufacturer of athletic shoes, merges with a soft drink firm. The resulting company is faced with the same competition in each of its two markets after the merger as the individual firms were before the merger.

- One example of a conglomerate merger was the purchase of the American Broadcasting Company by the Walt Disney Company for $19 million in 1995.

Horizontal Merger

- Occurs between two companies in the same industry.
- A business consolidation that occurs between firms who operate in the same space, and happen often as competitors offer the same good or service.
- They are common in industries with fewer firms.
- The goal of a horizontal merger is to create a new, larger organization with more market share.
- Meaning that two firms might choose to merge if the newly resulting firm would result in economies of scale or would otherwise improve efficiency.

Horizontal Merger

- Example: a merger between the Coca-Cola and Pepsi would be horizontal because of their product field.

Market Extension Merger

- This type of merger takes place between two companies that deal in the same products but in separate markets.

- The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market that ensures a bigger client base.

Market Extension Merger

- Example: the RBC Centura company acquired Eaglebancshares, a Georgia company that at the time had 283 workers, almost 90,000 accounts and assets worth US $1.1 billion. The company also held the Tucker Federal Bank, which is one of the ten biggest banks in the metropolitan Atlanta.

- One of the major benefits of this acquisition is that this acquisition enables the RBC to go expand its growth operations in the North American market.

Product Extension Merger

- Occurs between two business organizations that deal in products that are related to each other and operate in the same market.
- Allows the merging companies to group together their products and get access to a bigger set of consumers.
- This ensures that they earn higher profits.

Product Extension Merger

- Example: The acquisition of Mobilink Telecom Inc. by Broadcom. Broadcom manufactured Bluetooth personal area network hardware systems and chips.

- Mobilink Telecom Inc. manufactured product designs meant for handsets that are equipped with communication technology.

- The products of Mobilink Telecom Inc. would be complementing the wireless products of Broadcom.

Vertical Merger

- A merger between two companies producing different goods or services for one specific finished product.
- A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain
- A vertical merger can allow a form to operate more efficiently. It can control all phases of production, rather than rely on the goods or services of outside suppliers. Antitrust regulators become concerned when many firms in the same industry merge vertically if that merger drives supplying firms out of business.

Vertical Merger

- An automobile company joining with a parts supplier would be an example of a vertical merger. It would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division would then be guaranteed a steady stream of business.

Types of Multinationals

- There are five types of multinational businesses.
- Franchises, branches, subsidiaries, joint venture, and turn key projects.

Franchise

- Multinational corporations grant firms in foreign countries the right to use its trade marks, patents, brand names etc.
- The firms get the right or license to operate their business according to the terms and conditions of franchise agreement. They pay royalty or license fee to multinational corporations.
- This system is popular for products which enjoy good demand in host countries.

Franchise

- Examples of franchises in multiple countries are McDonalds, Starbucks and Pizza Hut.

Branches

- Branches work under the direction and control of a head office. The headquarters frames policies to be followed by the branches. Every branch follows laws and regulations of the head office and host countries.

Subsidiary

- Subsidiaries in foreign countries follow the polices laid down by holding company (Parent company).
- A multinational company can expand its business operations though subsidiaries all over the world.

Joint Venture

- The multinational business would share the ownership and control of the business.
- Generally, the multinational provides technology and managerial skill and the day to day management is left to the local partner.

Joint Venture

- For example the Government of India and Suzuki of Japan have jointly supplied capital. Suzuki supplies technology and the day to day management lies with the Government of India.

Turn Key Project

- The multinational corporation undertakes a project in a foreign country. The multinational constructs and operates the industrial plant by itself. It provides training to the staff in the operation of plant.

- It may also guarantee the quality and quantity of production over a long period of time.

Advantages of Mergers

- 1. Mergers are undertaken to improve long-term shareholder value and overall company performance.
- 2. A merged company can reduce many of its expenses. Budgets for things like marketing might be trimmed, while the new, larger company enjoys greater purchasing power, which lowers the costs of raw materials and other necessities.
- 3. Access to more costumers.
- 4. Mergers also reduces the number of competition in the market and captures additional economic scales of the market. This will keep the company growth with the amalgamation of the competitive advantages of both firms.

Disadvantages of Mergers

- 1. More often than not, a merger results in staff layoffs as positions become redundant in the new single entity.
- 2. A merger must be approved by votes of the stockholders of each firm.
- 3. Merger also may be creating a conflict of objective between different businesses, meaning decisions are more difficult to make and causing disruption in running of the business.

Advantages of Multinationals

- 1. MNC's create opportunities for marketing the products produced in the home country throughout the world.
- 2. They create employment opportunities to the people of home country both at home and abroad.
- 3. It gives a boost to the industrial activities.
- 4. MNC's help to maintain favorable balance of payment of the home country in the long run.
- 5. Home country can also get the benefit of foreign culture brought by MNC's.

Disadvantages of Multinationals

- 1. MNC's transfer the capital from the home country to various host countries causing unfavorable balance of payment.
- 2. MNC's may not create employment opportunities to the people of home country if it adopts geocentric approach.
- 3. As investments in foreign countries is more profitable, MNC's may neglect the home countries industrial and economic development.

Statement

- Mergers and multinationals are most effective for big, powerful business. They work best if your business has grown and reached the top, and are most successful when companies merge with other companies that benefit them.
- We would choose these forms if our business was large enough to buy out another business, so that our business would be the main controller.