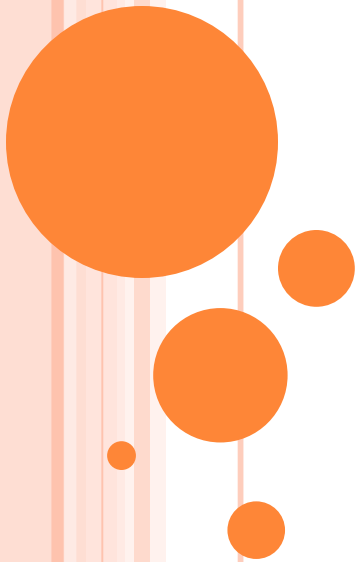


MERGERS

Meaning of mergers and types



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MEANING OF MERGER

- A merger involves a combination of two firms such that only one firm survives. Mergers tend to occur when one firm is significantly larger than the other and the survivor is usually the larger of the two. A merger can take the form of:



TYPES OF MERGERS

- Horizontal Merger
- A combination of two oil companies or two automobile companies, for example , would represent horizontal mergers. Horizontal mergers are those mergers where the company is manufacturing similar kinds of commodities or running similar types of business merge with each other . The principal objective behind this type of mergers is to achieve economy of scale in the production procedure through carrying off duplication of installations , services and functions , widening the line of products, decrease in working capital and fixed assets investments, getting rid of competition, minimizing the advertising expenses, enhancing the market capability and to get more dominance on the market.



VERTICAL MERGERS

- Vertical merger involves two firms engaged in different stages of production of the same end product or related end product. Vertical mergers refer to a situation where a product manufacturer merges with the supplier of inputs or raw materials. It can also be a merger between a product manufacturer and the product's distributor.
- Vertical mergers may violate the competitive spirit of markets. It can be used to block competitors from accessing the raw material source or the distribution channel. There are multiple reasons, which promote the vertical integration by firms.



MERGERS

- This type of merger involves two firms in unrelated business activities. As per definition, a conglomerate merger is a type of merger whereby the two companies that merge with each other are involved in different sorts of business. The important of the conglomerate mergers lies in the fact that they help the merging companies to be better than before.
- Types of conglomerate mergers. There are two main types of conglomerate mergers – the pure conglomerate merger and the mixed conglomerate merger. The pure conglomerate merger is one where the merging companies are doing businesses that are totally unrelated to each other.



A CONSOLIDATION AND A JOINT VENTURE

- A consolidation involves the creation of an altogether new firm owning the assets of both of the first two firms and neither of the first two survives. This form of combination is most common when two firms are of approximately equal size.
- A joint venture, in which two separate firms pool some their resources, is another such form that does not ordinarily lead to the dissolution of either firm. Such ventures typically involve only a small portion of the cooperating firm. Overall businesses and usually have limited lives.

