Name: Sarishma Bhandari
Roll no: 10311708 6
Date: 07/05/2021

Mergers.

→ A merger is an agreement that unites two existing companies into one new company. It is a corporate strategy of combining companies so they can operate as a single legal entity. Companies agreeing to mergers are typically equal in terms of size and scale of operations. Companies seek mergers to gain access to a larger market and customer base, reduction of competition and achieve economies of scale.

In India, Vodafone-Idea merger is one of the succesful mergers. It is the third largest mobile telecommunications network in India and the 7th largest mobile telecommunications network in the world.

After the merger, companies will secure more resources and the scale of operations will increase. Sometimes, companies may undergo a merger to benefit their shareholders. The existing shareholders of the original organizations receive shares in the new company after the merger. Companies agree for mergers to enter new markets or diversify their offerings of products and services, consequently increasing profits. Mergers also take place when companies want to acquire assests that would take time to develop internally. To lower the tax liability, a company generating substantial taxable income may look to merge with a company with significant tax loss carry forward. A merger between companies will eliminate competition among them, thus reducing the advertising price of the products. In addition, the reduction in prices will benefit customers and eventually increase sales. Mergers may also result in better planning and utilization of financial resources.

There are different types of mergers. Some of them are briefly explained below,

1) Congeneric / Product extension merger: Mergers happening between companies operating in the same market.

2) Conglomerate merger: Merger happening between companies operating in unrelated companies. This happens only when the union increases wealth of shareholders.

3) Market extension merger: Companies operating in different markets but selling the same products merge.

4) Horizontal merger: Companies operating in markets with fewer such businesses merge to gain a larger market. It is a consolidation of companies selling similar products or services.

5) Vertical merger: A vertical merger occurs when companies operating in the same industry, but at different levels in the supply chain, merge.

Thus, there are numerous advantages of mergers. It increases market share, reduces cost of operations, expands business into new geographic areas, prevents closure of an unprofitable business.

Like a two sides of a coin, there are some major disadvantages that comes along merging two companies. Some of them are listed below;

- it raises prices of products or services
- creates unemployment
- creates gaps in communication
- prevents economies of scale.