Chapter 7 Inorganic growth

Key terms

1. Acquisition: the purchase of one company by another.
2. Backward vertical integration: joining with a business in the previous stage of production.
3. Conglomerate: a very large single business organization made up of many different businesses producing unrelated products.
4. Forward vertical integration: joining with a business in the next stage of production.
5. Globalisation(of a market): where markets become so large that products cloud be sold anywhere in the world.
6. Horizontal integration: the joining together of two businesses as a result of merger or takeover.
7. Merger: occurs when two or more business join together and operate as one.
8. Regulatory intervention: control by the relevant authorities such as the Competition Commission
9. Synergy: the combining of two or more activities or businesses which creates a better outcome then the sum of the individual parts.
10. Takeover: the process of one business buying another.
11. Vertical integration: the joining of two businesses at different stages of production.

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- **Integration;** the joining together of two businesses as a result of a merger or takeover.
- **Merger;** occurs When two or more businesses join together and operate as one.
- **Takeover;** the process of are business buying another.

<u>Reasons for mergers and take over</u>

1. To exploit the synergies that might exist following a merger and takeover.
2. It is a quick and easy way to expand the business.
3. Buying another business is often cheaper than growing internally.
4. Some businesses have cash available for buying another business.
5. Merging to become large form in order to avoid being taken over.
6. Merging with a business in a different country is are way to avoid tariff and trade barrier.
7. Globalisation of markets has encouraged merger between foreign businesses.
8. A business wants to gain economies of scale.

2. External growth/inorganic growth : when firms acquire another business.

1.) Horizontal integration: A firm merges with another firm which is in the same stage and industry eg. two car manufacturers merge

2) Vertical integration : when a firm merges with another firm in different stage of production

2.1) Backward vertical integration :

↳ A firms merge with another firm within the earlier stage or supplier of raw material

↳ e. g. coffee manufacturing & coffee farm.

2.2) forward vertical integration:

↳ A firm merges with another firm in the next stage which is closer to consumers

↳ e.g. coffee manufacturing & coffee shop

3.) Conglomerate merger:

↳ The merger if two firms which make different products

↳ e.g. coffee manufacturing merges with hotel

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Financial risks and rewards

1. Financial reward; firms decide to join together in order to improve the financial strength of a business and make more money.

Financial reward;

1.) Stakeholder benefits; increasing in share price after merge, higher dividend

2.) Stronger balance sheet; more assets

3.) Lower costs from economies of scale.

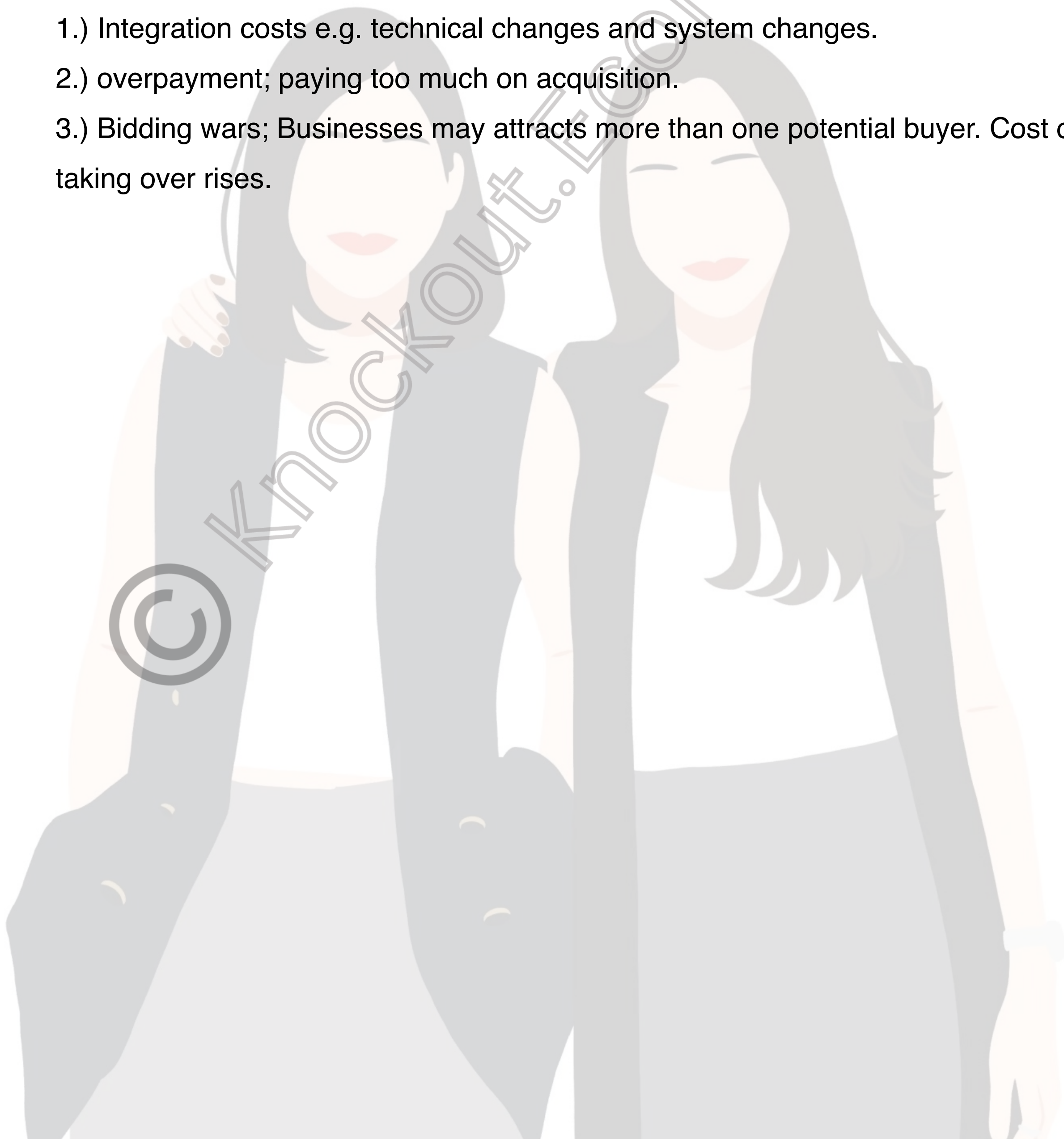
4) Lower taxes ; when taking over a business located in a low-tax country.

Financial risk; if firms go wrong it can cause negative long-term financial impact.

1.) Integration costs e.g. technical changes and system changes.

2.) overpayment; paying too much on acquisition.

3.) Bidding wars; Businesses may attracts more than one potential buyer. Cost of taking over rises.



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