P-Glossary

Merger

In general, a merger is a combination of two companies to form a new one. Such actions are commonly voluntary and can involve stock swaps or cash payments to the target company. A stock swap is often used as it allows the shareholders of the two companies to share the risk involved in the deal. A merger can resemble a takeover but result in a new company name, which may combine the names of the original companies, and in new branding. In some cases, terming the combination a "merger" rather than an acquisition is done purely for political or marketing reasons.

Mergers and acquisitions (M&As) are increasingly becoming an important strategy in the corporate world to enhance shareholder value. Often M&As are undertaken by companies for eliminating inefficiencies, expanding their operations into new geographic areas, increasing their productivity and profitability, and for increasing market share. Although not all M&As are successful, in theory it is believed that mergers create synergies and economies of scale by expanding operations, cutting costs, and raising productivity. Companies can benefit from M&As in a number of ways. With greater economy of scale, a combined company can often reduce duplicated departments or operations, lowering the costs of the company relative to the revenue stream and thus increasing productivity and profit. By buying other companies with unique technologies, a large company can maintain or develop a competitive edge. Companies buy other companies to reach new markets and grow revenues and earnings. A merger may expand two companies' marketing and distribution reach, giving them new sales and growth opportunities. A merger can also improve a company's standing in the investment community as bigger firms often fare better in raising capital than smaller ones. Finally, assuming that a company will be absorbing a major competitor, it can significantly increase its market power.
