Merger Examples

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Co-op buys Somerfield for £1.57bn

The Co-operative Group (Co-op), the UK's fifth largest supermarket chain, has agreed to buy rival Somerfield.

The Co-op said the £1.57bn ($3.1bn) purchase would strengthen its position in the UK retail market.

Co-op boss Peter Marks says the deal will provide "rocket fuel" for the firm

Manchester-based Co-op, a mutual group run on behalf of its 2.5 million members, also said the deal was done on a cash-free and debt-free basis.

With more than 4,300 UK retail outlets, it employs 85,000 people. Bristol-based Somerfield has about 900 stores.

The latest figures from research firm TNS, show that in the 12 weeks to the middle of June, the Co-op had 4.4% of the UK grocery market, and Somerfield 3.7%.

Stores sell-off?

Somerfield is owned by a consortium that includes private equity firm Apex, Barclays Capital and property magnate Robert Tchenguiz.

They bought the chain for about £1.1bn three years ago.

Somerfield was put up for sale in January and the Co-op first expressed an interest in a possible purchase in April

SUPERMARKET SHARE

- Tesco: 31.2%
- Asda: 16.8%
- Sainsbury's: 15.9%
- Morrisons: 11.4%
- Total Co-ops: 4.2%

This is a Horizontal example of a merger because Co-op are at the same level of production as Somerfield but the co-op have decided to buy Somerfield so the businesses can produce more products and create a better profit as a whole. The companies can increase their market shares and earn more money for the business.

Co-op has been told to sell some of the stores it has purchased with Morrison's, Waitrose and Iceland because it has interested parties.

The firm have also confirmed that they aim to double their profits over the next three years by merging their companies together. The idea of the merge is so the company can provide "rocket fuel" for the firm, which, in other words means that they can make more money by combining their products and making the company as one big store.

<u>Economies of Scale</u>

- *Purchasing economies* – co-op would be able to buy their food and supplies in bulks so that everything would be cheaper and then the company could produce more of a profit.
- *Marketing economies* – the company can afford better advertisement and as shown on television the adverts show how co-op and Somerfield have now come together across Britain and this is done for more opportunities to target customers.
- *Managerial economies* – the companies top managers can come together to discuss what needs to be done with the store now that they are only one business. They can choose one main manager to completely make decisions but it would need to be discussed with other important managers.
- *Financial economies* – the company will have more money available to negotiate financial terms, and they can then understand what the usage of the money will be for.

<u>Diseconomies of Scale</u>

- *Decision making* – now that the companies have expanded, it takes time to make decisions and things will run slowly. Now, if there is a sudden change in the business market then there will be missed opportunities for the company because making the decisions will have to have more thought and take longer to conduct.
- *Managerial* – both managers could argue with each other there would be conflict as the two of them don't seem to get along and run the business together. If this was to occur the business wouldn't do so well and the company could become damaged and not run as smoothly as it should be.
- *Communication* – with the business now bigger it would be difficult to communicate with one another, and other people within the business. Once receiving the information it would be difficult to respond quickly.