



UNDERSTANDING HORIZONTAL MERGER VS. VERTICAL MERGER

Dr. Chandrashekar M Mathapathi* **Miss. Prerana M****

**Assistant Professor Karnataka State Akkamahadevi Women's university, Department of PG Studies and Research in Management, Jnanshakti Campus, Torvi, Vijayapura, Karnataka – 586108.*

***Research Scholar Karnataka State Akkamahadevi Women's University, Department of PG Studies and Research in Management, Jnanshakti Campus, Torvi, Vijayapura, Karnataka- 586108.*

What Is a Horizontal Merger

A horizontal merger is a merger or business consolidation that occurs between firms that operate in the same industry. Competition tends to be higher among companies operating in the same space, meaning synergies and potential gains in market share are much greater for merging firms. This type of merger occurs frequently because of larger companies attempting to create more efficient economies of scale. Conversely, a vertical merger takes place when firms from different parts of the supply chain consolidate to make the production process more efficient or cost-effective.

Key Take aways

1. Horizontal mergers occur when companies of the same industry merge.
2. They often result in a way to eliminate competition by creating one powerful company instead of two competitors.
3. Horizontal mergers can greatly increase revenues, as the combined companies have access to a greater variety of products or services.

How Horizontal Mergers Work

A horizontal merger can help a company gain competitive advantages. For example, if one company sells products similar to the other, the combined sales of a horizontal merger will give the new company a greater share of the market.

If one company manufactures products complementary to the other, the newly merged company may offer a wider range of products to customers. Merging with a company offering different products to a different sector of the marketplace helps the new company diversify its offerings and enter new markets.

Horizontal Merger vs. Vertical Merger

The main objective of a vertical merger is to improve a company's efficiency or reducing costs. A vertical merger occurs when two companies previously selling to or buying from each other combine under one ownership. The businesses are typically at different stages of production. For example, a manufacturer might merge with a distributor selling its products.

A vertical merger can help secure access to important supplies and reduce overall costs by eliminating the need for finding suppliers, negotiating deals, and paying full market prices. A vertical merger can improve efficiency by synchronizing production and supply between the two companies and assuring the availability of needed items. When companies combine in a vertical merger, competitors may face difficulty obtaining important supplies, increasing their barriers to entry and potentially reducing their profits.



Example of Horizontal Merger and Vertical Merger

Horizontal Merger

In September 2022, Adobe acquired Figma, a leading web-first collaborate design platform. According to Adobe, the combination of the two firms would "usher in a new era of collaborative creativity. At the time of the merger, Figma's mission was to pioneer product design solutions on the web. Though Adobe also interacted with the digital experiences sector, the company's business was a bit different. Figma was specially for web and app design, while Photoshop could only design these as prototypes. By combining companies, Adobe gained access to a previously inaccessible market.

Vertical Merger

TD Bank and First Horizon In January 2022, Microsoft announced the acquisition of Activision Blizzard. Microsoft was already owner of the successful Xbox brand; the acquisition poised Microsoft to further deliver and reap benefits from providing strong, exclusive content to video games. Much like a manufacturer acquiring a supplier, Satya Nadella stated that Microsoft was investing in Activision Blizzard "to usher in a new era of gaming that puts player and creators first and makes gaming safe, inclusive, and accessible for all." The deal would boost Microsoft's Game Pass portfolio by providing subscribers stronger, more diverse content. Note that as of July 2023, the acquisition has yet to secure FTC approval.

Special Considerations

A horizontal merger of two companies already excelling in the industry may be a better investment than putting a lot of time and resources into developing the products or services separately. A horizontal merger can increase a company's revenue by offering an additional range of products to existing customers.

Horizontal mergers lead to fewer options for consumers to choose from.

The business may be able to sell to different geographical territories if one of the pre-merger companies has distribution facilities or customers in areas not covered by the other company. A horizontal merger also helps reduce the threat of competition in the marketplace. In addition, the newly created company may have greater resources and market share than its competitors, letting the business exercise greater control over pricing.

What Are Some Potential Drawbacks of Horizontal Mergers

Horizontal mergers can lead to reduced competition, which may result in higher prices, decreased innovation, and fewer choices for consumers. Additionally, integrating two companies with different corporate cultures and operations can pose social challenges, and there may be regulatory scrutiny to ensure the merger does not harm competition.

How Do Horizontal Mergers Affect Market Competition

Horizontal mergers can have a significant impact on market competition. By reducing the number of competitors in the industry, the merged entity may gain increased market power, potentially leading to higher prices, reduced product differentiation, and limited choices for consumers. Regulatory authorities often assess the potential effects on competition before approving horizontal mergers to ensure they do not create monopolistic or anti-competitive market conditions.



Can Vertical Mergers Benefit Small Businesses

Vertical mergers can have mixed effects on small businesses. On one hand, small businesses may benefit from increased access to distribution channels or improved relationships with larger vertically integrated companies. However, vertical mergers can also create challenges if small businesses face increased competition or encounter barriers to accessing certain markets controlled by the merged entity.

Do Vertical Mergers Encourage Innovation

Vertical mergers can have both positive and negative effects on innovation. On one hand, integrating different stages of the value chain may foster collaboration and information sharing, potentially leading to improved product development and innovation. On the other hand, vertical mergers can reduce the incentive for companies to innovate if they gain significant market power and face less competitive pressure.

Conclusion

Horizontal mergers involve the combination of companies operating in the same industry and at the same stage of the production or distribution process. These mergers aim to increase market share, eliminate competition, and achieve economies of scale. On the other hand, vertical mergers involve companies operating at different stages of the production or distribution chain. They integrate either with suppliers (backward integration) or customers (forward integration) to streamline operations, gain control over the value chain, and potentially achieve cost savings and synergies.

References

1. Buy, Trade, and Hold 350+ Cryptocurrencies.
2. Join 120 million registered users exchanging the world's most popular cryptocurrencies. Purchase and trade Bitcoin, Ethereum, or BNB, Binance's native coin. Whether you're a beginner trader, crypto enthusiast, or professional, you'll benefit from access to the global crypto markets while enjoying some of the lowest fees in the business. Plus, tools and guides that make it easy to safely and securely sell, buy and convert NFTs on the Binance app.
3. Investopedia requires writers to use primary sources to support their work. These include white papers, government data, original reporting, and interviews with industry experts. We also reference original research from other reputable publishers where appropriate. You can learn more about the standards we follow in producing accurate, unbiased content in our editorial policy.
4. Whole Foods Market. "Amazon to Acquire Whole Foods Market."
5. L3Harris. "Harris Corporation and L3 Technologies to Combine in Merger of Equals."