FACULTY OF JURIDICAL SCIENCES

Lecture-37

Business Combination

A business combination is a transaction in which the acquirer obtains control of another business (the acquire). Business combinations are a common way for companies to grow in size, rather than growing through organic (internal) activities. Combinations can be used to rapidly acquire market share, fill out product lines, and gain access to new markets.

A business is an integrated set of activities and assets that can provide a return to investors in the form of dividends, reduced costs, or other economic benefits. A business typically has inputs, processes, and outputs. A development-stage entity may not yet have outputs, in which case you can substitute other factors, such as having begun operations and having plans to produce output, and having access to customers who can purchase the outputs.

A business combination is not the formation of a joint venture, nor does it involve the acquisition of a set of assets that do not constitute a business.

A business combination is essentially an event or transaction where an acquirer acquires control of either one or over one business. Further, a business can be defined as a set of integrated assets and activities which are capable of being managed and conducted with an intention of offering a return to the investing members or other participants, owners and members. Generally, business combinations refer to transactions in which one company gains control, or at least controlling interest, in another company. A business combination can be aptly defined as amalgamation of the assets of two or more business entities for their consolidation as a single entity under single ownership. A business combination can be managed easily through the way of a voluntary acquisition, a merger, or a hostile takeover. In many cases, a preferred means of managing a business combination might be acquiring a controlling amount of stock.

A very common approach to business combinations is merger. As per this particular model, two entities operating in similar area combines their assets with an intention to set up a new entity, which is very strong and efficient in handling competition than would they could have accomplished on their own. Such a merger enables a the newly formed entity in retaining existing customers whereas it also gets an opportunity to position itself in a manner that it is able to acquire new customers.

Types of Business Combinations

Business combinations can be categorized into the following four types:

1**. Vertical combination**

This is a business combination wherein various departments of large industrial units come together under single management. Under this business combination all the stages, from purchase to selling of product, are linked by units. The key objectives of a vertical combination include:

i. minimizing the per unit cost
ii. Elimination competition
iii. Hiring the experts' services
iv. Supplying goods at lowest prices
V. avoiding over production
vi. Improving production methods
vii. Achieving large scale benefits
viii. Finding proper market for their product
ix. Supervising the management
X. reducing the middleman commission
xi. Earning maximum profit

2. **Horizontal combination**

Also referred as voluntary combination, it is an association of two or more business units of same nature under a single management. Both the business units involved in combination are engaged in same activity and their combination is, therefore, referred as horizontal combination. The key objectives of this business combination are the same as those of a vertical combination.

3**. Circular combination**

This business combination type involves different business units coalesce themselves under a single management. For instance, a shoes industry combining with cloth and sugar industry exemplifies mixed combination. The key objective of this benefit is securing the benefits of administrative ability by the way of common management.

4. **Diagonal combination**

A diagonal business combination involves two or more business entities performing subsidiary services combining themselves under a single management. The key objective of this amalgamation is making the business unit large and self sufficient.