

5. Difference Between Merger and Acquisition



Legal Structure Differences

- Mergers and acquisitions pursue different strategies despite producing similar economic outcomes.
- A merger combines 2 companies into 1 legal entity.
- One company survives and continues all operations.
- The other company dissolves and transfers assets, liabilities, and obligations.
- Shareholders receive shares in the combined entity using an exchange ratio.
- An acquisition preserves separate legal entities.
- The buyer purchases the target and operates it as a subsidiary.
- The target retains corporate structure, management, and brand identity.
- The buyer becomes the parent company with full ownership and control.



When Companies Choose Mergers

- Mergers work best when operational combination creates immediate synergies.
- Same-industry companies merge to achieve economies of scale.
- Eliminating duplicate functions reduces procurement, manufacturing, and distribution costs.
- Exxon and Mobil merged to consolidate refineries and distribution networks.
- The merger structure forces full integration to capture efficiencies.



When Companies Choose Acquisitions

- Acquisitions preserve independence when separation creates greater value.
- Companies keep acquired businesses separate to protect brand identities.
- Procter and Gamble acquired Gillette but retained the Gillette brand.
- Acquisitions suit unrelated businesses where integration adds little value.
- Conglomerates like Berkshire Hathaway acquire firms and operate them autonomously.
- Separate subsidiaries reduce cultural conflict and preserve target value.



Control and Integration Speed

- Mergers require coordination between 2 management teams before decisions.
- Shared governance slows integration and increases organizational complexity.
- Acquisitions grant buyers immediate control and decision authority.
- Buyers implement changes faster without negotiating with target management.

