

Effects on customers' and suppliers' due to mergers and acquisitions

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Abstract

Mergers and acquisitions appear to be relatively frequent phenomena in business life today. Also co-operative strategies such as partnerships are claimed to be of high strategic importance. From the media you almost daily hear or read about acquisitions and mergers between large companies. Very rarely though are the effects on the companies connected to the merging parties, such as customers and suppliers, reported on.

Since the focus normally is on the merging and acquiring companies it would be interesting to study the effects that mergers and acquisitions have on connected companies. How do these effects appear, and are there any changes e.g. in sales volume, turnover or market share? Do connected companies take any particular actions due to the merger or acquisition, one possible action being the initiation of other mergers or acquisitions. The higher concentration resulting from mergers and acquisitions means fewer actors and this could lead to higher entry barriers for new companies.

The aim with the paper is to discuss the possible effects on connected companies consequent on a merger or an acquisition and to find interesting fields to continue with in a case study. This paper is conceptual in aiming to develop a framework and method to study such effects empirically.

1. Introduction – Illustrating the area of mergers and acquisitions.

It is not only that mergers and acquisitions occur more frequently today, but also alliances and co-operative strategies, are of greater strategic importance and more common than earlier (Axelsson, 1992 and Bengtsson et.al, 1998). There are surveys showing a yearly growth rate of 20 percent by the end of the 1980's to be compared with 5 percent at the beginning of the 1990's (Bengtsson et.al, 1998).

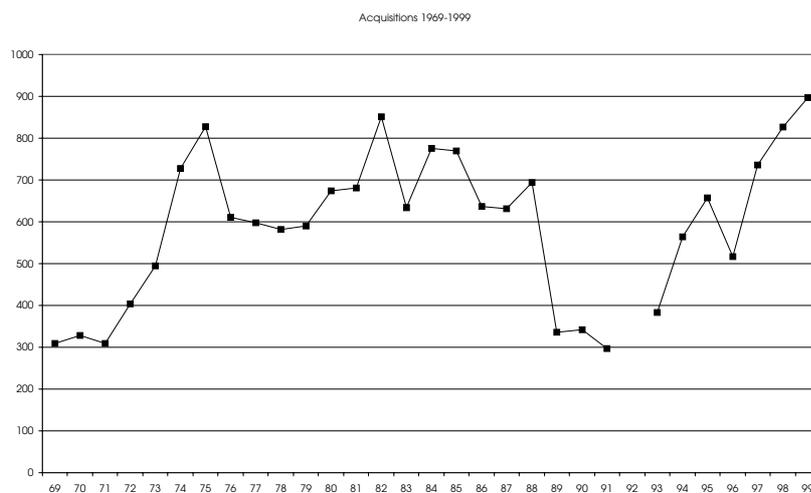


Figure 1: Acquisitions in Sweden 1969-1999, 1992 is a missing value, SPK (1983-1991), Förvärv & Fusioner (1993-1997) and Näringsliv (1999).

In Figure 1 the levels of acquisitions in Sweden between 1969-1999 are shown. During the 1970's and 1980's the levels of acquisitions were quite steady, between 600 – 800 acquisitions a year, with a few exceptions, and from 1994 returning to that level after a drop at the beginning of the 1990's. Between 1990 and 1998 there were more than 11,000 mergers in Sweden, most of the mergers were carried out between 1993-1996. Some of these mergers can be explained because of changed tax regulations, but not all. These figures, both for acquisitions and mergers, indicate a frequently recurring phenomenon¹. Almost 900 acquisitions in 1999 add up to nearly three acquisitions per working day. Support for this high frequency in business today is also found in reports from The Swedish Competition Authority (SPK) and the following figures give us some indication of its importance:

”During the period 1971-1988, almost 12,000 Swedish companies were taken over, involving more than 1.25 million employees in the acquired companies, a number corresponding to almost 40 per cent of the labour force in the Swedish commercial sector at that time.” (Bild, 1998, p 1)

The phenomenon is not only domestic but also appears when companies establish themselves in foreign countries:

”The number of acquisitions of foreign production companies has been steadily rising since 1970, and for many firms acquisitions seem to be far more common than new production.” (Forsgren, 1990, p 116)

1.1 Why merge or acquire?

Reasons for a company to engage in strategic alliances are, according to Bengtsson et.al (1998) and Axelsson (1992), to reduce risk and increase company effectiveness in both production and distribution, i.e. rationalization/economies of scale. Further reasons to strengthen market positions are co-operation in technological development and R&D. There is a need to share development resources with a partner for financial reasons and also to create a better environment for development. It is also, as Bengtsson et.al (1998) say, important to collaborate in order to set standards, which facilitates the effort to reach a stronger position.

One interesting field to study would be to further explore why companies merge or acquire other companies, although this will not be in focus here. In general I believe that companies' efforts to be involved in such activities could among other things be to strengthen their market position, increase company growth in present and developing markets, and diversification – developing into new businesses. There are many reasons for mergers or acquisitions but one thing is probably certain, remembering the figures presented about the frequency, mergers and acquisitions affect not only the two focal companies but also connected ones, e.g. customer and suppliers. The effect that the focal company directly causes could be higher entry levels in the business for new companies.

The effect that a merger or an acquisition has on the network, i.e. companies and organizations in the surrounding environment, might mean that the co-operation between the 'new' company and their former customers and suppliers will be either stronger or weaker than before. How do they experience their new situation and what action do they take? Effects like this are interesting to study and will be discussed later in the paper.

After this introduction the importance of the focus to customer and suppliers is discussed. Thereafter the connection to and relationships within the network will be discussed and also what happens with the network and those relationships within it. This paper constitutes the

¹ There are different types of mergers and acquisitions, this will be discussed later in the paper.

start of a research project into the effects on connected companies of merging or acquiring companies. The aim with this paper is to design a framework and a method to study the effects on connected companies, and accordingly one part of the paper will be formed around questions to be studied in a survey involving merged and affected companies. In the last section of the paper I try to explain what I think the most interesting problems are and how to continue with a study of the phenomenon.

2. Many connected companies

Considering the numbers of mergers and acquisitions that have appeared in Sweden as described in the above section, you might think that 800 acquisitions a year in Sweden with hundreds of thousands companies registered, is nothing to bother about. Is it at all interesting to study this area? This is, however, a relevant question and in the effort to convince you of its importance, an illustrative example will be given.

Take these 800 acquisitions, at least two companies per acquisition are involved, i.e. a minimum of 1,600 companies. Håkansson (1994) found that the 10 largest customers and suppliers accounted for about 70 percent of products purchased and sold. Consider this. These 1,600 companies have 10 customers and 10 suppliers meaning that they have important relationships with at least 32,000 companies. This is only the first tier, and then you can consider the second and third ones i.e. customer's customers and supplier's suppliers. This example just illustrates the number of companies that might be involved. I have not focussed on the size the companies are in terms of sales, the number of employees etc.

For every acquisition there are, as shown above, connected companies that must experience the world around them in a different way. Some of the suppliers might have been major suppliers to both companies, and this acquisition results in that they now have only one customer instead of two. Customers to the two companies may also have been purchasing from both companies before and now it is only possible to buy from one? How will this effect the future business in terms of negotiations, prices, staff etc?

It is also important to consider effects from the perspective of how closely the customers and suppliers have been working together with the focal companies. Håkansson (1990) found that 75 % of the collaborative work in technological development is undertaken together with customers and suppliers. This strengthens the assumption that the companies facing a merger or an acquisition will be affected, react and maybe take some action.

Action taken by the acquiring companies can be due to a number of reasons, as mentioned above e.g. strengthening their position. It is then likely to assume that their connected companies will first react and consequently this reaction leads the focal company to take some action. It is my belief that some action will be taken due to the acquisition. However it could very well be that the company does nothing at all i.e. acts just as before the acquisition. These actions and possible reactions could of course depend on what kind of merger or acquisition it is. This will be discussed later on in the paper.

Customers and suppliers to merging or acquiring companies must be studied since the phenomena of mergers and acquisitions so frequently occurs. Since these are frequent phenomena, as well as the fact that many large companies are involved, it is interesting to see what if any effect these have on connected companies. Not only customers and suppliers will be effected but most probably also rivals to the merging and acquiring firms.

3. Network relations and connectedness

Companies interact with a market because they have something that is required by other actors in the market and/or they interact with the market because they need something provided by other actors in the market. Companies cannot act as isolated units (Håkansson and Snehota, 1989).

“A company has relationships mainly with two types of units: actors that act as resource providers (suppliers of different kinds) and actors using a resource (customers of products or services) provided by the company.” (Håkansson, 1994, p. 343)

To be able to understand business relationships there must be a focus on the context in which companies operate, as shown in Figure 2. The context for two companies in a focal relationship is to be found in the parties connected to the focal firms, who are described as the respective companies’ suppliers and customers, and third parties in common (Anderson, Håkansson and Johanson, 1994). The importance of this is further stated as follows:

”In business-to-business settings, dyadic relationships between firms are of paramount interest. Emerging practice strongly suggests that to understand these business relationships, greater attention must be directed to the business network context within which dyadic business relationships take place.” (Anderson, Håkansson and Johanson, 1994, p. 355)

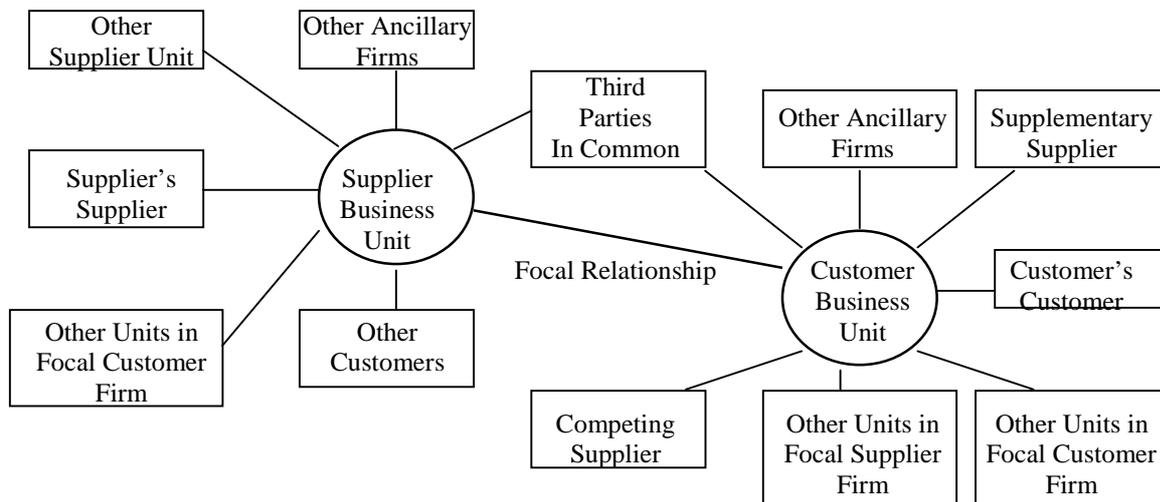


Figure 2: Connected Relations for Firms in a Dyadic Relationship. (Anderson, Håkansson and Johanson, 1994, p 359)

Close co-operation in a network between companies and their connected partners is important (Håkansson, 1990). Competition in the market is getting harder, and Bengtsson et.al (1998) indicate aspects of increasing rapidity. Due to shorter product life cycles, there is a need to reach the market more quickly. By reallocating resources an organization can increase its effectiveness by interaction with the environment (Håkansson and Snehota, 1989). This makes companies interested in finding new ways of interacting with other actors in the market. Another trend is that companies focus more on core business and buy other services on the open market (Bengtsson et.al, 1998).

Due to interaction between companies a relationship is developed between them, and relationships are social exchange processes where trust is of the utmost importance (Håkansson and Östberg, 1975). It is not only important for the company to have a strong position within the network in which they operate, but also to build relationships with other

networks. Relationships cannot be seen as static, set once and for all. Companies react to changes in the network (Axelsson, 1992 and Håkansson and Snehota 1989).

Companies are affected by their focal relationship, as well as by other ones in the network. Connectedness in focal relationships can be described as the degree to which focal firms are interested in engaging in relationships (Anderson, Håkansson and Johanson, 1994).

“The connections make the relationship form network patterns”. (Håkansson, 1994, p 340)

The development of relationships involves individuals and is complex, which indicates that activities carried out in one organization have an effect on activities carried out in another one. Organizations therefore must apply some level of adaptation to effects from outside activities (Håkansson and Snehota, 1989). A consequence of the interaction between the companies is that they get to know each other better and adapt mutually due to the interaction (Håkansson and Östberg, 1975 and Hallén, Johanson and Sayed Mohamed, 1991). Not only have organizations in a focal relationship an effect on the other part but also third parties can cause ‘problems’ for the focal firms (Håkansson and Snehota, 1989).

Since interaction is seen as a process, relationships are not static, and companies in a relationship react to change. This indicates that customers and suppliers with a relationship to the merged or acquired company, react to the changes caused by the merger or acquisition.

4. Types of mergers and acquisitions

To continue we need to understand that there are different types of merger and acquisition, which might have different effects on the network and the companies involved. In order to increase the understanding of this, some examples will be given. Please note that the examples have not been empirically studied by me, but act just as illustrative examples.

There are different kinds of merger and acquisition and they can be categorized in three main groups; vertical, horizontal and conglomerate. According to Larsson (1990) this typology by the Federal Trade Commission is the most established. There are other ways to categorize mergers and acquisitions e.g. functional; financial, marketing and manufacturing (Larsson, 1990). However this will not be discussed further here. Briefly they can be described in the following way: Vertical mergers (acquisitions) are integration forward and/or backward in the value chain, e.g. a pulp and paper industry also owns land. Horizontal mergers (acquisitions) could be described as integrating with one of your former competitors; e.g. Volvo merges with Ford. This could aim at restructuring the market or co-ordinating product development. The conglomerate merger (acquisition) is when unrelated businesses are merging or acquired.

For the study intended in continuation of this paper I believe the most interesting types of merger or acquisition are the vertical and horizontal ones. The direct possible effects seem more obvious in these types of merger and acquisition than in the conglomerate type.

4.1 Horizontal integration

An example of a horizontal merger (acquisition) is the Volvo-Ford merger, see Figure 3. One effect of the Volvo-Ford merger has been that the marketing managers for Volvo have been changed and also that the advertising agency will be changed for a new one, which will cause extra costs, estimated at 25-30 MSEK, and also a loss of tempo in marketing efforts (Resumé 2000). This indicates changes in staff and effects on the suppliers.

Another example of horizontal merger (acquisition) is Finnveden, which is a large supplier of components within the vehicle industry. At the beginning of 2000 they acquired diesel production facilities from Volvo Aero. This was in order to strengthen their position as a leading supplier of components within the vehicle industry (Finnveden, 2000). This might be an effect of the Volvo-Ford merger, Finnveden wanting to be a key-supplier in the future.

4.2 Vertical integration

An example of a vertical acquisition is SKF the Swedish ball-bearing producer who bought DEI (Development Engineering International) a Scottish consultancy company, see Figure 4. DEI works mainly with servicing oil and gas rigs. They have previously bought products from suppliers other than SKF but now after the acquisition they will at least buy ball bearings from SKF (Dagens Industri, 2000). This illustrates an integration to secure the market and customers.

In concluding this part an empirical example of when the supplier is affected by his customer will be given. Frontec faced a loss in sales during 1999 and this was due to the merger between Volvo and Ford and the intended merger between Telia and Telenor, the companies have been too occupied with the process so no orders were made (Nyhetsbyrå Direkt, 1999). This shows support for the assumption that there are effects around mergers and acquisitions, not only to the focal companies but also to connected ones.

5. Effects on networks and relations.

What we have seen above is that networks and relations between companies exist. The relationships within the network are considered important. We have also stated that mergers and acquisitions are a phenomenon that happens in the business environment all the time. It is then natural to ask the question: What will the effects to the network be as a consequence of mergers and acquisitions and how will the relationships within and between the companies develop?

To gain a deeper understanding of what happens and why, it is necessary to make a closer study of the phenomenon. The continuing discussion in this paper will try to deal with not only vertical and horizontal mergers and acquisitions, but also the possible effects on connected companies. What kinds of question can you ask and what kinds of answer can be expected in a study of such effects. Two of the cases introduced in the previous section will be used as illustrations of the possible effects of mergers and acquisitions. Volvo/Ford will illustrate the horizontal merger and SKF/DEI the vertical one.

Earlier I introduced the assumption of two steps, reaction as step one and action as step two. This illustrates interaction. First the organization reacts to the change and thereafter takes action, and the action phase can be seen as a chain of events. Before looking deeper into this it is necessary to have background information about the companies involved. Following this the chain of actions is interesting and can be divided into organizational and market changes.

5.1 The importance of company characteristics

For a better understanding of the business where the companies are operating, a brief presentation of the companies involved is necessary, e.g. how many employees do the companies have, how large is the turnover, sales volume, market share, what is the company history etc? It is important to get information about the situation both before and after the merger to be able to identify any differences. What is shown in such a presentation may inform us about the importance of some customers and suppliers to the merged companies.

To start with, since the phenomena of mergers and acquisitions occur frequently, have the companies been involved or closely connected to any other mergers or acquisitions? If this is the case, what were the major lessons learnt from this? Both advantages and disadvantages are interesting to follow up. Has it been possible for the companies to use this knowledge in the recent merger situation? The reason for this is to see if it is of any advantage or disadvantage to have been involved in mergers or acquisitions before, as well as to find out if there is anything that is particularly easy, difficult or surprising. Is it possible to describe and put a value of (volume or percentage of the business) the effects that this merger will have, both in a short and a long-term perspective due to previous experience?

What can the expected benefits of this merger be for Volvo/Ford or SKF/DEI? Is it, as described earlier in the paper, to gain a stronger market position, rationalize production or control distribution? Since there is a reason for the merger or acquisition to be performed, is it possible for the companies to imagine how this will affect connected customers, suppliers and also rival companies? It would then be very interesting to obtain a description of the focal companies' strategies towards customers, suppliers and rivals (in terms of cost, quality, co-operative strategies etc).

After working with the merger or acquisition for a while, what are the advantages and disadvantages of the merger in terms of number of lost customers, new customers, changes in market shares etc? Does this fit with the company's future goals and how are they different from the time before the merger between Volvo and Ford or SKF's acquisition of DEI? It would also be interesting to know what had been done in order to reach future goals and have there been any 'problems' in reaching these goals? By problems I mean reaction/actions from other parties within the network.

Taking the examples from above, the merger between Volvo and Ford or SKF's acquisition of DEI, how did the connected companies react to this change? Was information about the merger/acquisition communicated in advance, if so, to whom and were the connected companies involved in any way before the merger/acquisition was established? It would also be of interest to know whether, from the focal companies' perspective, the connected companies reacted in any way. Did they take any action when information about the merger was given?

Looking at the connected companies, we can ask the following: If they were taking actions did they consider different alternatives or were their options obvious? Is it possible at management level to discuss and prepare the use of any action plans, for how to react to the possible event that customer/suppliers are involved in a merger or an acquisition? Is it possible, in order to stay competitive, that a plan like this involves co-operative strategies, e.g. with customers, suppliers or competitors? Maybe it is not possible to invest time and energy to create action plans. Does this then mean that if a merger occurs in the close network a company is "trapped" and has to face the situation of being unable to make anything in the long run?

May the effect that the merger or acquisition has on the companies within the focal network be seen as an advantage or not? Some of the customers or suppliers might be more affected in comparison with other companies. Why? If we think of this, what could the possible actions taken by them be in order to meet a merger and how might these affect any party?

Considering all these questions above, what can be expected to be found from this information and how could it be used? Hard facts, figures such as volume and value of sales, turnover and market shares could be measures to indicate the importance of the customer or supplier to the focal company. This could enable you to find out the company’s market position, and whether there had been any changes since the merger or due to it. The number of employees could indicate possible expansion efforts, restructuring and rationalization. Interviews could be held with the customer and supplier in this new situation with the merged companies. It would be possible to find out how they reacted to the change and if they had given any thoughts to possible action to take. For instance, are there any customers or suppliers that you would like, or not like, to work with in a closer relationship with after your merger? Maybe it would be possible to see this in both a short and a long-term perspective. The intention is not to give answers to all these questions here, merely to discuss them. I will, however, in the last section of this paper explain what I believe to be the most interesting areas for further exploration.

5.2 Chain of actions – interaction and reaction

What I will try to show in this section are the possible effects of a merger or an acquisition in the two different scenarios illustrated by the examples above. This will lead to the conclusion that the companies connected to the merging or acquiring companies most probably will be affected in some way. Two different situations are described in Figures 3 and 4. Figure 3 describes a horizontal merger (acquisition) and Figure 4 describes a vertical acquisition. Is it possible that the situations described initiate other alliances, mergers or acquisitions between companies within the network or with companies outside the focal network? What will happen and what actions will be taken depend on things like the network’s previous structure and the companies’ relationships. How close has the collaboration between the companies been? Has the size, or the relative size, of the companies any effect on a possible change in the network?

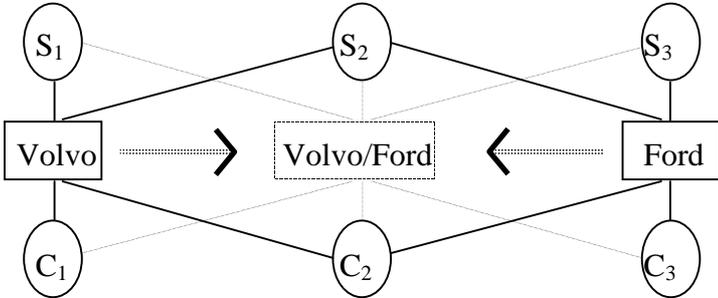


Figure 3: Horizontal merger (acquisition). The relation between customers/suppliers and focal firms before the merger (single lines) and possible relations after the merger between the focal firms (thin lines). S = Supplier and C = Customer.

When Volvo and Ford merge, how does this effect Volvo’s and Ford’s customers and suppliers? Figure 3 shows the relationships in a situation that illustrates a horizontal merger (acquisition). What kind of effects can be expected on the different companies? Is there any difference between, on the supplier side, S₁ and S₃ on the one side with only a relationship with one of the merging companies and S₂ on the other side with relationships to both the merging companies? The same situation, in Figure 3, appears on the customer side with C₁ and C₃ on one side and C₂ on the other. The differences that appear have many facets. The supplier with a single relationship to one of the merging companies faces an insecure future, being known only to one of the merging companies. Whilst the supplier with relationships with both the merging companies faces a situation known to both companies and this might

be a better position than the former. Are there any differences or similarities between these two situations? The same discussion can be made with the relationships on the customer side. On the other side of the coin are the effects that the merging companies face due to the merger. So do the customers and suppliers take any action? If so, what do they do or what does the merged company expect them to do?

How does the merged company Volvo/Ford act in relation to their customers? Will and can they act in any way that makes their customers feel as they are "taken care of" or are a part of the process, i.e. that the merged company Volvo/Ford is something better than the situation before the merger? This of course depends on how close relationships have been before the merger, how close together the companies have been working. The relationships with Volvo/Ford's suppliers will probably also change and the question has to be: What will happen and what will the structure be?

Another moment to which to pay some attention would be the competing companies to all parties involved around Volvo/Ford. Is the business where the merged company operates very competitive or are the markets separated what does the structure look like viewing both the supplier network and the customer network? Is it possible that previous competitors can be seen as possible collaboration partners in order to meet tougher market demands, both from suppliers and customers?

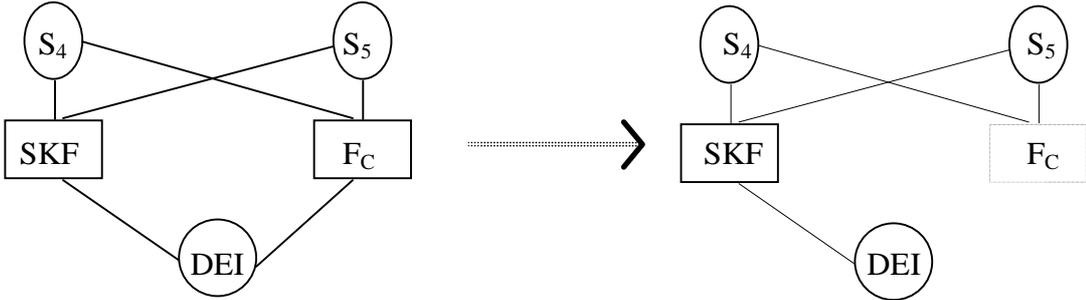


Figure 4: Vertical merger (acquisition). The relation between customers/suppliers and focal firms before the merger (single lines) and the possible relations after SKF's acquisition of DEI (thin lines). S = Supplier, C = Customer and F_C = competitive companies to SKF.

Figure 4 describes the situation in a vertical merger (acquisition). SKF acquires DEI, a former customer, how does this primarily affect companies, F_C , but also suppliers like S_4 and S_5 . What will the effects in the vertical merger (acquisition) as illustrated in figure 4 be? When SKF acquires DEI and relations between F_C and DEI are cut this might mean a loss in company F_C 's sales and market shares. For the suppliers in a situation like S_4 and S_5 this could mean that they lose sales to F_C but on the other hand this lost part might be gained by delivering to SKF. Depending on the size of SKF's share of supplier S_4 's and S_5 's sales this could in the long term act as a threat if SKF is the major customer.

How will the combined company SKF/DEI act in its network and in relation to its competitors? Is it necessary and good that the acquired customer must buy all bearings from SKF or could it be vital to the organization to let DEI continue to decide whether to buy from within the company or outside? It would also be interesting to know what would be the effects that F_C experience. What will F_C do to secure business? Will this step by SKF initiate action by F_C and if this is the case what will they do?

It is also important to find out as an outcome of the merger, if the merged company faces any differences in their network that they did not calculate for in their merging effort, e.g. that the merged companies' suppliers establish a closer relationship through a merger or an acquisition. Is this calculated to be a possible scenario or is it not accounted for in the merger situation?

I will continue to divide the possible effects discussed above into organizational or market changes in the next sections.

5.2.1 Organizational changes

A result of the merger or acquisition can be that there will be some changes within the involved companies' organizations. The question then is if the companies have made or intend to make organizational changes? The reason for asking a question like this is to get a picture of what the immediate action is and what can be expected in the future. In the merging company, since many functions are now doubled, this might lead to changes in the long run. It could also mean effects on the numbers of persons employed by the new company, but not necessarily, since this depends on the intended strategy and goal of the merger. When it comes to the suppliers, the situation could change in many ways. If the supplier finds his position stronger in the relationship with the newly merged company, this could lead to either use of excess capacity and/or expansion that could be organic or some kind of alliance, merger or acquisition. If however the supplier finds his position weaker than before it may be necessary to shrink operations or to find collaborative partners. This raises the question of whether mergers and acquisitions tend to initiate other mergers or acquisitions.

What could the possible effects be on the customer side? The new situation could have the possible effect on the organization, of the customer choosing to strengthen the purchasing staff, in order not to lose power in negotiations with the new larger company. The effect of this could of course also mean that they would start looking for other suppliers. Another way would of course be to form some kind of alliance (acquire or merge) with other customers to strengthen their position.

General questions concerning organizational changes could be: Have the companies due to the merger made any changes in their staff. Have they employed more people or rid of some? Has the merger lead to any organizational change within the company? Have you noticed any changes, as an effect of the merger, made by the other organization? Are there new people on the other side of the tables, or new business procedures?

5.2.2 Market changes

The companies' position on the market might change as one outcome of the merger. For suppliers like S_1 and S_3 in Figure 3 it means that they could lose Volvo or Ford as customers in the new arrangement with Volvo/Ford. However it is of course an opportunity for a stronger position on the market as a supplier to Volvo/Ford instead of Volvo or Ford. But what this could lead to in the longer term will not be discussed here. Both cases mean new situations to adapt to, either with lost market shares or with an opportunity to expand with a larger customer. These situations could act as a spur to find other partners, in an alliance, acquisition or merger. To work with either would be impossible because the lost market shares would mean they were now too small to stand alone. With the opportunity to expand they would have to find a partner in order to be able to meet future demands. For the supplier, S_2 , the situation is perhaps a more obvious threat than for the other two suppliers. This supplier has a relationship with both the merging companies and now finds them together,

two customers become one large customer and this raises the question of this being the one to continue to deliver to the merged companies or not.

For suppliers like S_4 and S_5 in Figure 4 the situation could change in that sales to F_C could decline or totally disappear due to the newly formed company, and because F_C no longer has DEI as a customer. This is the negative side. On the other side S_4 and S_5 could gain business thanks to their relations with SKF. The new situation could be a threat to both S_4 and S_5 in more than one way. Firstly if SKF turns out to be the major customer for S_4 or S_5 ; the companies have increased their risk. However if we assume that S_4 and S_5 are suppliers of almost the same goods they might find themselves in a weaker negotiating position than before. A possible outcome of this could be the initiation some kind of alliance between S_4 and S_5 .

If we take a look on the customer side in the merger between Volvo and Ford the situation could be described in a way that the customers find themselves in a position where they are not so strong in negotiations. Customers C_1 and C_3 face a new larger supplier than before and C_2 finds his two former suppliers to be one. Initially this could be a threat and also if in the long run there are no supplementary suppliers to be found. If, however, there are supplementary suppliers to Volvo/Ford this could in itself act as a threat to Volvo/Ford because their customers could find other suppliers. Initially the new company Volvo/Ford accesses both Volvo's and Ford's earlier markets, indicating a stronger position. However this might change due to the reasons mentioned, customers finding other suppliers instead of the new larger Volvo/Ford.

On the customer side in the example in figure 4 one effect could be that DEI is now bound to SKF as a supplier. The market might then become more concentrated and the alternatives for the customer's customer would be fewer.

To get a picture of the evolving changes in a market around two merging companies, it would be interesting to find out more about the involved companies' largest customers, suppliers, other key relationships and close co-operative collaborations. To complete the picture it is also necessary to know something about competitive customers and suppliers. Since change is an ongoing process in a network all the time, it would probably be an advantage to first get a picture of the situation close to the time of the merger. Then it would be necessary to follow up the situation again, within six months, perhaps a year later or even longer. The question is if it would be possible to compare two different mergers, within the same business or not, one recent and one with some time working with the new situation behind it.

I have briefly discussed above the possible change in the structure both for customers and suppliers. Questions related to this are: How has the structure, if at all, changed? In what way and how does that effect you and your business? Is your company facing a higher or lower risk in the situation of working with the merged company than it was before? What action do you find necessary to take in order to adapt to this situation? Do you find your position to be weakened or strengthened and do you see the new situation as an opportunity for the development of your company?

To get a description of the situation now and in comparison with situation before the merger would be valuable. Has the relationship changed, and if so in what way? If you haven't experienced any major changes why do you think this is the case? (e.g. time too short since the merger, you are considered to be a key-customer/supplier or competition is weak.)

How will the merger between Volvo and Ford or the combination of SKF and DEI affect the connected companies' profitability? One possible effect is that the profit margins will be lower due to increased competitiveness among suppliers. Customers might also find the margins to be lower due to higher pressure in negotiations, increasing input prices but with little or no possibilities to raise output prices. There may also be effects or changes in sales/bought volumes from the merged company, e.g. Volvo/Ford. Supplier strategies within the new company may lead to a concentration of suppliers, leaving others out. Some customers might choose to change brand, thinking that the new company no longer meets their expectations or due to a previous bad experience of the merging partner-company. It is relevant to study, following on from the merger between Volvo and Ford, whether any changes in the structure of suppliers and customers can be identified, or whether connected companies to the merging companies have lost customers, cut their relationships to previous suppliers or changed supplier. If this were the situation, what could be the reasons for it? Is it due to previous relations between the merging parties or not being able to supply the new larger company with large enough quantities?

6. Focusing on the core problems

As shown above there are many possible side effects from a merger or acquisition. It is also important to study these effects because of the structural effects that can be a result of such merger or acquisition, e.g. on a business' location, employment possibilities etc.

To continue with a study around the areas described above, some considerations must still be made. One major issue will be how to deal with the phenomena of mergers and acquisitions. Are there any differences, such as level of ownership? If differences exist do they have any implications for the study? Maybe it is the degree of ownership level where decisions have a major impact on the organization that is interesting, rather than whether they can be strictly defined as a merger or an acquisition.

Another consideration that has to be taken is when can changes in the network be seen and how can these changes be seen? Is there a time difference between the reaction and action, and, if so, how long is this time? How will the possible changes to the network and involved companies appear - perhaps as the formation of new alliances?

The effects that appear due to a merger or an acquisition might be many and from my point of view the most interesting effects to study would clearly be:

1. Comparing the situation on the market before and after the merger or acquisition to see if there are any noticeable differences or changes that are an effect of the merger or acquisition. Effects measured as changes in market shares and sales volumes etc. as discussed above. The focus of these effects and changes is on connected companies and their situation before and after the merger, not on the merging or acquiring companies. Of most interest to study are effects that appear on the suppliers' side.
2. What are the strategic choices made and options considered by the connected companies, i.e. the reaction to the merger or acquisition and from this the possible actions taken.
3. Given the first two questions is it possible to say or note that mergers and acquisitions tend to initiate other mergers and acquisitions?

For an empirical study it would be important to study company material showing facts and figures such as annual reports, other company material and public information published in the media. This must of course be completed with interviews. Depending on the size of the company I think that important people to interview for a study within this area would be

purchasing managers, marketing managers, and production managers and in some cases even the managing director.

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