Strategic Tale 11.1
(On the problems of company mergers)

A marriage of convenience

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They simply had to merge! This was the categorical message that the management of Silvania, a famous brand of household appliances, sent to the owners of Lopezsa and Martinsa, two of its franchised companies in the Spanish province of Malaga, who were responsible for distributing its products. Those were the days of the recession, when corporate sales and, consequently, profitability had fallen sharply.

The López family had owned Lopezsa since it was founded by Mr Enrique López. There were now nine grandchildren with stakes in the business. The family had hired a professional manager to run the company, excluding family members from its day-to-day running. Bad experiences in the past had prompted this decision. However, all the grandchildren actively participated in the company's control through the board of directors. Lopezsa marketed household appliances in a large area within the province of Malaga, covering many small, scattered villages.

For its part, Martinsa was owned by the Martín family, with the sons of the founder, Mr Miguel Martín, responsible for its management. One of them was the CEO, and the other three held different senior positions, with all four constituting the board of directors. Martinsa distributed Silvania's appliances along the coast of Malaga, comprising larger urban centres, where the population involved mainly holidaymakers and tourists.

They did the maths at Silvania's headquarters. They concluded that the merger of the two distributors would improve the efficiency of the new company and, therefore, considerably increase its overall profitability. The two companies recognised the major economic advantages of the merger, but were reluctant to take the final step. Under pressure from Silvania, the owner families arranged to meet at a hotel in Malaga.

The first issue discussed at that meeting, as one attendee recounted, was how to harmonise business practices given the differences between the two customer bases. They appear to have reached some kind of agreement. They then talked about the location of the headquarters, whether it should be inland or on the coast. Both options had their advantages and disadvantages. This decision was no longer so clear, and they decided to postpone it for later.

One of the Lopezsa company's grandsons asked about the name they would give the new company. Several proposals were made for possible names, such as López-Martín, Martín-López, LoMarPezTin, or MarLoTinPez, but no consensus was reached, so this issue was also postponed, whereupon they agreed to take a break and go to the hotel's cafeteria.

"Hey, by the way, what do you think the board of directors should look like?" asked Jaime, the eldest Martín brother.

"Well, I think we should all sit on it," replied Emilio, one of the grandsons of the López family, who seemed to be the one calling the shots.

"Don't you think that's too many members?" It won't be very manageable," Jaime replied.

"Yes, I'm not saying it won't, but we want to be all or none of us," Emilio said.

When they resumed the meeting after the break, they argued over who would be the new CEO and who would fill the new management positions. Jaime volunteered to head the company, given his experience over the last few years at Martinsa. Lopezsa's family had no particular interest in directly assuming that responsibility and advocated keeping the external manager they had hired a few years ago, and with whom they had done so well. They agreed to discuss it at a later date.

Finally, they addressed the issue of possible layoffs, one of the inevitable consequences of the merger, which would mean significant cost savings in the future. They all agreed to take advantage of this opportunity. Nevertheless, each company argued that its workforce members should be the ones to continue, as they had shown great loyalty and commitment in the past.

At the end of the meeting, both families were pleased to have met and decided to take some time to reflect on the outstanding issues and find a solution.

"Hey Emilio, if you like, we'll call you at the end of the summer to arrange to meet again," Jaime said, shaking hands with his prospective partner.

"Perfect, Jaime, whenever you like, let's talk," Emilio replied.

When they left the hotel, each was thinking about what they would say to Silvania's management to explain why the proposed merger did not suit them.

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