FACTFILE:
GCE BUSINESS STUDIES

UNIT A2 2: THE COMPETITIVE BUSINESS ENVIRONMENT
MONOPOLIES, MERGERS, TAKEOVERS & RESTRICTIVE PRACTICES

Monopolies, Mergers, Takeovers and Restrictive Practices

Monopoly

A monopoly is where one business has the exclusive control over the supply of particular goods or services. This can be very prohibitive to new businesses trying to enter the marketplace.

One potential impact of a monopoly is that such a business will typically:
- attempt to maximize profits
- keep sales prices high
- restrict the levels of output
- show little or no responsiveness to the needs of customers.

Most national governments therefore try to control monopolies by:
- regulating aspects of the consumer market
- imposing price controls
- take over their ownership.

Reasons for monopolisation:
A national government may facilitate the creation of monopolies for the following reasons:
- national security
- economies of scale
- to effect efficiencies in an industry in the national interest, or where two or more producers would be wasteful or pointless (as in the case of utility services, e.g. electric, water and gas).

Mergers

Generally, a merger is when two companies combine their resources and become one new business entity.

Owners of each pre-merger firm continue as owners, and the resources of the merging entities are pooled for the benefit of the new entity.

Horizontal Integration:
This is where two or more businesses were initially in competition with each other, and agree to merge to form a new business entity.

Vertical Integration:
This is where two or more businesses were initially in different parts of the supply chain (e.g customer/supplier), and agree to merge to form a new business entity.

Takeover

A 'takeover' occurs when one company buys the majority stake of another company.

Takeovers are sometimes considered as:
- Friendly – a takeover deemed to be beneficial to all stakeholders involved;
- Hostile – a takeover deemed beneficial to one party (usually the purchaser) and detrimental to the target (usually owners or shareholders of the firm to be taken over).

Competition and Markets Authority (CMA)

This is an independent non-ministerial government department.

The function of the CMA is to work to promote competition for the benefit of consumers.

The CMA aims to make markets work well for consumers, businesses and the economy.

Responsibilities of the CMA:
- investigates mergers which could limit competition
- conducts market studies and investigates markets where competition and consumer problems appear to exist
- investigate potential breaches of UK or EU prohibitions against anti-competitive agreements and any potential abuse of dominant positions in a market
- considers criminal proceedings against individuals who commit the cartel offence
- enforces consumer protection legislation to address practices and market conditions that make it difficult for consumers to exercise choice
- co-operates with industry regulators and encourages them to use their competition powers effectively
- considers regulatory referrals and appeals.

Summary

Monopolies, mergers and takeovers are usually undertaken for the purposes of improving profitability of a business. Intervention is usually required in order to protect the interests of the consumer, hence the existence of industry regulators in some sectors (e.g. energy and utilities) and the CMA.

Revision Questions

1. Explain what is meant by the term 'monopoly'.

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2. Explain the term 'takeover' and analyse the impact two different types of takeover on a local MNE which might be experiencing declining levels of profitability and growth.

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3. Analyse the impact of a merger on two different locally based businesses, with which you are familiar.

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4. Evaluate the role of the CMA in protecting consumers in the energy sector of the UK economy (including N. Ireland).

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