

**SOS POLITICAL SCIENCE AND  
PUBLIC ADMINISTRATION**

**MBA FA 405**


**SUBJECT NAME:**

**STRATEGIC MANAGEMENT**

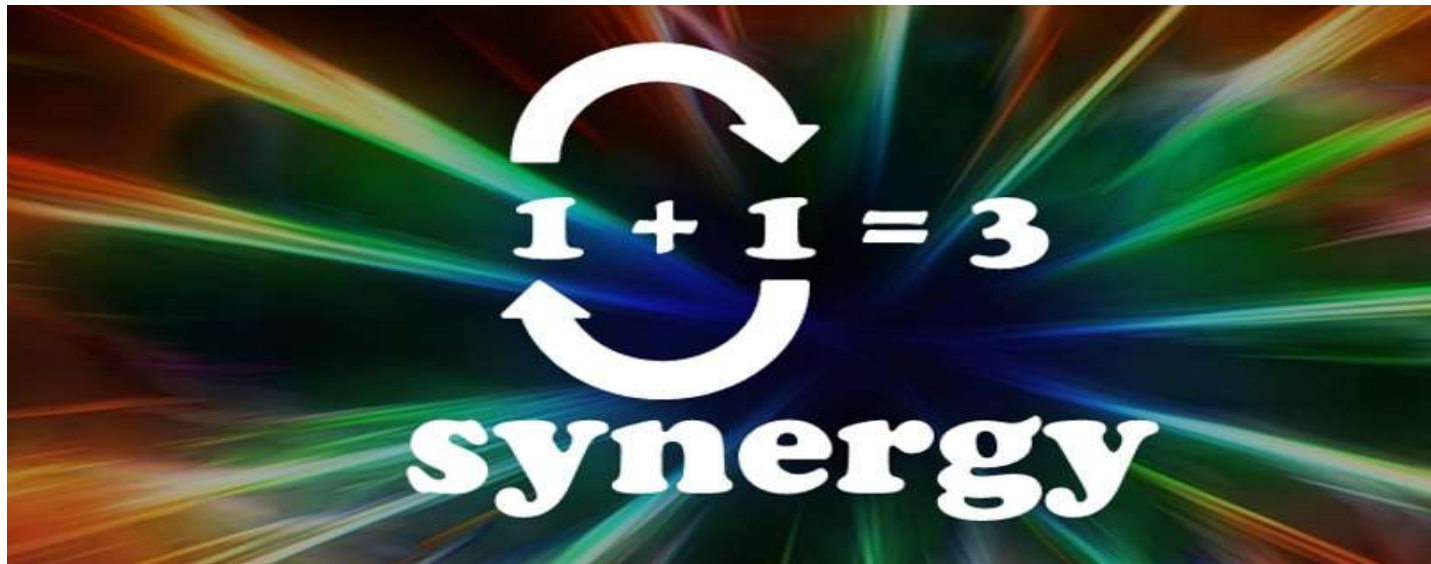
**TOPIC NAME: SYNERGY & ITS RELEVANCE TO  
STRATEGY**




# MEANING:

- ▶ The pursuit of synergy is practiced by most businesses in the world. The boardrooms are full of brainstorming about ways to collaborate more effectively. Cross-business teams are set up to develop key account plans, coordinate product development, and proliferate best practices. Synergy is the concept that the value and performance of two companies combined will be greater than the sum of the separate individual parts. Synergy is a term that is most commonly used in the context of mergers, acquisitions, strategic partnership, joint venture, franchise etc. The reasoning behind strategic alliance is generally given is that two separate companies together create more value compared to being on an individual stand.
- 

- ▶ Synergy is also explained as  $1 + 1 = 3$ . Synergy is when the sum is equal to more than the two parts.



- ▶ Some negative facts about synergy are that many of the attempts to synergies never get beyond a few obligatory meetings. Others generate a quick burst of activities and then slowly fade out. Others become permanent corporate fixtures without ever fulfilling their original goals. In short, the attempts are termed as ‘learning experience’ to coax the failures. The quest of synergy often represents a major opportunity cost as well.
- 

- ▶ It distracts managers' attention from the nuts and bolts of their businesses, and it gushes out other initiatives that might or might not generate real benefits. At times, the synergy programs actually backfire, eroding good relations with customers and marketing channels damaging brands, or damaging employee morale. A simple fact is, many synergy efforts end up destroying value rather than creating it. Synergy is sought in all functional areas by businesses.

# WHAT DOES OPERATING SYNERGY MEAN?

- ▶ When the combined value of two firms is greater than the sum of the separate firms apart and, when the combined firm allows for the firms to increase their operating income and achieve higher growth it is termed as ‘Operating synergy’. Operating synergies arise from the following:
- ▶ Economies of scale, greater pricing power and higher margins resulting from greater market share and lower competition, combination of different functional strengths such as marketing skills and good product line, or higher levels of growth from new and expanded markets.

- ▶ Operating synergies are achieved through merger, acquisition or takeovers of firms which have competencies in different areas such as production, research and development or marketing and finance can also help achieve operating efficiencies. Tata Steel which is one of the biggest Indian steel companies; it took over Corus which was Europe's second largest steel company in 2007. Tata Steel's takeover of the European steel major Corus for the price of \$12.02 billion made the Indian company, the world's fifth-largest steel producer. The acquisition was intended to give Tata steel access to the European markets and to achieve potential synergies in the areas of manufacturing, procurement, R&D, logistics, and back office operations.



# WHAT DOES FINANCIAL SYNERGY MEAN?

- ▶ Financial synergies are most often appraised in the context of mergers and acquisitions, but latest strategic alliances include strategic partnerships. These types of synergies relate to improvement in the financial metric of a combined business such as revenue, debt capacity, cost of capital, profitability, etc. Examples of positive financial synergies include: Increased revenues through a larger customer base, lower costs through streamlined operations, talent and technology harmonies.
- ▶ In addition to above, financial synergies can result in the following benefits post acquisition: Increased debt capacity, greater cash flows, lower cost of capital, tax benefits etc. The Renault-Nissan (Franco – Japanese) strategic partnership or car making alliance expects to generate 5.5 billion Euros (\$6 billion) of synergies in 2018 by integrating more divisions and sharing resources better within the partnership. Increased union between the French carmaker and its 43.4 percent-owned Japanese partner generated more than 4 billion Euros in synergies in 2015.



# WHAT IS MARKETING SYNERGY?

- ▶ Marketing synergy implies that the marketing-mix makes for overall effectiveness. For example, by grabbing an opportunity which makes it possible to gain increased utilization of existing marketing and distribution facilities, it may be possible to enhance sales revenues without causing a proportionate increase in costs. Hero Honda Ltd was a joint venture between Hero Cycles of India and Honda Motor of Japan. Hero Cycle's long experience about Indian road conditions including Indian rural and urban customers was wholly combined with Honda Motor's superior technological capability to create the expected synergy effect for producing a highly fuel efficient and sturdy motor cycle to suit the exact requirements of the Indian customers and meet the rough road conditions as early as 1985. The partnership lasted for 26 years.

# SYNERGY & ITS RELEVANCE TO STRATEGIC MANAGEMENT?

## **Synergy Approach to Strategic Analysis :**

- ▶ Synergy describes the benefits a business experiences by strategically organizing itself to maximize cooperation and innovation. In simple terms, a synergistic organization achieves more as a group than its parts could in isolation. Increasing synergy requires a careful analysis of your organization's current strategies to identify better ways of doing business

### **1. Complementary Skills :**

- ▶ Analyze the different departments of your organization to identify the key skills of each section. Find a way to connect the departments so that the skills and insights of each complement and support the others. For example, say you have a sales department that excels at creating new accounts and a research team devoted to designing new product lines. A synergistic connection between these two departments might consist of a joint team that combines the disparate skills in a complementary way. You could task the group with identifying product innovations that can overcome specific sticking points, such as product usability, that salespeople currently encounter while negotiating with clients.

## **2. Increase Communication :**

- ▶ Identifying and eliminating communication blockages also can increase synergy by developing coordination. For example, ask department heads to meet regularly to discuss current activities. The proceedings might spur conversations that lead to innovative ideas for cooperation.

## **3. Efficient Performance :**

- ▶ Eliminating structural redundancy also can increase synergy by identifying ways to streamline operations, allowing each department to focus on being maximally efficient within its own role. For instance, forcing several departments to deal with
- ▶ customers in addition to their production responsibilities is less efficient than creating a single, dedicated department for handling customer service. With the creation of the new customer service department, the other departments can hand off difficult client issues to the experts.

#### **4. Sharing Best Practices:**

- ▶ Another way to increase synergy is to allow employees to share successful strategies, according to the book “Strategic Management: Awareness and Change,” by John Thompson and Frank Martin. For example, if the manager of your sales department discovers that an incentive program motivates her staff well, that same approach might work well in other departments.
  - ▶ Alliances
  - ▶ You also can create synergistic alliances with other businesses that have resources or strategies that sync well with yours. A chocolate maker, for example, might supply its products at a steeply discounted rate to a local bakery, which in turn will promote the chocolate supplier to its patrons. Both businesses benefit from the synergistic connection in ways that neither could alone.
- 