3.1.3 Demergers

a) Reasons for demergers
b) Impact of demergers on businesses, workers and consumers

- Demerger: when firms sell off parts of the firm to create more smaller firms
- Reasons for demergers:
    - To focus on core business and perhaps gain specialisation
    - To raise finance often to pay off loans or invest in more profitable branches
    - Lack of synergies: the hoped-for benefits of a merger didn't materialise
    - To avoid diseconomies of scale. Merged firms can be difficult to manage
    - If a firm can no longer afford to invest in the business (it is making a loss)
    - Government intervention
- Impact of demergers:
    - On businesses:
        - Mergers and demergers go in cycles, often alongside the business cycle so they may not be a sign of weakness.
        - More focus on the core business
        - Source of finance for the rest of the business
        - Removing loss-making parts of the business.
        - Reduction in diseconomies of scale since coordination is easier
        - Greater independence.
    - On workers:
        - Increased job securities if loss-making parts of the business are demerged
        - Reduced conflict between cultures
        - Some may lose jobs.
        - Possible increase in manager-worker relations as a smaller, demerged firm will have fewer employees
        - Workers may lose morale if there is confusion.
    - On consumers:
        - Greater competition leads to lower prices, greater choice and higher efficiency
        - Removal of diseconomies of scale lowers price
        - More focussed businesses can better meet consumer needs
        - Some parts of the service may be limited.