**Times are tough**

It is clear that the short-term industry is under severe pressure. Does this mean that the market will see more mergers and acquisitions as the short-term market finds ways to cope during these tough times? In today’s challenging business environment, this question is more relevant than ever before. However, to be able to answer it correctly and comprehensively, we need to first understand the question.

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**ergers and acquisitions** are a big part of the corporate finance world. But why do companies merge with, or acquire other companies? Two of the most common reasons are synergy and growth.

With synergy, business activities are combined, which will lead to increased performance and decreased costs. Growth is about enabling the acquiring company an opportunity to grow market share and gain a bigger customer base.

**Plenty of examples in the industry**

Within the local short-term insurance market, we have recently seen Hollard and Etana intending to merge, which in effect will make Etana clients Hollard clients. When AON brokers entered the South African market, they acquired Glenrand MIB brokers and several other brokerages and their books, gaining market share and establishing a foothold in the market.

As a result of the aforementioned mergers and acquisitions, the stated enterprises increased their customer bases, decreased competition in their respective markets, and combined resources in order to gain a larger profit and improve customer service.

In the local loss adjusting fraternity, GAB Robins was acquired by Cunningham Lindsay International. This allowed a large international loss adjusting firm to enter the local adjusting market without having to grow their business over time, and go through the associated growing pains of starting a new business.

**Forcing companies into a corner**

With the current fluctuating business climate, many businesses have had to cut back, and this has not escaped the local short-term insurance market. As a result, some insurers and brokers find themselves facing an uncertain future, including the possibility of closing their doors.

This too has had an impact on loss adjusting firms, who are finding themselves under more and more pressure as overheads increase. With the introduction of rigorous Service Level Agreements (SLA) and flat fee structures by insurers, the pressure to perform under tight financial conditions will only increase further.

**The effects will be widespread**

Smaller loss adjusting firms will likely be affected the most severely and will have to find alternative income sources. The impact of the flat fee structure versus the traditional hourly rate fee structure will only increase the pressure of having to perform for decreased revenues, and this could possibly stunt, or even reverse the growth of these firms.

Tough economic times call for increased responsiveness and speedy adaption to the challenges presented. During the economic recession, the margin between success and failure is very small.

This is where mergers and acquisitions could possibly come into play, as businesses could pool their resources and client bases in order to weather the tough financial storm. Some business might find attractive the appeal of a merger or being acquired, as it offers some relief from the constant cash flow battle.

**No guarantees**

It must be borne in mind that not all mergers and acquisitions are successful, and some of the reasons for them failing, include a lack of management foresight, the inability to overcome practical challenges, and loss of revenue momentum from a neglect of day-to-day operations.

Mergers and acquisitions form an aspect of corporate strategy in which the enterprise aims to grow rapidly in its sector, and should not be entered into lightly or on a whim. They are serious undertakings that have long-term implications on the businesses and their employees.

In these tough times we could definitely see more mergers and acquisitions in the short-term market, as companies need to diversify, pool their resources or increase their customer base to make it through. •