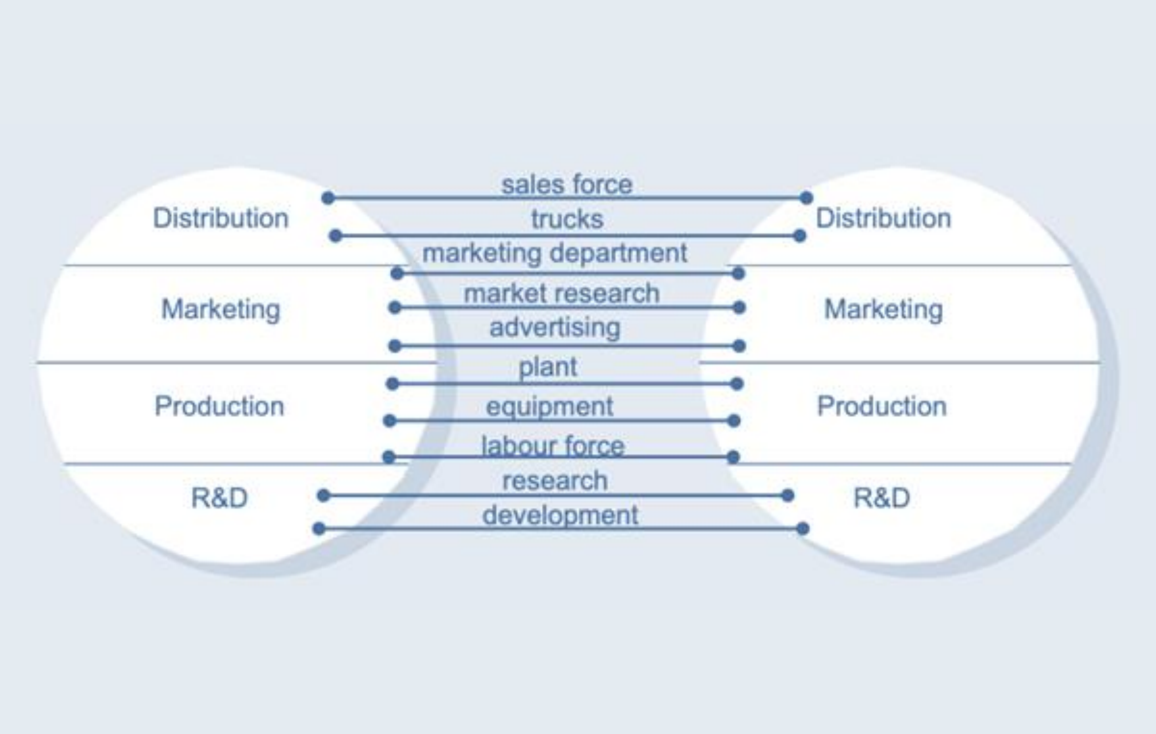
Strong Linkages

OVERVIEW



The strong linkages concept explains how value is created when firms combine activities with similar value chains. As a result of the identification of strong linkages between the two entities, partnerships and mergers enable extensive sharing across production, R&D, marketing, and distribution, generating significant cost efficiencies through specialization, unlocking the economies of scale, and eliminating duplication.

It's essential to revisit the value chain before undertaking any partnership or merger to assess whether the two firms diversify further away from their core activities, thereby creating weak linkages that indicate the partnership will not create the expected competitive advantage or strategic value.

HOW TO APPLY IT

- Map the full value chains of both firms to identify overlapping and complementary activities across production, R&D, marketing, distribution, and support functions.
- Assess the degree of similarity in products, target customers, technologies, and operating models to determine the potential strength of value-chain linkages.
- Quantify duplication costs across functions and estimate achievable synergies from consolidation, specialization, and shared capabilities post-merger or partnership.
- Prioritize integration initiatives that deliver immediate cost savings while preserving critical capabilities that support differentiation and customer value.
- Align governance, decision rights, and performance metrics to enable effective resource sharing and avoid internal competition across merged activities.
- Monitor linkage erosion as diversification increases, reassessing the value chain regularly to ensure synergies remain tangible and strategically relevant.

EXAMPLE

Exxon and Mobil Merger

- Both companies operated in identical upstream and downstream oil and gas markets, serving similar customers with overlapping exploration, refining, and distribution value chains.
- Strong production linkages enabled consolidation of exploration assets, drilling operations, and refining facilities, reducing capital intensity and operating costs significantly.
- R&D capabilities were combined, eliminating duplicated research in refining technologies, petrochemicals, and fuel optimization while deepening technical specialization.
- Marketing and distribution networks were integrated, removing parallel retail fuel stations, logistics routes, and sales organizations competing in the same geographies.
- Procurement synergies emerged through aggregated purchasing of equipment, chemicals, and services, strengthening bargaining power with global suppliers.
- The merger created scale driven cost leadership while preserving differentiation through superior technology, operational excellence, and global reach.