

Rayon's market

[Finance](#), [Market](#)



Britton to acquire American Fiber market consists of Rayon, Nylon and Cotton. Rayon's market share was increasingly rapid until 1959 but started to fall by year 1960. Nylon was introduced in 1955 and was eating up the market for Rayon. It has achieved a good increase in market share every year. 1. 3rd largest producer of rayon in the SSI. Increased earning difficulties 2. \$MOM liquid assets 2. Rayon industry was declining 3. No short or long-term debt 3. Entry of new fiber products 4. Modern central manufacturing facility I. Problem Institutional Should MR., Inc. Acquire American Rayon Inc. (AR') ? Operational

Is Marc's management control system well suited to handle AR'? II.

Objectives 1. To find out viability of MRS. acquisition of AR'. 2. To find out how much should MR. pay for the AIR acquisition. 3. To find the Net Present Value of AR'. Corporate Objective 1. Growth is the explicit objective of the acquisition program 2. And borrowing capacity Areas of Consideration 1. SOOT STRENGTHS AIR is the 3rd largest producer of Rayon Strengthen liquidity AIR had over \$20 million in liquid assets that were not needed for operations - No short or long term debt They had a modern manufacturing facility, their facilities can be retrofitted for ewetechnology. MR. has a long history of successful acquisitions through its diversification campaign (therefore they have enough experience in handling risks and problems connected to acquisitions. - James Clinton, President of AR', had expressed willingness to stay and offer his services even after the acquisition for two years. WEAKNESSES MR. has a weak R & D MR. maxed out credit benefits From 1955, rayon began to falter AIR faced earning difficulties with a shrinking industry MR. management lacked the technical know-how to

contribute to ARIA'S profitability OPPORTUNITIES upcoming innovation (polyester) in the fiber industry.

THREATS The growth of Rayon has been falling which was about to become obsolete. - Introduction of new raw materials in the tire cord business- Acquiring AIR might entangle MR. in a dying business Competitors in the fiber industry 2. Macroeconomic Indicators Political Political climate in different countries producing and buying automobiles regarding policies on import, export and manufacture of automobiles and automobile components. This will also include policies on allowing setting up of manufacturing plants by foreign companies. Stability of governments. This may affect the future conditions in a country. Taxation policies. Economic Recession - Demand for cars, during the period, would result to decline as a result of higher levels of unemployment, lower purchasing power and the resulting postponement of new car purchases, decline in per capita automobile travel and volatile fuel prices. Reductions in per capita automobile travel directly impacted demand for tires and thereby tire cord in the replacement market. Debt Crisis - . Credit restrictions as a result of austerity measures implemented by debt ridden governments, consumer indecisiveness, weakening consumer confidence as a result of periodic flaring up the region's financial problems, would result in slowing down auto sales Level of economic activity that affects need for commercial use of automobiles Exchange rate, interest rate, GAP, inflation & other economic indicators Demographic The population figures and automobile buying capacity of people. The aging baby boomer population and their proximity to retirement age is increasing annually while the number of young drivers in the 16 to 29 year age bracket is increasing at

the slowest pace. The discrepancy between the growing number of retirees and the reduced number of young drivers is bound to manifest itself by way of reduced growth in the vehicle buying population. Socio-cultural Lifestyle and preferences of people that has an impact on their choice of types of automobiles. Social norms that impact the decision to own and use automobiles versus other means of transport.

Market Profile and Outlook There is significant uncertainty since MR. is uncertain about the future of the rayon business. There are different perceptions about whether the potential of the AIR acquisition is big, but in new unfamiliar area such as rayon market the information is not enough. There are huge questions surrounding the potential of this business. Questions like how the market may evolve, considering the fact that the rayon industry had enjoyed one of the most spectacular successes in the history of tire manufacturing and at one point, the rayon industry started to decline.

On another note, AIR is also expected to pick up and gain market share as smaller companies vertical and functional integration; taking the fact that MR. already has strengths in the manufacturing of power brake systems, industrial furnaces and etc. The acquisition may be able help MR. to enter the new market of rayon production and also use rayon to get deeper into tire manufacturing. **Competition** Different synthetic fibers compete for shares of the total fiber market principally on the basis of relative prices and relative quality characteristics.

Diversification program created significant strains on the Company's organization structure and financial position. Since continued rapid diversification was considered imperative, Company's highly- centralized decision-making processes had shifted to a highly decentralized management structure, which transferred substantial decision- making power to division managers. In 1961, there were seven divisions. All marketing, purchasing, manufacturing, research and development, personnel matters, and accounting were handled at the division level.

Each division has its own manager (usually a Vice-President) and had responsibility for the growth and profitability of his division. A division manager could get stock options and earn an annual bonus of up to 60% of his base salary depending on the earnings and growth of his division.

Divisional sales and earnings goals. Divisional sales and earnings formulated by each general manager and submitted each November to the head office for review by Mr.. Britton and the Corporate Staff. The corporate staff provided legal, administrative, and financial support to the divisions and handled external affairs, financing and acquisitions as well.

The staff, including corporate officers, consisted of fewer than 60 people, about half of whom would be classified as secretarial and clerical. With this, Mr.. Britton has the capacity to exercise adequate to exercise control over the decentralized organization through its power to hire and fire at the division manager level and important, through control of the elaborate capital budgeting yester. s product lines were power brake systems for

trucks, buses, and automobiles; industrial furnaces and heat-treating equipment; and automobile, truck, and bus frames.