

Arcelor mittal a tale of corporate conquest marketing essay



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Introduction

A takeover, as put down by the Kiplinger's Personal Finance (1982), cannot be just a peaceful merger. The best option is, perhaps, a friendly takeover procedure, which can be regarded as a clever manoeuvre as well.

During the mid twentieth century, we have witnessed a classic corporate warfare that was nicknamed as the " Cola Wars". The socio-scientific implications of a corporate warfare have been, perhaps, elucidated to some extent by J. C. Louis and Harvey Yazijian in their work on the Cola Wars. And we already know that manipulation, dealing, campaign, expansion, etc. are the strategies in a corporate warfare. Therefore, the case writer thinks that a takeover can thus be a very sensitive issue, which has the potential to trigger off prolonged hostilities.

Executive Summary

Arcelor was shaped by merging Arbed (Luxembourg), Usinor (France) and Aceralia (Spain). The merger was formally effective in the year 2002.

Eventually by the year 2006, the conglomerate became the world's second largest steel producer corporation.

Mittal Steel Co. first executed a significant acquisition in the year 1989, when it took over the Iron & Steel Company of Trinidad & Tobago. Since then, it embarked on a policy of continuous expansion and went on acquiring different steel companies all over the world. By the year 2006, it had registered its strong presence in the US, Canada, Mexico, Romania, France, etc. and become the largest steel producer of the world.

In this way, Arcelor SA and Mittal Steel finally found themselves locked in a struggle for supremacy over the global steel production and industry. But in January 2006, Mittal Steel shook the corporate world by offering an aggressive bid to take over the European steel giant Arcelor SA. The history of Mittal Steel Co. clearly showed that it had a decided tendency and knack in executing international acquisitions in its favour. Furthermore, L. N. Mittal, the owner of Mittal Steel, had already entered controversies when he reportedly financed the Labour Party of UK (Hyland, 2002). On the other hand, Arcelor was also accused of showing a racist attitude and adopting unfair means to escape the proposed take over bid (Rediff News, 2006).

In such circumstances, the case writer intends to take lessons from this controversial business deal. If the theoretical finance concepts are utilized

fundamentally and strictly to evaluate a proposed takeover bid, unnecessary bitterness and controversies are pretty avoidable.

How Can We Define A Takeover?

In the modern business world, where the competitions are getting tougher than ever, we really need to develop a comprehensive understanding of business takeover. If we look at the situation of Arcelor Mittal intricately, we might be able to categorize it as a classic case of modern business dealing, focussing mainly on acquisition.

The meaning of the term “ Takeover” may vary in different cultures and situations, but it is generally the process in which an acquirer (or bidder) corporation formally procures a target company. Now, the approach behind this process is the critical factor that determines the outcome.

If you are the owner of a corporation and you target to acquire a company, you can generally adopt two major approaches. First, you can directly talk to the management of the target company concerned, which is a pretty amiable approach. In case you are successful by means of a constructive dialogue, you would culminate at a friendly takeover. However, if you are not sure about the outcome of an attempt to negotiate or hold talks, you can seek to take up a bypass channel. This bypass would help you to circumvent the management personnel of the target company. This is indubitably a strategic manoeuvre, although this sort of takeover is generally defined as a hostile one. The case being scrutinized (i. e., the case of Arcelor Mittal) is predominantly entangled between these two methodologies.

The benign results of a takeover might include an overall magnification of the sales/revenues volume. Also, it might culminate at venturing into new segments of the markets and industrial operations. The target company is generally relieved of fiscal adversities and the new formation registers an increased market share. The resultant brand might have a wider portfolio and competitions are lessened. In case of international takeovers, the augmented conglomerate formed out of the takeover may register an extended global reach, which is very vital these days. And as in the case of Arcelor Mittal, a takeover can put an end to the prolonged and bitter rivalries. A synchronized and powerful management can allocate resources more efficiently and avoid hectic individual multitasking.

However, there are certain points of grave concern as well. Strategic takeovers may give rise to oligopoly and continuous takeovers by a specific company lead to dangerous monopoly. And in such sorts of circumstances, the choices before the consumers become fewer and the market does no more behave in an even handed manner. There is a very high possibility of job cuts in the post takeover scenario. Moreover, the target company may come with certain secret liabilities, and give resistance to cultural assimilation even inside the integrated environment.

Statement of the Problem

The problem behind this case is the general interpretation of Mittal's bid to procure Arcelor as a hostile one. The bid, being successfully executed, thus culminates into a hostile takeover explicitly. The encounter commenced in January 2006, which lasted for the next six turbulent months. The steel

giants, Arcelor SA and Mittal Steel Company, had been bitter rivals for years
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and Arcelor could never afford to succumb before the strategic onslaught. The management of Arcelor SA used every achievable defence involving bankers, politicians, media, etc. and also projected their merger with the Russian steel company Severstal to avoid Mittal's aggressive bid. Even, on certain occasions, the Arcelor SA was accused of maintaining a racial mindset that was actually behind its die hard resistance to Indian born Mittal's bid.

Although Mittal's offer to acquire Arcelor was accepted in the end, the spectre of similar stand off in case of future mergers and acquisitions cannot be ruled out.

Summary of Facts

Now when we further proceed into this case study, we have to scrutiny the related facts. First, let's take a look into the comparative analysis of Arcelor SA and Mittal Steel Company before the merger. Following are some relevant figures:

Figure - 1

Figure - 2

The sheer bulk of cash flow in the Mittal Steel Company in pre-merger situation, 2005, (please see Figure - 1) clearly reflects the active international business development of the corporation. The monetary allocations in the investments and gross profits quantitatively explain the strength of the steel tycoon as a long lasting and enduring investment

option, and the stakeholders have no reason to be concerned of the general market volatilities.

It is worthwhile to mention here that the company has issued its financial records both in US Dollars and Euros. This explains the multicultural global outreach of the company in regards of steel trade.

Now let's take a look into the records of Arcelor SA, which are likely to explain its monetary situation in the pre-merger scenario of 2005.

Figure - 3

If we compare the cash flows of Mittal and Arcelor respectively with reference to the Figure - 1 and Figure - 3, we find that the cash flow is proportionally higher in Arcelor SA.

Figure - 4

Comparing the balance sheets, we find that the Arcelor had fewer liabilities than its rival.

Another striking feature of the data available is that the Arcelor SA issued its records only in terms of Euros, while Mittal Steel Company used accounts statements both in terms of Euros and Dollars. This compels the case writer to reflect on the exclusive "European Values" of Arcelor SA.

Analysis

The developments that took place in the year 2006 can be marked as a turning point in the financial world. The proposed bid of Severstal from

Russia and then the final merger with Mittal Steel Company were certain dramatic twists that the management of Arcelor SA fabricated in course of the dilemma. The dealing can broadly be classified under the category of “Amalgamation through Purchase” (Subramanyam, 2008). In both the proposals of Mittal and Severstal, the merger were to be achieved strategically.

Mittal's success cannot be directly explained by using a comparative analysis of the Balance Sheets and Income Statements. Mittal's strengths were mainly in its global mobility & network, formidable production volume, and last but not least, strategic diplomacy.

The Sequence of Strategic Diplomacy

The nerve battle began in January 2006; let's examine the subsequent developments chronologically:

27 January - The Mittal Steel unleashes a takeover bid targeted to Arcelor. The offer price per share was €28.21.

29 January - The Board of Directors of Arcelor unanimously rules out Mittal's hostile bid for the takeover.

26 May - Arcelor teams up with Severstal through a merger accord, as the former tries to daunt Mittal Steel.

21 June - Meanwhile, Mittal improves its offers. As a result, Severstal too considerably improves its offer prices for the merger.

25 June - Arcelor finally agrees to the merger proposal from Mittal Steel in order to form the Arcelor-Mittal. The final offer price per share was €40. 40.

30 June - By an Extraordinary General Meeting, shareholders of Arcelor reject the unification with Severstal.

Till September the same year, 93. 7% of the Arcelor shareholders now tender their equity shares to the Mittal Steel. Arcelor Mittal emerges as the world's mightiest steel producing conglomerate.

Indubitably, by increasing his bid in a step by step fashion, L. N. Mittal secured the deal in a planned and economic way. The negotiations never lapsed even during the bitterest phases of the developments.

Clearly, Mittal Steel's ability to cater to the needs for a sustained and high production of steel from diverse locations all over the world helped it a lot. The Euro-centric approach of Arcelor raised serious cultural issues. But the same approach gave way to aggressive globalisation, and Mittal Steel emerged triumphant. Preceding the amalgamation there were 704 million shares of Mittal Steel outstanding and 640 million shares of Arcelor SA. As far as the offer prices are concerned, the deal appears to be a fair one since the management of Arcelor had an opportunity to constantly keep comparing between the offers from Mittal and Severstal.

Reaction in the Stock Markets

A closer look of the stocks behaviour and analysis of Steel Index before and after the merger can reveal that the amalgamation benefited the

shareholders both of the pre-existing Mittal Steel and Arcelor SA (Please <https://assignbuster.com/arcelor-mittal-a-tale-of-corporate-conquest-marketing-essay/>)

refer to the Figure - 5 and Figure - 6). When L. N. Mittal first launched his bid to acquire Arcelor, two types of reactions were triggered off among the market analysts. The first category of the analysts held that the offer was nothing but an adventure or a strategic stunt. The second category thought that there might have been some inside trading and Arcelor actually had some hidden liabilities that got leaked before the mighty Mittal Steel. Hence, the share prices went up and down from time to time.

Although initially, confusion and doubts loomed in the markets and the stakeholders of Mittal Steel were getting exposed to equity fluctuations, the shockwave was absorbed by Mittal Steel. The new conglomerate, Arcelor Mittal has today considerably progressed in monetary terms and the merger appears to be rather successful.

Method of Payment and Fairness of the Deal

The merger offer from the Mittal Steel had not been accepted in a total absence of existing and imminent competitors. The Arcelor management had an enough scope to compare and analyse the prices. However, this illustrious example of a bitter but successful bidding has been looked at as rather an example of business imperialism. Thus, Arcelor has been marked as a subdued rival that finally becomes a part of the "Mittal Empire" (Cooney, 2008). Even in that case, the Arcelor shareholders actually accepted Mittal's offer for a takeover by means of a general agreement. So, the management of the target company wasn't ultimately bypassed by the acquirer, which is not typical to the hostile takeovers. Therefore, by proper allocation of the dividends and even-handed reconstitution of the management of the new

company formed, Mittal appears to have adopted proper methods, which were strategic rather than accommodating.

Conclusion

The upshot of a business takeover might lead to a largely magnified production, sales, and revenues volume. The consequential brand, Arcelor Mittal, has now got a wider assortment of choices and services in both the equity and commodity markets. Today, the bitter struggle between two mighty steel giants has become a part of the past history. Today, there is a competent, diversified, internationalized, and skilled team of technocrats in the management of Arcelor Mittal that caters with the pre-existing values of both the Mittal Steel and Arcelor SA.

In the global markets, even during the recessions of the year 2008, Arcelor Mittal did not face any serious setback. Although the conglomerate today controls almost 10% of the total steel production volume, it is not easy to sustain this market lead. The World Steel Capacity is rapidly on the rise (please refer to Figure - 7). If Arcelor Mittal wants to maintain its current position in the industry, it would not only have to maintain but also increase its production steadily. The initial low confidence in the stock market was mainly due to the fact that the Arcelor had slightly better financial records than that of the Mittal Steel. But Mittal Steel regained momentum, principally due to its global approach and voluminous production.

Recommendations

In the ancient days, we knew about the emperors who wanted to expand

their empires to the best possible extents. They would seek to control more
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and more land, natural resources, etc. Conceivably, a modern businessman would also think in a similar way while proceeding for more and more business acquisitions.

So, the ambitious businessman may have to face challenges when it comes to a cross cultural amalgamation. In today's world, it is not plausible to become completely localised or utterly global. In such a state of affair, cross-cultural takeovers become more sensitive and complicated. And business must not be devoid of ethical values and Emotional Quotient.

Initial low confidence in the share markets neither mean a premature lapse nor suggest a decided failure in the long run. A determined manager and negotiator can make substantial changes to take place in the market.

In case of Arcelor Mittal, the case writer does still not suggest that the takeover has been an ultimate success because it needs to be tested more by time and market. However, we must unanimously agree to the fact that cultural issues and unexplainable doubts cannot do good to even a mighty establishment in face of a strong onslaught.

Tables and Figures

Figure - 5 (Source: INSEAD)

Figure - 6 (Source: INSEAD)

Figure - 7 (Source: Equitymaster. com)