Corporate strategy tata corus acquisition marketing essay

Corporate Strategy is about enabling an organization to achieve and sustain superior overall performance and returns. It is a core responsibility of senior executives and encompasses a range of critical activities, from defining and refining corporate vision to strategic performance measurement and management. Organizations are facing exciting and dynamic challenges in the 21st century. In the globalised business, companies require strategic thinking and only by evolving good corporate strategies can they become strategically competitive. A sustained or sustainable competitive advantage occurs when firm implements a value – creating strategy of which other companies are unable to duplicate the benefits or find it too costly to initiate. Corporate strategy includes the commitments, decisions and actions required for a firm to achieve strategic competitiveness and earn above average returns.

Corporate growth strategies

Growth can be achieved by different means. One approach is from within and another is from outside -that is combinations. Different forms of combinations are:

Amalgamation/Merger: Merger takes place when there is a combination of two or more organizations. Merger does create a new corporation.

Acquisition/takeovers: One Company acquires another company's controlling interest. The acquired company operates as a separate division or subsidiary by offering cash or securities in exchange for majority of shares of another company.

Sales of Assets: A company can sell its assets to another and cease to exist.

Holding company acquisition: This is a quasi merger. Either the total or majority of a firm's stock will be acquired. The purpose is only management and control of other.

Mergers can also be classified into the following forms:

1. Horizontal mergers take place when there is a combination of two or more organizations in the same business, or of organizations engaged in certain aspects of the production or marketing process. For instance a company making footwear combines with another retailer in the same business.

2. Vertical mergers take place when there is a combination of two or more organizations not necessarily in the same business, which complement either in terms of supply of materials (inputs) or marketing of goods and services (outputs). For instance a footwear company combines with a leather tannery or with a chain of she retail stores.

3. Concentric mergers take place when there is a combination of two or more organizations related to each other either in terms of customer functions, customer groups, or the alternative technologies used. A footwear company combining with hosiery firm making socks or another specialty footwear company, or with a leather goods company making purses, handbags, and so on.

4. Conglomerate mergers take place when there is a combination of two more organizations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used. For Example: A foot wear company combining with a pharmaceuticals firm.

In our project report, we explore the various facets of perhaps one of the most important acquisitions ever made by an Indian Company, that of Tata-Corus.

History of the two giants

TATA Group

Tata Group is an Indian multinational conglomerate company headquartered in the Bombay House in Mumbai, India. In terms of market capitalization and revenues, Tata Group is the largest private corporate group in India. It has interests in chemicals, steel, automobiles, information technology, communication, power, beverages, and hospitality. The Tata Group has operations in more than 80 countries across six continents and its companies export products and services to 80 nations. The Tata Group comprises 114 companies and subsidiaries in eight business sectors. Its total revenue is $67. 4 billion, profit $1. 74 billion and total assets $52. 8 billion. The main aim of the TATA group is to improve the quality of life of the community it serves. The group has played a pioneering role in a variety of fields after India's independence and it is widely respected for the initiatives it has taken in different fields for upliftment of the country.

TATA Steel

Tata Steel Group is one of India's largest integrated private sector steel companies. The group manufactures and distributes steel, welded steel tubes, cold rolled strips, bearings, and other related products. Tata Steel Group operates across Asia, Europe, and Australia. Tata Steel Group is headquartered in Mumbai, India and employs about 86, 600 people. The group recorded revenues of INR 1, 473, 292. 6 million (approximately $32, 147. 2 million) in the financial year ended March 2009 (FY2009), an increase of 12% over FY2008. The operating profit of the group was INR141, 279. 5 million (approximately $3, 082. 7 million) in FY2009, compared with an operating profit of INR 141, 213. 4 million (approximately $3, 081. 3 million) in FY2008. The net profit was INR49, 509 million(approximately $1, 080. 3 million) in FY2009, a decrease of 59. 9% compared with FY2008. It is the world's sixth largest steel company with capacity of 31 million tones per annum (tpa). The group is the world's second most geographically diversified steel producer, with operations in 26 countries and commercial presence in more than 50 countries. Tata Steel Group's strong market position gives it advantage of scale and increases its bargaining power.

The story of Tata Steel is a century old. And so is the story of steel in India. Etched with the visions and hardships of a single man, the story has flowed through ages to re-define steel in every way. The saga, which started in 1907, completed a century of trust in 2007 and carries on. Over the years this one company has discovered different avenues of effective steel utilisation and its story defines and re-defines conventional wisdom in more ways than one. The Steel Company obtained its first colliery in 1910, adding six more in course of time. Several mines were spread over the states of Bihar, Orissa and Karnataka. The Tatas soon became the first to own a fully mechanised iron ore mine in India at Noamundi. The Coal Beneficiation Plant at West Bokaro undertook beneficiation of low-grade coal, thus helping in the conservation of the fast dwindling resources of high quality coal. The collieries, the mines and the quarries together furnish the bulk of the raw material requirements of the plant. When the entire world was reeling in the Great Depression, the Tatas survived and supplied nearly three-fourth of the country's steel requirements. By the Second World War, Tatas' production capacities had expanded enough to make their prices lower than those of steel produced in England, raising them to an authoritarian position. Post-Independence the Tatas decided to set on the Herculean task of nation building. The much-required steel for the newly devised Five-year Plans came from the Tata factories. The Company undertook the Howrah Bridge in Calcutta, the Bhakra-Nangal Project and the Damodar Valley Corporation, the port at Kandla, the city of Chandigarh and many more important projects.

The last decade of the twentieth century happened to be a very hectic period of self-renewal and growth for Tata Steel. An extensive technological overhaul, several improvement projects, cost control measures, optimising IT support and a strong customer-centric approach were all instrumental in finding the right direction for changing outlooks. At the turn of the millennium, Tata Steel had earned the complete trust of the whole wide world and emerged as a strong entity in the global steel industry. The last decade has been marked by Tata Steel's prominent role in the overall development of the country, even during phases of economic turbulence and its decisive foray into more and more global territory. Intense strategic thinking about future expansions, plans for organic growth and initiation of new projects are a few highlights in Tata Steel's expanding and more penetrative roles in the larger perspective. The acquisition of NatSteel in 2004 was Tata Steel's first overseas acquisition and the series of joint ventures and mergers that followed found a peak when the acquisition of

Corus, happened in April 2007. But in every positive step that the Company has taken towards growth and expansion, involving diverse cultures and geographies, Tata Steel has never lost sight of its great heritage of social and community responsibility.

The long journey of Tata Steel has seen the Company re-define its performance parameters in a number of ways to become the global steel industry benchmark for value creation and corporate citizenship. It ensures a total commitment to its ethical business practices and a people oriented vision.

SWOT Analysis Of Tata Steel

Strengths

Strong market position

Integrated steel operations in India

Strong research and development (R&D)

capabilities

Weakness

Dependence on third party suppliers for raw

material in Europe

Dependence on Europe

Opportunities

Expansion in India

Joint ventures to develop mining activities

Anticipated demand for steel in India

Threats

Consolidation in the global steel industry

Environmental regulations

Corus Group

Corus Group plc was formed on 6th October 1999, through the merger of two companies, British Steel and Koninklijke Hoogovens, following the privatization of many steelworks companies by the U. K. government. The company consists of four divisions which include: Strip Products, Long Products, Aluminum and Distribution and Building Systems. With headquarters in London, Corus operates as an international company, satisfying the demand of many steel customers worldwide. Its core business comprises of manufacturing, development and allocation of steel and aluminum products and services. The company has a wide variety of products and services which comprise of the manufacturing of electrical steel, narrow strip, plates, packaging steel, plated steel strip, semi finished steel, tube products, wire rod and rail products and services. However, the company is also engaged in providing a variety of services including design, technology and consultancy services. Corus' products and services are acquired by customers from diverse fields such as commercial and military aerospace ventures, the automotive, construction, engineering, defense and security, as well as the rail and shipbuilding industry. In terms of performance, the company is regarded as the largest steel producer in the UK.

It is headquartered in London, the UK and employs 21, 300 people. The group recorded revenues of £9, 733 million during the fiscal year ended December 2006, an increase of 6. 3% over 2005. The operating profit of the company £457 million a decline of 28. 9% over 2005. The net profit was £229 million in fiscal year 2006, a decline of 49. 2% over 2005.

SWOT Analysis Of Corus Group

Strengths

Diversified product portfolio

Strong technology

Diversified geographic presence

Weakness

Rising expenses

Lack of scale

Weak returns

Opportunities

Positive outlook for the aircraft industry

Growing US construction industry

Growing Chinese steel market

Threats

Economic slowdown in the US and

Eurozone

Consolidation in the global steel industry

Increase in energy and fuel costs

The Deal

The deal (between Tata & Corus) was officially announced on April 2nd, 2007 at a price of 608 pence per ordinary share in cash. This deal was a 100% acquisition and the new entity was be run by one of Tata’s steel subsidiaries. As stated by Tata, the initial motive behind the completion of the deal was not Corus’ revenue size, but rather its market value.

Even though Corus is larger in size compared to Tata, the company was valued less than Tata (at approximately $6 billion) at the time when the deal negotiations started. But from Corus’ point of view, as the management has stated that the basic reason for supporting this deal were the expected synergies between the two entities. Corus has supported the Tata acquisition due to different motives. However, with the Tata acquisition Corus has gained a great and profitable opportunity to make an exit as the company has been looking out for a potential buyer for quite some time.

The total value of this acquisition amounted to â‚¤6. 2 billion (US$12 billion). Tata Steel the winner of the auction for Corus declared a bid of 608 pence per share surpassing the final bid from Brazilian Steel maker Companhia

Siderurgica Nacional (CSN) of 603 pence per share. Prior to the beginning of the deal negotiations, both Tata Steel and Corus were interested in entering into an M&A deal due to several reasons. The official press release issued by both the company states that the combined entity will have a pro forma crude steel production of 27 million tones in 2007, with 84, 000 employees across four continents and a joint presence in 45 countries, which makes it a serious rival to other steel giants.

The official declaration of the completed transaction between the two companies was announced to be effective by Court of Justice in England and Wales and consistent with the Scheme of Arrangement of the Tata Steel Scheme on April 2, 2007. According the Scheme regulations, Tata Steel was required to deliver a consideration not later than 2 weeks following the official date of the completion of the transaction.

At the time of acquisition, nearly 49% of Corus was owned by British shareholders, 11% by North American shareholders, 10% by Dutch shareholders and another 30% by shareholders in Germany, France, Belgium and other countries.

At first, it had appeared that Tata would get Corus unopposed as the bid had received favourable initial response from the Corusâ€Ÿ Board. The Corus board had unanimously accepted Tata Steel’s takeover proposal and had even recommended it for shareholders’ approval. However, things changed soon after CSN entered the fray, making a more competitive offer than Tata.

The bidding process continued for three months with CSN countering each successive move by Tata with a higher bid for the equity of Corus. For example, when Tata raised their bid to $9. 2 billion for Corusâ€Ÿ equity in early December 2006, CSN countered it with $9. 6 billion within hours of the Tataâ€Ÿs offer.

When months of takeover battle could not determine the winner, UKâ€Ÿs Takeover Panel announced that it would hold an auction with a maximum of nine rounds to decide the winner. The auction took place on 30th January 2007. On the auction eve, Ratan Tata along with Tata Steel managing director B Muthuraman were monitoring the Corus auction taking place thousands of miles away in London. The Tata Sons director Arun Gandhi, their investment bankers and advisers were in London representing Tata Steel. The entire deal timeline is detailed below:

Deal Timeline

September 20, 2006 : Corus Steel has decided to acquire a strategic partnership with a company that is a low cost producer

October 5, 2006 : The Indian steel giant, Tata Steel wants to fulfill its ambition toExpand its business further.

October 6, 2006 : The initial offer from Tata Steel is considered to be too low both by Corus and analysts.

October 17, 2006 : Tata Steel has kept its offer to 455p per share.

October 18, 2006 : Tata still doesn’t react to Corus and its bid price remains the same.

October 20, 2006 : Corus accepts terms of â,¤ 4. 3 billion takeover bid from Tata Steel

October 23, 2006 : The Brazilian Steel Group CSN recruits a leading investment bank to offer advice on possible counter-offer to Tata Steel's bid.

October 27, 2006 : Corus is criticized by the chairman of JCB, Sir Anthony Bamford, for its decision to accept an offer from Tata.

November 3, 2006 : The Russian steel giant Severstal announces officially that it will not make a bid for Corus

November 18, 2006 : The battle over Corus intensifies when Brazilian group CSN approached the board of the company with a bid of 475p pershare

November 27, 2006 : The board of Corus decides that it is in the best interest of its will shareholders to give more time to CSN to satisfy the preconditions and decide whether it issue forward a formal offer

December 18, 2006 : Within hours of Tata Steel increasing its original bid for Corus to 500 pence per share, Brazil's CSN made its formal counter bid for Corus at 515 pence per share in cash, 3% more than Tata Steel's Offer.

January 31, 2007 : Britain's Takeover Panel announces in an e-mailed statement that after an auction Tata Steel had agreed to offer Corus investors 608 pence per share in cash

April 2, 2007 : Tata Steel manages to win the acquisition to CSN and has the full voting support form Corus'

Valuation & Due Diligence

Tataâ€Ÿs original bid for Corus had been at 455 pence a share in mid-October 2006, valuing Corusâ€Ÿs equity at $8 billion. But as a result of the bitter fight with CSN of Brazil, Tata finally paid a price of $12. 9 billion in an all-cash deal, raising doubts that the acquisition would likely turn out to be a winnerâ€Ÿs curse. Within weeks of the acquisition announcement, Tata Steel had lost over $1 billion in market capitalization, as the market reacted negatively to the high price paid.

The wealth-accretion advantages of the deal, if any, would accrue in the long term. Immediately, it meant raising huge amounts of debt and equity to finance the deal. Both Moodyâ€Ÿs Investors Service and Standard & Poorâ€Ÿs said they might lower Tataâ€Ÿs debt rating which meant that debt financing would likely neither be easy nor cheap.

To finance the Corus buy, Tata Steel embarked upon what was perhaps the biggest fund-raising exercise by an Indian company. It raised funds through a number of sources. These included a rights issue of equity shares, rights issue of convertible preference shares and long-term debt including foreign currency structured issues. Tata Steel and its fully owned subsidiaries Tata Steel UK and Tata Steel Asia Singapore were involved in the unprecedented fund raising exercise by an Indian company. Tata Steel UK was also the SPV for the Corus takeover. The whopping about $13 billion was planned to have been raised as shown in the table below

Company

Source

Amount ($ Mil)

Tata Steel

Internal generation

700

Tata Steel

External commercial borrowings

500

Tata Steel

Preferential issue of equity shares to Tata Sons

640

Tata Steel

Rights issue of equity shares to its shareholders

862

Tata Steel

Rights issue of convertible preference shares

1, 000

Tata Steel

ADR/GDR EQUITY ISSUE

500

Tata Steel UK

Non-recourse debt raised from a consortium of banks

6, 140

Tata Steel Asia Singapore

Bridge finance

2, 660

Total

13, 002

By early April 2007, Tata Steel had completed the $12. 9 billion (Rs 52, 700 crore) acquisition of Corus Group plc at a price of 608 pence per ordinary share in cash. The enlarged company would have a crude steel production of 27 million tonnes in 2007 and would be the world's fifth largest steel producer with 84, 000 employees across four continents.

Need for the Deal

Introduction

The Tata Iron and Steel Company (name later changed to Tata Steel) was established by Sir Jamsetji Tata in 1907. By 2006 it was India's largest integrated private sector steel company. With its recent acquisitions and mergers, the company has become a multinational with operations in various countries. It was recognized as the world's best quality steel producer in 2005. Though domestically the company had seen significant growth in the 100 years, it ranked a poor number 56 globally in terms of steel output. In order to enhance its market share in the global market Tata steel made several smaller foreign acquisitions, including Singapore's NatSteel and Thailand's Millennium Steel. But these small incremental deals would not enable Tata Steel to capture the sudden opportunity that had arisen in the steel market.

We believe that Tata Steel had to act in response to the changing environment, the industry structure and to exploit its competencies and resources at its disposal, which led to its decision of acquiring Corus, a steel firm much bigger in size compared to Tata Steel. We propose to explain the need for the related linked diversification, logic and reasoning behind the deal through the Resource-Based Model of Above Average Returns and the I/O Model of Above Average Returns.

Resource-Based Model of Above Average Returns

Deriving Synergies

There were a lot of apparent synergies between Tata Steel which was a low cost steel producer in fast developing region of the world and Corus which was a high value product manufacturer in the region of the world demanding value products. Synergies also existed in terms of sharing and manufacturing practices, shared services and purchasing. Also there were other synergies between the two companies; Corus was a large player in value-added services while Tata Steel was one of the lowest cost producers of steel in the world. According to Tata Steel Annual Report of 2007-08 the expected synergies and efficiencies had already started flowing in and would bring in annual benefits of USD 450 million per annum by year 2010.

Raw Material

Tata Steel also has a relative cost advantage because it owns iron-ore mines which Corus did not. Corus was fighting to keep its productions costs under control and was on the lookout for sources of iron ore. (Tata Steel owns enormous volumes of high-quality iron ore and other minerals needed for steel-making. Captive raw materials linkages have given the modernizing and expanding Jamshedpur mill a competitive edge. Tata Steel is set to build greenfield mills in iron ore-rich states of Orissa, Jharkhand and Chhattisgarh). The joint entity will have a self sufficiency in raw material.

Cultural

There was a strong culture fit between the two organizations both of which highly emphasized on continuous improvement and ethics. Tata steel’s Continuous Improvement Program ‘ Aspire’ with the core values: trusteeship, integrity, respect for individual, credibility and excellence. Corus’s Continuous Improvement Program ‘ The Corus Way’ with the core values: code of ethics, integrity, creating value in steel, customer focus, selective growth and respect for our people.

Importantly, the rest of cultural differences between the two companies had been taken care of and the two merged entities were working under their joint management. Tata Steel’s earnings per share had improved after the merger.

Sharing Competencies

According to Ratan Tata, post-merger the immediate focus would be on extracting synergies from Corus. He felt that there was scope to make Corus a competitive steel company by inculcating the creativity and cost-consciousness in Corus as had been generated in Tata Steel.

Product Mix

Geographical and product mix possibilities. The combined entity will emerge as the second most geographically diversified steel company. It will have access to high valued- added product mix and strong market positions in automotive, construction and packaging.

Reputation

The Corus acquisition allowed Tata Steel to enhance its reputation and acquire a Global name. This has the potential to open up other markets for steel for Tata Steel, improve its bargaining power with respect to suppliers and customers.

Sharing Complimentary Strengths

Corus has a strong Research and Development (the number one position in the entire world) and product development for value added products in auto, construction and packaging which compliment what Tata Steel is doing in the fast growing Asian markets. A merger would complement their respective strengths.

Low Cost Slabs

Tata Steel has large supply of iron ore slabs from its green fields established in India in places like Orissa, Jharkhand, etc. Tata Steel can supply this slabs to Corus once these green fields in India are complete.

In addition, there will be other ways to create value, linked to the projects of Tata Steel in India today.

Patents and Technological know-how

Corus has eighty-one patents that have been filed and assigned to the Corus by the United States Patent Trademark Office. Tata’s completion of the acquisition meant it ended up becoming the owner of these patents. There would be technology transfer and cross-fertilization of R&D capabilities between the two companies that specialized in different areas of the value chain.

Distribution Network

Tata has a strong retail and distribution network in India and SE Asia. This would give the European manufacturer a in-road into the emerging Asian markets. Tata was a major supplier to the Indian auto industry and the demand for value added steel products was growing in this market. Hence there would be a powerful combination of high quality developed and low cost high growth markets.

With Tata Steel the cheapest manufacture of steel in the world the new company will become highly profitable.

Strategic and Integration Committee

A ‘ Strategic and Integration Committee’ was formulated to develop and execute the integration and further growth plans. Appropriate cross functional teams were formed under this committee to look into specific issues.

There were some concerns over the lower return of capital employed and EBIDTA margins in 2007-08 which seemed to have declined. As debt would be repaid over the years, the EBIDTA margin as well as return of capital employed were likely to improve, but would need to be carefully watched.

I/O Model of Above Average Returns

Scanning

At around eight per cent of GDP growth, India is seen well poised for a burst in development, a high increase in production output and a surge in demand for various goods from the common people of India.

Industry experts are buoyant and bullish on the economic, demographic (in terms of young workforce, increase in incomes and hence an increase in consumption), and the helpful political environment (in terms of tax reliefs to industries, a commitment from the government to implement and introduce policies which further the interests of commerce).

The Tata’s were able to identify the early signals of potential changes in the environment and detect the changes that were underway. They were able to connect the dots and realize that as a result of the above changes in the environment the steel industry would look more and more attractive. There would be more need of steel due to the growth of car and aviation industries.

Monitoring

It was clear that in a fragmented steel industry to get the cost advantages and a competitive edge to exploit the emerging opportunities consolidation was needed in the steel segment. This logic was the basis for a spree of mergers and acquisitions pursued by Tata Steel. The rapid progress of the Indian automobile, engineering and construction industries means that the country will need more and more high-quality steel and it is seen that the global steel prices are on an incline.

Access to Corus' technology will, in course of time, allow Tata Steel to move up in the value chain. The acrimonious but successful Mittal-Arcelor deal also gave Tata's sufficient signal on consolidation being the emerging trend in the steel industry.

Forecasting

Although, Tata Steel was India's largest integrated private sector steel company but globally ranked number 56 in terms of steel output. The Tata's realized that the Corus buy would instantly catapult Tata Steel to the position of 5th largest steel producer in the world, and provide access to the latest technology and strategic European markets as Corus had plants in Britain, Germany, France, the Netherlands and Belgium. It was also expected that Tata Steel would benefit from reduced production costs due to large volume, combined R&D operations and broader product range. Corus acquisition would also dovetail with Tata Steel's efforts to move up the value chain, as the former had built a reputation as an established supplier to the aviation and auto industries.

Assessing

Brazilâ€Ÿs CSN and other players were also trying hard to acquire Corus which meant that a quick acquisition was the only alternative. Tata’s had and assessed the situation realized the need to act quickly and swiftly. It was clear that a small window for a big opportunity had opened up for Tata steel.

This was a risky consolidation, considering that the future of Tata Steel is dependent mostly on Corus’ performance but it is well known that entrepreneurial decisions involve risk. We can understand that it may be one of the entrepreneurial decisions that Tata Steel had to make for the future success of the company.

Aftermath of the deal

Post merger integration is the biggest challenge in any acquisition. But before we look at the challenges, let us first look at the immediate synergies that TATA Steel aimed at before going for the deal and how it obtained them after the deal.

Synergies & Advantages

After the acquisition,

TATA-Corus combine became the 5th largest steel producer in the world with an output around a quarter that of the largest, Arcelor Mittal.

Before the deal, TATA Steel was not ranked among the top 50 global steel producers in 2005/06, producing just 5. 3mn tonnes. Corus, by contrast was the 9th largest producer with an output of 18. 2mn tonnes.

Economies of scale have a very significant impact on any steel firm.

This deal came at a time when consolidation in the steel industry was a necessity with increase in demand from China

A growing presence in Asia and the developed European economies would surely leverage the economies of scale from Europe and harness growth from Asia

The two corporations made a formidable presence – a presence in 42 countries, a combined capacity of 25mn tonnes and a collective sales turnover of Rs 1 lac cr (March 2008 estimates at the time of the deal)

The deal came at a perfect time for TATA Steel after its successful acquisitions of Singapore’s NatSteel in 2004 and Thailand’s Millennium Steel in 2005. Acquisition of Corus, a steel giant in the Western markets, gave TATA access to the vast distribution network as well as the opportunity to become a global player.

TATA is a low cost producer of steel and Corus is famous for its value additions and technology especially in manufacturing of steel used in high rise buildings.

The acquisition paved the way for TATA to access the R&D facilities of Corus as well as to introduce its low cost production techniques in the Western markets. This can be considered as one of the most important synergies in the entire deal.

The deal helped the TATAs in getting 20mn tonnes of steel capacity at virtually half the price as such a capacity would have required nothing less than $20bn – $25bn as per 2006/07 estimates.

The synergie