

Vodafone acquires hutchisson's stake essay

[Business](#), [Industries](#)



A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions are often paid in cash, the acquiring company's stock or a combination of both.

Acquisitions can be either friendly or hostile. Friendly acquisitions occur when the target firm expresses its agreement to be acquired, whereas hostile acquisitions don't have the same agreement from the target firm and the acquiring firm needs to actively purchase large stakes of the target company in order to have a majority stake. Acquisitions differ according to the size of the acquired assets relative to the acquiring firm.

In situations where the acquirer can leverage its assets to buy a firm which is as big or bigger than itself, the problems posed are quite different from 'bolt-on' deals where the new assets can be integrated with an existing part of the buying firm. A firm that takes over another firm makes two assumptions. The first is that the acquiring firm can extract more value from the same assets than can the current owners.

This is a strong statement of comparative management ability. The second assumption is that not only the acquiring firm can extract more value from the same assets than the present owners, but also that the value extracted will be more than the market price paid for the assets. In other words, an acquiring firm is saying "our valuation of the assets is superior to the current valuation". The fact that this assumption is often erroneous is the

core reason why many acquisitions fail as profit enhancing tools – if the market price fully reflects the future profit stream of the acquired assets, then there is no scope for profit from the acquisition. However, opportunities for profit arise in situations where assets do not have a market price, as is the case with private firms or divisions of multi-unit companies. Here, 'guesstimates' of the market price have to be made, which provides scope for some firms to be more skilled than others in this estimation. The assignment throws more light into some of the acquisitions and the strategic rationale behind them and how they have affected the Indian market as a whole.

VODAFONE ACQUIRES HUTCHISSON'S STAKE IN HUTCHISSON ESSAR

Vodafone paid a discounted price of \$10.

9 billion in cash for acquiring the 52% stake held by Hutchison Telecom International (HTIL) in Indian mobile firm Hutch-Essar to complete a deal that gives it access to one of the fastest growing mobile markets. The acquisition made India Vodafone's third largest mobile phone market after Germany and the US. It gave the company access to a ready 23.3 million subscribers and 16.

per cent nationwide market share. Also, the acquisition fitted in perfectly with the company's strategy of investing in emerging markets to offset narrowing margins in the saturated European markets. India was expected to grow to 500 million users by 2010, adding 5-6 million users a month.

And today, Vodafone has become the second largest telecom operator only after Airtel. It has approximately 140.84 million customers as of November 2012. It has emerged as one of the most innovative brands and it continues

to attract more and more subscribers through its creative marketing strategies and connect to the youth.

Mode of Entry. Acquisition of Hutchison Essar In February 2007, Vodafone Group, one of the leading global telecommunication companies entered into Indian market by acquiring the 67% stakes in Hutchison Essar, one of the leading telecom operators in India, which provided its services under the brand name, Hutch. When Vodafone acquired Hutch the later had already earned a huge brand success in Indian mobile communication sector.

Rationale Behind the Acquisition Leveraged up-on existing infrastructure built by Hutch – One of the objectives of Vodafone was to bring the product and services at the lowest possible cost for the Indian consumers. Existing infrastructure such as, towers, power supply, distribution channels etc.

could help Vodafone to reduce its operating costs and investment requirements. After five years of acquisition Vodafone was able to save more than one billion dollar by leveraging upon the ready-made and shared infrastructure. Quick entry to the new market- Acquisition also helped Vodafone to make a quick entry to the Indian market. Other mode of entry could have been time consuming or at least could take years to build the communications channels and network if Vodafone decided to enter by own. Also taking the approval/license from the government could have been the time consuming. Minimizing the risk due to cultural differences- Since Hutch was already operating in Indian market before the Vodafone came; it had a good understanding of consumers behavior towards selecting a product or services. Also Indian consumers are diversified in term of product choices,

likes and dislikes, social and cultural influences, so managing the risk arises out of this divers consumers could have been difficult if Vodafone entered alone.

Growth opportunity - India is the world's 2nd most populated country and the fastest growing mobile market in the world. So entering to India could help Vodafone to accelerate its business growth Building a Strong Brand - Acquisition would result in forming a strong brand name Vodafone Essar in India, enabling them to make nationwide presence with strong financial position. Better competition to competitors - One notable point regarding the Indian telecom market is that, this sector is highly competitive as there are many strong players, like Airtel, Reliance and BSNL operating in the market. So, it could have been difficult for Vodafone to counter the threat posed by those competitors. However, Vodafone along with Hutch could give them better competition. This further support the Vodafone's strategy to acquire Hutch. Win- Win situation for both Vodafone and Hutch-Vodafone-Hutch acquisition was an strategic movement for both the companies.

Although Hutch had done well in the Indian market, its penetration of total Indian population was only 40%. So, in order to expand its business to other parts of the country, Hutch needed money for investment. At the same time Vodafone was ready to make the investment in India market. So, Hutch decided to sell its 67% stake to Vodafone to meet its financial needs. Other motive toward acquisitions was that through the acquisition, Hutch would get the global platform for its business as Vodafone was an international player in telecommunication. According to Vodafone Essar director as saying that

the objective is to leverage Vodafone Group's global scale in bringing millions of low-cost handsets from across-the-world into India. Sound economic environment – After the economic reform Indian foreign policy has been very friendly to the foreign companies who want to come to Indian market. There is relaxation in taxation and foreign exchange rules.

Also there is least intervention by the bureaucracy in the management of the foreign companies in India. Tax Purposes – The corporate effective tax rate in India is 33. 22% for a local company and 42. 23 % for a foreign company. However joint venture companies are taxed same as domestic companies with some minor differences. According to Indian FDI policy, Foreign companies are free to open branch offices in India.

However, a branch of a foreign company attracts a higher rate of tax than a subsidiary or a joint venture company. The liability of the parent company is also greater in case of a branch office. Mahindra Ssangyong Deal On 2 August 2010, Mahindra and Mahindra Ltd.

(M; M), the flagship company of the USD 7. 1 billion Mahindra group, entered into an agreement with the ailing Ssangyong Motor Company (SYMC) to acquire majority stake in SYMC. Mahindra ; Mahindra signed a definitive agreement with Ssangyong Motor Company Limited (SYMC) to acquire 70 per cent stake in the ailing South Korean auto maker at a total cost of USD 463 million (about Rs 2, 105 crore).

Mahindra will acquire 70 per cent stake in Ssangyong and out of the total cost of acquisition of USD 463 million, USD 378 million will be in new

stocks and USD 85 million in corporate bonds, it added. The acquisition of the South Korean doesn't just give Mahindra & Mahindra access to higher-end SUVs, R&D capabilities and a multination dealer network – it also helps the Indian automaker derive savings from joint sourcing and joint product development. Ssangyong Motor Company (SYMC) The origin of Ssangyong Motor Company (SYMC) can be traced back to two companies Ha Dong-hwan Motor Workshop and Dongbang Motor Co. In mid-1963, the two companies merged into Ha Dong-hwan Motor Company. Ha Dong-hwan Motor Company used to build jeeps, trucks and buses. In 1986, it was acquired by Ssangyong business group and the name was changed to Ssangyong Motor. In 1991, it partnered with Dailmer-Benz to develop light commercial vehicles, diesel engines, luxury passenger cars and gasoline engines. In 1993, SYMC launched its SUV named Musso.

It was followed soon with the launch of a new car Koranda. In 1997, SYMC launched the Chairman, a luxury passenger car. In late 2004, the Chinese auto major Shanghai Automotive Industry Corporation (SAIC) bought 51% stake in SYMC by paying USD 500 million. However, on Jan 9, 2009 SYMC filed for bankruptcy due to declining sales. As of 2010, SYMC had its presence in three major sectors of the Korean automotive market that included passenger cars, SUV and recreational vehicles.

In its product portfolio it had Rexton II, New Kyron and the Actyon in the SUV segment. In the sport utility truck (SUT) segment, it had Actyon Sports. In the passenger car segment and multi-production vehicle segment. Strategic RationaleThe acquisition provides a tremendous opportunity to accelerate

our M&M's progress towards intention of becoming a globally-recognised player in the specific niche of utility vehicles Ssangyong's has a strong product development expertise. This is evident from the fact that M&M developed three vehicle platforms: Commander, Scorpio and Xylo in the last two decades. In the same period, Ssangyong has developed seven SUV platforms which were tested and commercialised in developed markets and M&M is committed to leverage this competency by investing in a new Ssangyong product portfolio to gain momentum in global markets.

Ssangyong vehicles are priced at Rs 12 lakh upwards, a level where M&M flagship product Scorpio price band ends. M&M also has plans of joint product development with Ssangyong in the areas of SUVs and crossover vehicles. This acquisition will also give M&M access to the advanced R&D facility of Ssangyong which is considered to be the finest in South Korea. Ssangyong also has a strong network of 1300 dealers spread across 98 countries. The wide sales and distribution networks and complementary product lines will provide access to many overseas markets for both companies. The acquisition gives access to Rexton SUV, SsangYong's flagship brand, Actyon, the crossover, and Kryon, its mid-sized compact SUV.

Rexton and Korando will be brought to India and it will be in the CKD (completely knocked down) form. M&M also gets access to the new product C2100 Korando, a five-seater compact SUV, which has a huge market potential. The acquisition is a strategic fit for Mahindra as it does not clash with its existing bouquet of products. Further Ssangyong has a retail network spread over 80 countries in all continents barring North America.

Analysts say the acquisition of Ssangyong would make sense for M&M as the deal would give it access to Ssangyong's Rexton sport utility has been scouting for deals ever since it lost out to Tata Motors in the bidding for Jaguar Land Rover in 2008. Europe within reach Ssangyong's SUV's are already Euro V compliant and will be Euro VI compliant soon, while India is still now meeting Euro IV emission standards. A ready market opens up for Mahindra in Europe, Russia, South America, Middle East, Africa and Asia, where Ssangyong exports. Ssangyong buy makes a lot of sense for them. It is their step towards establishing a global footprint.

Analysts said it would take a while for all its new products to get stabilised and start generating positive cash flows, but businesses such as heavy trucks, which are high margin, would boost profitability. Orkla MTR Acquisition About MTR The Bangalore-based spices and ready-to-eat foods company — which began as a restaurant called Brahmanara Coffee Club in 1924 and renamed Mavalli Tiffin Rooms in 1951. In 1975, Maiyas diversified into the business of convenience foods and instant mixes. As the business expanded, modernization and state-of-art facilities, including dedicated Lab and printing and packaging facilities, were added. Orkla is willingness to have a licensing arrangement for MTR brand.

MTR's wide range of products include ready-to-eat curries and rice, ready-to-eat cook gravies, frozen food, ice-cream, instant mixes, spices and variety of pickles ; papads, and milk beverage drinks. About Orkla Orkla is a Norwegian conglomerate operating in the Nordic region, Eastern Europe, Asia and the US. At present, Orkla operates in the branded consumer goods, aluminium

solutions and financial investment sectors. The company's strategic focus is on growth in its branded consumer goods operations.

Orkla's Branded Consumer Goods Area is a leading supplier of branded consumer goods and concept solutions, primarily to the grocery and out-of-home channels. The business area mainly holds no. 1 and no. 2 positions in its categories. Most of the branded consumer goods are proprietary, and have been on the market for many years. The bulk of the portfolio lies in the Nordic region and the Baltics, although the branded Consumer Goods Area also holds several strong positions in Russia, India and Austria. Through Orkla Food Ingredients, The Branded Consumer Goods Area is also an important supplier to the European bakery market. The business area is divided into five units: Orkla Home & Personal, Orkla Confectionery & Snacks, Orkla Foods, Orkla International and Orkla Food Ingredients MTR acquired by Orkla MTR is sold out to Orkla for a whopping \$100 million (Rs 450 crore) in February 2007.

The valuation was nearly three times MTR's current turnover of about Rs 150 crore. The MTR acquisition represents Orkla's first entry into Asia for its branded consumer goods business. MTR's distribution network in India could help Orkla to market its own products, and its manufacturing facilities could help the Norwegian major to lower costs by outsourcing manufacturing to India.

The Rs 450 crore valuation is an indication of the kind of premium global food majors are prepared to pay to enter the promising Indian market. The MTR sale enables private equity firms J P Morgan Partners, which has a 24%

stake in MTR Foods, and Aquarius India Fund, with 14%, to profitably exit the venture. Conclusion The MTR acquisition represents Orkla's first entry into Asia for its branded consumer goods business. MTR's distribution network in India could help Orkla to market its own products, and its manufacturing facilities could help the Norwegian major to lower costs by outsourcing manufacturing to India and use MTR as the sourcing hub for its overseas food business. It also gives access to MTR Foods 270 varieties of processed vegetarian food products, such as ready meals, ready mixes, spices and condiments BenQ Corp.

' s Failed Acquisition of Siemens' Mobile Devices Division Background In 1847, Werner von Siemens established the Siemens ; Halske Telegraph Construction Company in Berlin. The company laid several long distance telegraph lines in Europe. The company grew over the years and diversified into cable works, light bulbs, electric railways, and electric streetcars. In the 1897, it became a stock corporation under the name Siemens ; Halske AG. In the 1920s and 1930s, the company developed several products including radios, automatic traffic lights, multi purpose electric locomotives, and television sets. In April 2005, Siemens' mobile devices division reported worldwide sales of 9. 3 million units and US\$ 179 million in losses for the first quarter of 2005. With a turnaround seeming impossible to achieve, Klaus Kleinfeld (Kleinfeld), the CEO of Siemens, announced that Siemens was looking to sell the mobile devices division.

He also stated that Siemens might retain a minority stake in the division. However in June 2005, BenQ announced that it had acquired the whole stake

in Siemens' mobile devices business. It renamed the division BenQ Mobile GmbH (BenQ Mobile). The acquisition, effective from October 1, 2005, created one of the world's largest mobile handset makers POST ACQUISITION In the months following the acquisition, several problems emerged. In early 2006, BenQ Mobile undertook a series of cost-cutting measures; it closed down a design center in Ulm, Germany, sold the research and development facility in Aalborg, Denmark to Motorola and brought all research and development work to Munich. The company estimated that these measures would reduce expenditures considerably and it would be able to make a profit in the fourth quarter of 2006. The first BenQ Siemens brand mobile phones were unveiled in January 2006.

| The new models, which included the EF81, the S68, and the S88, were feature-rich with camera and Bluetooth capabilities. In March 2006, the BenQ-Siemens P51, a Smartphone, was launched. However, customer response to the new products was lukewarm. WHY DID THE AQUISITION FAILED Many reasons were attributed for the failure of the new company. BenQ's acquisition of Siemens' mobile devices business was a rare case of a small entity acquiring a larger unit. According to Y.

H Yeh (Yeh), professor and director of Graduate Institute of Finance at Fu-Jen Catholic University, Taiwan, in cases where the buyer is smaller than the bought, it is essential for the acquiring company to be financially sound and have healthy operations. That means growing strong comes before growing big. You must have enough money to deal with future uncertainties," said Yeh. BenQ's August 2005 sales were 21% lower when compared to the same

period the previous year. The fall in sales was mostly because of the loss of its biggest mobile phone customer – Motorola.

BenQ's attempts to expand its branded business seemed to have affected its OEM business, with several customers starting to see it as a potential competitor. THE AFTERMATH The bankruptcy of BenQ Mobile and the consequent loss of about 3, 000 jobs created a furor in Germany. Both Siemens and BenQ were held responsible for the debacle.

The German public felt that Siemens was guilty of creating false hopes that the loss making unit would be saved. “ From an economic point of view, Kleinfeld perhaps acted in the correct manner, but his reputation as someone who can turn around companies in a tough but always fair way has been lost,” said an editorial in Financial Times Deutschland. There were also reports suggesting that Siemens sold the division because closing it down would have tarnished its reputation.