

Tata merger with tetley group



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Tata, a strong player at home, became a global competitor with this acquisition. It was dubbed the merger of a global shark by an Indian minnow. The international marriage - success lies in complementing each other. The year 2000 saw the Tata group acquire the Tetley group based in UK where the deal; was closed for 271 million pounds.

AN OVERVIEW OF TATA TEA LIMITED

TATA Tea was set up in 1964 as a joint venture with a UK based James Finlay and

Company to develop value added tea. From a mere share of 3% in the mid 70's to become

India's second largest tea producer, The operations of Tata tea and its subsidiaries focus on branded product offerings in tea but with a significant presence in plantation activity in India and Sri Lanka. The Tata tea brand leads market share in terms of value and volume in India and has been accorded the 'super brand' recognition in the country.

Tata tea also has 100% export oriented unit manufacturing instant tea in the state of Kerela, which is the largest such facility outside the United States.

AN OVERVIEW OF TETLEY

In 1837, two brothers, Edwards and Joseph Tetley started to sell tea and became so

famous that they set up as tea merchants. In 1856, in partnership with Joseph Ackland,

they set up “ Joseph Tetley and Co., wholesale tea dealers”.

Tea was rationed during World War II, it was not until 1953, just after rationing finished,

that Tetley launched the tea bag to the UK and it was an immediate success.

The rest, as

they say, is history. The tea bag had captured the public’s imagination and desire for

convenience. Within 10 years it revolutionized how Britons drank their tea and the old

fashioned tea pot had given way to making tea in a cup using a tea bag.

1974 Tetley Tea Company was bought by J Lyons who merged it with the Lyons tea

business to form Lyons Tetley. 1978 Allied Breweries acquired J Lyons’ Businesses then

as Allied Domecq sold them in the 1990s. The Tetley Group was created in July 1995,

when a group of investors bought what was then the world-wide beverage business from

Allied Domecq. On 10th March 2000, The Tetley Group was sold to Tata Tea Limited,

one of the world's largest integrated tea businesses.

Analysis of the merger

The deal was a rare example of an Indian company taking over a larger British group.

The merger was undertaken on two counts

For one, Tata Tea had their global ambitions well in place, as they wanted to take Tata Tea to the global markets.

The second reason, from Tata's side was the fact that they wanted to understand the global distribution system.

The Merger was being seen as something beneficial for both the parties given the synergies that were expected.

Background

In the backdrop of the difficult domestic scenario and dwindling exports to Russia is was

not difficult to conclude what prompted Tata Tea to go for an acquisition, that too at such

a mammoth scale. As far as the scale of merger's concerned it could be said that

nothing less than this kind of merger could have been meaningful for the company.

That is because the domestic market comparatively growing at a better rate than the other

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developed markets, 3% versus 1%, and rival HLL having benefits of access of access to

parent Unilever's latest technology in product innovation, development and packaging, it

could have been a difficult task for Tata Tea to go on its own to develop such technologies and to face the competition. With the threats of imports from rival

companies looming large, its woes could have aggravated even further.

Tea is usually exported at a relatively early stage in the production chain and blending

and packing, the most lucrative part of the tea trade, is mostly done by the tea companies

in the buyer country. The large profits therefore don't accrue to the tea producing

countries. The big money is made abroad. In Europe, 30% to 50% of the consumer price

of tea goes to blending, packaging, materials and promotion.

It was there that the merger would help Tata Tea to take advantage of the existing

scenario by virtue of Tetley's proven skills in blending and branding, not to mention

exotic packaging, which too fetches higher premiums. Also, many producers try to sell

processed tea bags or repacked consumer units, but the export of ready-for-use tea is

often hampered by poor market information and the absence of funds for expensive

marketing strategies.

It could be rightly said then that the deal was supposed to bring together the two

companies, one of which was the largest integrated tea company (Tata Tea) in the world,

while the other world's largest brand (Tetley). Together they make a world-class

planned to replace all the round tea bags cartons with an innovative soft-pack format then.

Another area that Tata Tea was eyeing was the private label tea business in the UK.

Tetley which holds sway over the market, with 6 out of every 10 retailers sourcing tea

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from it to sell under their own brand names, was a perfect launch vehicle to push greater

volumes into that highly lucrative segment, more so when its exports to the Russian

markets had been had been on a continuous decline. The key reason why the private label

was lucrative was that there were no marketing costs attached to it. That meant, by

sourcing tea directly from its 26, 000, hectares of gardens, or from the auction markets,

Tata Tea would be able to boost its margins. Surely the deal could not have come at a

more opportune time than that one for Tata Tea.

The merger impact on Tata Tea's presence in the global tea trade aside, Tata-Tetley

ltd., the already existing joint venture between the two companies, was seen aligned with

the group's international operations. Equally significant was the domestic company's plan

to open an instant tea factory in South India, which was improved for the instant tea

shipments to the US, where Tetley had a major presence. Tata tea hoped to garner greater

market share and stave off the competition, riding on Tetley's strength.

Acting swiftly, Tata Tea initiated a comprehensive operation restructuring of the world's

second-largest tea company, in a bid to move a step closer to unseating Unilever Plc. The

restructuring took forms of the broader plan to venture out into new market in East

Europe, Russia, the CIS and West Asia through both the joint venture and franchise

route. The move was critical to increasing the UK based transitional earnings potential as

Tata Tea had leveraged the company's future cash flows to fund the 271 million pound

acquisition.

As part of the recast plan, Tetley, which had the world's single largest tea brand, was

shifting its focus from black tea to higher value added products like green tea, flavored

tea and herbal tea.

The key learning's from this merger were –

Pre-estimating the importance of cultural differences,

Adopting a non-threatening approach and

Absence of time pressure.

This actually helped Tata Tetley improve results.

Initially, culture was a huge issue and had to be handled very carefully.

For example, Tata executives would complain about being kept waiting when visiting Tetley's UK head office reception centre, despite being the senior partners. Meanwhile, Tetley people would complain about being run by Tata which knew only about India and nothing about Western markets." The cultural integration, which is often an issue in a merger or acquisition, has been smooth for Tata Tea and Tetley.

The companies were different but were learning from each other.

For instance, Tetley is very process oriented while Tata Tea is quicker to respond and more action oriented. Tata was quite aware that it needed to be sensitive to the potential cultural challenges of combining the two groups. Both the groups were aware of the culture difference that existed and rather than trying to dominate each other, they adopted a focused approach to blend the two cultures. They appreciated and worked towards adding to each other's knowledge and skills and create business with better value prospects. The best part was that both the companies decided to leave

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behind the separate cultures of Tata and Tetley and move towards defining a single company. It was the first step towards a merger.

Driving Forces for undertaking the Merger

The major driving force behind Tata Tea- Tetley deal, was the fact that Tetley fitted

perfectly into Tata Tea's globalization drive and could be a perfect launch vehicle to

achieve greater synergies in the global arena.

This seems understandable because of the three major factors:

- The merger brought with it a greater market penetration.
- This helped Tata Tea's operating efficiency, as Tetley's operating margins were superior in comparison to Tata Tea, 20% vs 14% in 1999-2000.
- The merger have resulted in instant expansion of product lines of Tata Tea-Tetley combine.

FLAVOUR OF SYNERGIES

The synergies that would have accrued to the combine entity as a result of the deal were

supposed to be quite significant.

On the one hand, while Tata Tea was supposed to get access to Tetley's strong brands and its worldwide distribution network and about INR1900 crore of sales,

on the other hand, Tetley was supposed to benefit from Tata Tea's competencies in managing plantations and processing units, which Tata Tea lacked.

It was here that the merger was coming handy to Tata Tea, as Tetley had proven expertise in the area of product innovation and in sourcing tea from auction houses and which also was a major blending and packaging company and owns a host of well-known international brands.

The success story – TATA Tea acquiring Tetley

Merger implications:- Position in the value chain 305 mn GBP

Tata Tea -pre acquisition:-40% of turnover came from packet tea /tea bags

Tetley - pre acquisition:- 100% of turnover came from tea / tea bags

Consolidated - post acquisition:- Company has moved up the value chain- 84% of turnover came from packet tea/tea bags.

Merger Implications:- Increased Outsourcing

Tata Tea -Premerger: Produced 95% of its tea requirement in- house

Tetley - pre merger: Outsourced entire requirement from 35 different countries, with an estimated procurement of 3 million kilograms of tea every week

Consolidated - post merger: Today, 70% of Tata Tea's tea requirement is outsourced from different countries, thus reducing the risk associated with fluctuation in production arising out of various factors.

Merger Implications:- Predictable Margins

Tata Tea -pre acquisition:- Margins highly correlated with tea cycle

Tetley - pre acquisition:- Margins inversely correlated to tea cycle

Consolidated - post acquisition- Margins hedged

Merger Implications:-Global Footprint

Tata Tea -Premerger: Predominantly domestic operations

Tetley - pre merger: UK and USA account for bulk of sales.

Consolidated - post merger: Global presence

CONCLUSION

Mergers and Acquisitions are the most important components of modern corporate

finance. The growing tendency of capital concentration and company's preference for

external expansion, rather than internal way of development, determines the significance

of mergers and acquisitions within the bounds strategic planning of company's

development.

The findings can be concluded as follows:-

First of all, Tata Tea Ltd. had a major merger deal of Tetley in the

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year 1999-2000. Also at the same time, Tata Tea's competitors Hindustan Lever Ltd.

were also involved in a series of M&A activities.

Secondly, both the companies engaged in Merger activities because they wanted to increase their market shares and increase profitability. When Tata Tea acquired

Tetley, it was concerned with strengthening its position and to diversify geographically

through a dynamic merger activity.

Thirdly, that the consequences of the merger activity. Tata Tea Ltd. steadily increased its market share and had significant variations in the market share over the last

few years. The overall affect of the merger on market share ranged from neutral to

positive.