

Competitive advantage and the dangote group and mtn nigeria



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The efficiency and effectiveness of any firm is dependent on the activities of other companies, be it a competitor, a supplier of raw materials to the firm or the distributor of its finished goods. In an attempt for a firm to expand its growth and further improve on its performance, it seeks a means of gaining a competitive advantage in the market. As such the firm may want to gain more control of activities that leads to the creation and distribution of its product, delivery of services or the chose to merger with or acquire similar companies so as to curb the threat to which competing firms pose.

For the purpose of this research, the study would shed light on the activities of two firms based in Nigeria

Dangote Group

MTN Nigeria

Both companies have impacted greatly on the economy of Nigeria and are leading figures in their respective sectors. These companies have had to employ business Integration methods to further boost the products or services they provide.

The primary aim of a firm that chooses to employing vertical, horizontal or conglomerate integration is for the company to grow and gain market power thereby increasing its market share and/or product and service range. The research will explore Integration, the types of integration. It will also provide insight into how the firms were able to exploit the various integration methods furthermore the benefits of integration to the firms and the disadvantages of employing these forms of organising production.

Before analysing the various forms of integration adopted by both companies, the work will offer a proper understanding of the following

What is Vertical Integration?

What is Horizontal Integration?

What is Conglomerate Integration?

Vertical Integration

Vertical integration can be referred to as the process by which a company or firm takes control of the activities that influence the production and/or distribution of its goods and services. This to gain more control of the activities related to production and distribution of company goods, for strategic reasons and also to cut cost by owning the sources to which it relies on for raw materials, intermediate or complimentary goods. At the completion of a product, the distribution of these finished goods to the final consumer in the most efficient and efficient manner is crucial to the company, the company can either delivers the goods to middlemen or retail outlet, it can also rely on the distribution companies such as Inter-Distribution Company in Nigeria.

The control of activities for which a company relies on for the completion of its product or service is referred to as backward (upstream) integration, this means that the company tries to gain control of the services provided by its suppliers; these could be raw materials, intermediate goods and complimentary goods. An example of backward integration is when a company that manufactures Chocolate decides to start growing Cocoa. When

a company takes control of close to sale post-production activities such as distribution, it is referred to as forward (downstream) integration. An example of this is how the Coca Cola Company distributes its products to numerous outlets.

The firm can also opt to engage both backward and forward integration, this is referred to as balanced integration.

Horizontal integration

Horizontal integration can be referred to as an expansion of a firm either by the act merging or acquiring a business or businesses in the same industry that produce similar products and/or provide similar services. It is a course of action that allows companies that are competitors of the same products or services to come together as one, thereby broadening its activities, scope and market size. An example is the recent consolidation exercise that took place in the Nigerian Banking Industry, which saw Banks being acquired or merging with another Bank in trying to meet up with the N25 billion Naira minimum capital base set by the Central bank of Nigeria. Horizontal Integration can result in a company producing different varieties of the same product or different products that meet the same demand. Horizontal Integration is not without its setbacks, this will be analysed proper with particular reference to MTN Nigeria.

Conglomerate Integration

Conglomerate Integration can be referred as the coming together of diverse businesses to form as one, providing a wide range of services to different market segments. The businesses that come together are not rivals, as they

do not produce the same goods or render similar services. This is in an attempt to create a solid corporate body that is able to reach out into different markets.

DANGOTE GROUP

The company started as a small cement trading business in 1981 and later diversified into a conglomerate with businesses located in Nigeria, Benin, Ghana and Togo. It is currently engaged in the activities listed below

Sugar - Manufacturing & Refining, Packaging and Distribution

Salt - Refining, Packaging and Distribution

Cement - Manufacturing/ Importing, Packing and Distribution

Noodles - Manufacturing and Distribution

Flour - Milling, Packaging and Distribution

Poly Products - Manufacturing

Pasta - Manufacturing and Distribution

Real Estate

Logistics - Port Management

Logistics - Haulage

Dangote Group in itself is a conglomerate and it has employed the various forms of integration, a relationship exists between these businesses. It

should be noted that figures quoted about Dangote Group are related only to their activities within Nigeria and were sourced from the information the firm made available to the public.

DANGOTE CEMENT PLC

Dangote Cement Plc (DCP) is made up of a combination of six cement terminals and three plants, including the widely publicized Obajana Cement plant, which is the largest cement plant in the sub-Saharan Africa. The company recently merged with Benue Cement Company (BCC), in previous years, the Dangote Cement Plc (DCP) owned shares in Benue Cement Company (BCC). The coming together of these two companies is a horizontal integration. Cement is produced and imported in trying to meet demand, the transportation of these materials from the sea port to factories and distribution of finished goods is carried out by a company called Dangote Transport (DanTrans). The haulage business is run by Dangote Group and it provides freight services with a fleet of over 5, 000 trucks. By controlling the movement of materials and finished goods, the firm has employed vertical integration. It has expanded in a way that it now controls downstream activities. This is also referred to as forward integration.

The merger of Dangote Cement Plc and Benue Cement Company has presented enormous benefits.

The merger has streamlined the management of both companies, giving the newly merged companies positional advantage which will in turn give the company the power to act effectively, thereby leading to a positive operational and administrative economies of scale.

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The merger will increase the production capacity, as the company will see its production capacity increase to 20 million metric tonnes annually. Obajana plant alone currently has an annual production capacity of 5.2 million metric tonnes which will increase product capacity by 5 million metric tonnes at the end of the first half of 2011. Benue Cement Company currently produces 3 million metric tonnes and is also expected to increase to four million metric tonnes by the end of 2011. The increase in capacity is made possible because the coming together of the two companies has led to better access to financing.

Nigeria cement production is below demand, that is why Dangote Cement Company imports cement, so as to meet demand. A rise in production will see the company's dependence on import reduce which will in turn lead to an increase in turnover, this means that shareholders will reap greater dividend and also gain in share value.

The merger will lead to greater operational integration between the two companies, because they will be able to share facilities, inventory and other resources. This is referred to as " Synergies". Benue Cement Company will be able to benefit from the superior production technology of DCP and this will significantly reduce the cost of operation.

As the company production increases, more profit is made. In line with the company's ambition to expand it will create more jobs, as there will be an increase in the demand for manpower.

Dangote Cement Company is the highest producer in the country, it is not without competition. One of its core competitors is the Ashaka Cement
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Company located mainly in the northern region of the country. With regards to the threat posed by rival companies, the merger will further strengthen the company giving it a wider geographical advantage by the size of its market share.

DANGOTE SUGAR REFINERY PLC

Dangote Sugar Refinery Plc manufactures Sugar and has its refinery located in Lagos, Nigeria. It started production in 2000 and currently has an annual production capacity of 1.4 million metric tonnes. Its production capacity is currently being increased to 2.5 million metric tonnes a year which will make it the largest sugar refinery in the world.

Dangote Group operates a Sugarcane farming, processing and refining plant called Savannah Sugar Company Limited (SSCL) located in Adamawa, Nigeria. This company was established by the Federal Government of Nigeria in 1997 and was acquired by Dangote Group in 2003. Savannah Sugar Company Limited has a current production capacity of 50,000 metric tonnes per annum as such Dangote Sugar Refinery partly relies on the importation of raw sugar from Brazil, it intends to further reduce that dependency with its recent projection of cultivating 18,000 hectares a year, with approximately of 50,000 employees on board at the end of 2010 which will see raw material production increase to 200,000 metric tonnes annually

The sugar cane farm is a backward integration supplying raw material to the sugar refinery, and the sugar refinery in itself is also a backward integration. This is because it supplies Dangote beverages (Dansa Food Ltd) with sugar.

The company has two categories of customers - Super industrial users who
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are largely blue chip Nigerian companies which account for about 18 per cent of its sales revenue. These include Nestle Nigeria Plc, Cadbury Nigeria Plc, Seven-Up Bottling Company Plc and Nigerian Bottling Company Plc (NBC). The other group is the distributors who service the retail end of the market (i. e. household and micro industrial users). This group trades in wholesale white sugar and are responsible for near 82 per cent of Dangote Sugar's sales revenue. Dangote Sugar Plc also enjoys the services of Dangote Transport (DanTrans) for movement of its raw materials and finished goods, this phase of vertical integration touches both forward and backward integration. Some of the benefits of integration enjoyed by the Dangote Sugar Plc are listed below

Growing Sugar has substantially given Dangote Sugar Plc more control over the source of its raw materials, thereby reducing its reliance on importation.

Sugar farming has also reduced the general cost of production, this is because internally sourcing for raw materials does not match the cost of purchasing them from suppliers whose choice of profit can affect the company negatively and it does not attract extra charges that come with importation of raw materials.

By adopting the services provided by DanTrans, there is better coordination of company activities and also a reduction in the cost of transportation.

Dangote Flour Mills Plc

Dangote Flour Mills Plc comprises of 3 factories located in Lagos, Kano and Kwara State with a combined production output of 2. 7 million metric tonnes

a year. The company imports wheat from the US and some of its products are semolina and flour.

Dangote Group has two companies that are heavily dependent on the flour mills company, they are the Dangote Pasta Limited and Dangote Noodles Limited. These two companies rely on the flour mills for raw materials; the form of production adopted here is vertical integration which sees the both companies source for its raw materials from within.

Dangote Pasta Limited and Dangote Noodles Limited also share various benefits mentioned earlier about other companies which are

Lower cost of acquiring raw materials

Better coordination of company activities

Dangote Agro Sacks Limited

A variety of Dangote Products like cement, salt, flour and sugar needs to be packaged before they are distributed, because of the large volume of sacks that will be needed for this purpose, Dangote Group introduced Dangote Agro Sacks Limited. The company produces polypropylene bags primarily for internal use, and is able to produce 500 million 50kg sacks a year. Agro sacks are able to meet the total packaging demand of Dangote Group. By vertically integrating the activities of Dangote Group, it saves the company millions of naira.

Dangote Transportation Limited (DanTrans)

With a total of 5, 000 trucks, DanTrans is able to meet the transportation needs of Dangote group. These activities range from the transportation of bulk cement from terminals, distribution of finished goods like noodle, cement, beverages, sugar, salt and many others; and also the movement of raw materials to factories for processing. Movement of raw materials to factories are not a close to sale activity, therefore it is regarded as backward integration. The distributions of finished goods are downstream activities referred to as forward integration, both are forms of vertical integration.

Disadvantages

The application of the various integration methods in company activities are not without their shortcomings.

Trust Issues: The merger was put on hold for several years as properties of Benue Cement Company were vandalized and set ablaze by protesting workers who saw the merger from a religious and regional perspective.

Judging that the Chief Executive of Dangote Group, Aliko Dangote is a muslim from the northern part of Nigeria and Benue Cement Company is located in Benue State, with a predominantly Christian population in the Central part of Nigeria. A repeat of such an act will have a negative effect on the company's profit and growth forecast.

Emergence of monopoly: The merger of Dangote Cement which is an already sound company with Benue Cement Company will put rival companies at risk of losing their share of the market. This is because competing companies will be restricted by their size, technology and borrowing power, this can lead to the emergence of a monopoly.

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Vertical Integration is Limited: Though Dangote Group has gained so much control of related inter-company activities, it is still dependant on other companies for materials, an example is Doy Packs Limited which packages Dansa Products.

Sustenance: The introduction of new activities poses the question as to whether these companies can be sustained. The larger a company is, the more complex it is to manage. With particular reference to Dangote Flour Mills which also sells flour to consumers through middlemen. In trying to compete with other flour products which have established themselves in the market, Dangote Flour Mills give out goods on credit to middlemen with the hope that when the goods are sold, the middlemen will hold on to their profits and pay for the purchase. This is not the case because many middlemen refuse to pay up even after the goods have been sold, a recent attempt to involve the police in debt recovery has seen middlemen threaten to shift to rival products.

Little or no competition: Some companies like Dangote Agro Sacks, which manufactures company sacks and DanTrans, which transports finished goods and raw materials primarily exist to satisfy company needs, as such these companies are less efficient in the areas of innovation and management as a result of the lack of competition. This can be seen in the behaviour of DanTrans truck driver who have continued to give Dangote Group a bad image in the eyes of the public by the manner in which they drive. They have been said to be responsible for accidents that have caused the loss of lives, this has resulted in the burning down of 3 DanTrans Trucks by angry sympathisers along Ilo-Ilo road, Nigeria this year.

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Additional Expenses: The merger of the two cement companies will see the companies incur higher expense at Annual General Meetings, Board of Directors and Communication with Shareholders

MTN NIGERIA

MTN Nigeria is a Telecommunication company which got its license in 2001, it is a part of MTN Group. The company has a heavily rooted presence in Nigeria with an estimated 35 million subscribers and offers a wide range of products and services which include voice communication services, video calling, internet services, street cam service and tracking services. MTN Nigeria has made tremendous investments in Nigeria by rooting telecommunication infrastructure in all 36 states of Nigeria, the transmission has reached over 10, 000 villages and over 223 cities.

Any company which wishes to succeed aspires to grow, the telecommunication industry has been subject to stiff competition as there are other major players like Glo Nigeria, Etisalat, and Zain Nigeria. In trying to gain competitive advantage in the market, MTN Nigeria horizontally integrated by acquiring VGC Communications for 70 million US Dollars. VGC Communications also provided Telecom services such as fixed line and internet services but it was a relatively smaller company which had a little over 20, 000 customers. It is a company that was unheard of in many parts of the country and had only established itself solidly in Lagos state. What used to be known as VGC communications is now known as MTN Hyconnect. MTN Hyconnect now provides broadband internet services and landline services, this is with the aim of tackling the poor internet speed that has plagued the country and also to provide voice services. This act of horizontal

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integration is targeted at homes, offices, small and medium enterprises; this acquisition has provided MTN Nigeria with some benefits

Cost Savings: Though MTN Nigeria paid \$70 million to acquire VGC communications, it has benefited by the already existing structures, the goodwill the company had and also the existing customers. It has been able to save the time and money that would have been needed to start a company from scratch.

Economies of Scale: MTN Nigeria has been able to provide similar services to a new range of customers by acquiring VGC Communications. By this geographical expansion it has grown in the number of its customers and the type of services it provides.

Competitive Advantage: Once again MTN Nigeria has proven to be a pioneer in the Telecommunication industry as rival companies have continued their competitive onslaught by bringing out competing tariff packages and lowering call cost. This brilliant move has seen MTN Nigeria venture into a terrain with lots of opportunities to be exploited.

Diversification: By the acquisition MTN Nigeria has ventured into another aspect of telecommunication which is fixed network, this has seen the emergence of a new market with the telecommunication industry. Better access to financing: MTN Hyconnect has grown significantly in recent years, this is because the company now has access to more funds and has been able to grow ever since, MTN Hyconnect now exists in 3 other places which are Abuja, Port Harcourt, and Ibadan.

It has not been a situation of smooth sailing all through, as the following disadvantages have emerged from the acquisition

Restricted Growth: MTN Hyconnect is still trying to establish a strong footing, this is because companies like Starcomms provide similar services at relatively lower rates. The continues decline in the general standard of living has also seen homes embrace these services at a slower rate as some will see it as a luxury.

Takeover of smaller companies: Acquisition of smaller companies has seen these companies vanish, thereby limiting the choices consumers have and also reduces competition in the industry.

Another disadvantage faced by MTN Hyconnect is that, it was a small company at the point of acquisition and has left MTN Nigeria with the giant task of reaching out to the whole country, so far, it exist in 3 states and the federal capital, Abuja. For Hyconnect to succeed, it will require large sums and also a lengthy period of time.

Summary

Vertical, Horizontal and Conglomerate Integration are different forms of organising production which involves a company gain control of the activities of suppliers and distributors, acquiring or merging with companies that offer similar goods and services, and companies that offer totally different goods and services respectively.

Dangote Group is made up of different companies that manufacture cement, salt, sugar, sacks, noodles, flour, beverages and over transport services for

company use. It has adopted horizontal integration by merging with Benue Cement Company and has employed vertical integration by producing company sacks, transporting the firm's raw materials and finished goods, growing sugar cane for the sugar factory, and sourcing flour for the production of noodles and pasta. With integration, Dangote Group has benefited from economies of scale, saved cost, gain more control of related company activities and has as gained a competitive edge. The application of vertical and horizontal integration has brought forward issues of coordinating larger company activities, incurring additional expense, trust issues, reduced competition in the industry and the fear of an emergence of a monopoly.

MTN Nigeria provides telecommunication services ranging from voice communication services, internet services to tracking services. The bid to gain competitive edge has seen the company acquire VGC Communication, a fixed network provider which is now called Hyconnect. The acquisition which has seen MTN Nigeria diversify within the same industry has reaped competitive advantage, growth, cost savings, and the economies of scale that comes with a merger or acquisition. Hyconnect has not fully gain footing because of the activities competing companies and the general standard of living, acquisition has seen smaller companies fade away giving consumers lesser choices.

Conclusion

Adopting the various forms of organising production has seen the companies grow tremendous, it should also be noted that this has positively affects on the GDP of Nigeria. The fear of the emergence of a monopoly is evident, yet

this has further strengthened the positioning of Dangote Group and MTN Nigeria in a very unstable economy.