

# [Tata motors acquisition of daewoo commercial vehicles](https://assignbuster.com/tata-motors-acquisition-of-daewoo-commercial-vehicles/)

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Introduction The company was started in 1868 as a Tata group company that was involved in textile manufacture. The company was invented by Jamsetji Tata at Nagpur in Maharashtra.

He brought first textile mills in the country as well one of the most luxurious hotels in India. In addition, he made it possible for the India to have the first airline. Tata Company did very well growing from textile to automobile company. In recent years, its turnover has raised significantly. For example in 2004, the company turnover was $14.

25 billion. This made a 2. 6% GDP contribution in India. In 2010, the company had a turnover of $27. 3 billion, which is almost twice times growth. This may have been brought by the recent acquisition that they have done towards several companies (Center of management research, 2005).

The company had 91 companies world wide in 2004 with objectives to get more. These companies deal with diverse functions such as Engineering, energy, consumable products chemicals as well as communication and information services. Of the whole group, Tata Motorsis rated as the biggest and has been ranked as fifth largest manufacturers of commercial vehicles worldwide. As a part of the bigger bracket of the Tata Group Company, it started as Tata Engineering and Locomotive Company Limited (TELCO) at around 1920.

TELCO was originally a company that was owned by the Peninsular Locomotive Company that came into existence in 1923. This company was taken by the East India Railways to ensure that it was used in, manufacturing passage carriers for the Indian railways. It was until 1945 when the Tata sons bought it from the government of India using it to manufacture steam boiler engine locomotives. They continued their manufacture under the TELCO name. Afterwards they joined with Marshals Sons from United Kingdom as they manufacture steam roads roller. They also worked together with Krauss Maffei from West Germany in the continuation of their steam engine locomotive manufactures.

From then the company has been growing steadily. The company collaborated with Daimler-Benz that is automobile manufacturers from West Germany. This made them to have the first vehicle get rolling after six months. The company acquired diverse technology that made the company in 1986 to have their indigenous fully designed light commercial vehicle that is TATA 407. From there, the company got a break through that made it begin making their own designed passenger cars such as Tata Sierra and Tata Estate. This made the company to emerge as the leading manufacture of commercial vehicles, passengers vehicles , construction, metal grinding and cutting machines, industrial shutters, high quality steel among others products (Tatamotors, 2010).

Despite problems that the company has encountered in the business especially in 2001 where the turnover of commercial vehicles went down, the company has bounced back. In 2004, Tata motors had revenue of 132 million making a profit of 8. 1billion. The company has become one of the highest commercial vehicle exporters. Through it s diversification and competent manufacturing, it was capable of being listed in the New York Stock Exchange becoming the first Indian automobile to b e listed. Daewoo The person behind foundation of this Company was Kim woo Chung widely known as Kim.

This company was initially founded as textile industry in 1967. Through the intervention of the government, the company was able to have a significant growth. This was done through government- approved borrowings. This made the company to grow significantly over the globe becoming the eighteenth largest world corporation in the late 1990s. The company had twenty-four companies worldwide Daewoo Group being the biggest.

These companies have diverse business ranging from shipbuilding, construction, Engineering as well as securities. In the spirit of expansion, the company started automobile company in 1978. This was hatched when the company acquired 50% of the Saehan Motor Company, as the other half stake was owned by General Motors (GM) (Center of management research, 2005). In 1983, both the GM and Daewoo Group agreed that they should name their venture Daewoo Motor Company. In 1987, they produced passenger car that did not do well due to the wrangles that they were witnessed between the two companies. The GM Company withdrew making the Daewoo group to complete the purchase of the rest 50% stake.

This made the company to be the leading South Korea automobile manufacture. Thus, the company replaced KIA and Hyundai Company. The company was expanded through debts in a strategy to ensure that it become a top ten automobiles makers. The company in 1998 was able to acquire Ssang Yong Motors. However due to the economic crisis that expanded in the Southeast Asia, the company was left in financial crisis.

The company was declared insolvent by the government of South Korea and that it was out for sale. Therefore, many companies declared their interest of buying the company that included General Motors, Ford, and Isuzu among others. Nevertheless, due to the dept that kept on accumulating in the company, in 2000, the dept exceeded its equity, made the company to be put under court receivership. Otherwise, GM and the Daewoo creditors came together to form a new company through an agreement. The company was called GM-Daewoo Automobile and Technology Company.

The strategic and economic rationale for the acquisition After the Tata Company analyzed Daewoo Company on the pursuit of creating interest to acquire it, it realized that the company had 22% market share and 25 % capacity utilization. This ensured that the company increased its interest in the company. The company strategy to ensure that it expands globally and to increase its economical gain in the market, Daewoo acquisition was seen to be the best. The Daewoo Company had established a stronghold in the South Korea market therefore it will make Tata company to have more market penetration. Its acquisition would ensure that the Tata Company would be provided by a close proximity to global customers and significantly access to new customers base and market.

The company strategic economic rationale was ensuring that it allows itself to acquire a company with high competition as Daewoo was. This acquisition ould ensure that Tata Company increases their competitiveness in the international arena. This is through assimilating the company advantages that the company had. This would make the position of the Tata Company to increase its economical position. It would also make the company to have high operation structures as Daewoo had established itself well before the economic crisis. Through this acquisition, the company would streamline its supply chains of their manufactured automobiles to the market that Daewoo Company had established increasing their sales turnover.

This is through taking advantage of the technical team of the company of the Daewoo that was very experienced in international sales. The company would also be able to increase their production performance. Easy access to the facilities that Daewoo Company had like their plant that made the Tata Company to have even more push to acquire the company. Daewoo Company had higher technology that would have made the Tata Company realize their economical goal, as they would be made possible to access it. Through this acquisition, the Tata Company would take advantage of the intellectual in the company that they would exploit their knowledge in expanding their business globally.

It would be very simple for the company to understand the government policies in their search of foreign market. This would be an advantage, as they would not waste many resources in research. It would make the company have a more market entry in South Korea than it would have done without acquiring Daewoo Company. This would make the company be very competitive in the automobile globally as Daewoo Company was rated as six biggest in the world at that time. According to Center of management research, 2005, Daewoo Company had mad every many alliances with other companies in the world during its operation.

This would make the Tata Company to familiarize with local as well as international places where Daewoo Company had ventured in and they had not in their call for economical expansion. According to Tarun, Palephu & Bullock 2009, the company would have a problem in understand the South Korea labor market as they had a strategy that required the company to retain most of Daewoo workers establish a more Korean taste. This would make the Tata Company be able to understand fast manufacturing facilities that existed in the company and how they work and thus ensuring that they start operation right away. This would make sure that their investment would have start paying immediately. Therefore, through the acquisition of the company was about to do, they were liable of attaining their economic strategy faster. The Strengths of Daewoo Motors, which were most valuable for Tata motorsThe Daewoo Company was of very great help to Tata Company due to various advantages that it withheld.

The first one was experienced technical team that understood very well international collaboration. This was has been brought due to the collaboration that it had in various countries like West Germany among others. This technical team would be very important to Tata Company which had been had international business interest. Therefore, this technical team would have been used to the company’s advantage. The other thing that the Tata Company was willing very much to acquire from the Daewoo Company is their plant. This plant would make sure that Tata Company increases its production that consequently would increase their sales turnover.

The most important thing with the plant was that it was well equipped to domestically design and manufacture automobiles. Daewoo Company had great technology that they had embraced through their various collaboration and being in operation for a longer time(Tarun, Palephu,& Bullock, 2009). This would be of great help to the company as they will be able to learn the technology that would ensure that they upgrade their automobile manufacture. This would make them produce quality vehicles due to the technology that they would amalgamate with theirs. The company would also be offered a ready market of their one tone pickup in the Korean market. This pickup would have the international design that the Daewoo Company would offer.

Further, the Daewoo company had a very strong policy making process that would be very advantageous to Tata company. This would make sure that Tata Company also develops this making sure that they are able to get good outcome from this. The Daewoo Company requires no much publication through advertisement. After all, it was rated as six largest automobile manufacturers in the world making the Tata Company to be in position not to use more of its resources. Finally, the company was not only vehicle assemblers, but also indigenous manufacturers in South Korea. This positions the Tata in a very good competitive edge after acquiring it.

Major challenges for Tata motors in this acquisition The Tata Company nevertheless experienced several challenges in the acquisition of the company. The trade union in Korea was autocratic thus offered a great roadblock to fast acquisitioned the company. This is because there were so many bureaucracy in ensuring that the company has made any due process to acquire it. This first made Tata Company to have problems in the acquiring process. The second challenge was that the company was unwilling to strike any deal with Tata Company. This was seen as the Tata team realized that the company was willing to collaborate with European company as they argued that they would bring more technology to the company.

This was cited from the hospitality that Tata Company team was offered during the negotiation time. European team was offered Gunsan Best Hotel as the Tata Company team was offered ordinary Tourist Hotel. Therefore, this interaction made Kant realize that their desire to acquire was going sour. The company also had to over come very many and great competitors that had posed their interest to acquire the company. This challenge called for good strategy that would take much of their time and their resources.

They would also be required to do research to get to know better about how they could go about their biding process. Their competitors included Calyle Investment Corporation a firm that hand a very strong advisers like George Bush Sr who was US presidentt. Tongil Corporation that was a Korean company among others European based companies (Tata motors, 2004). Therefore, they would not have underrated the whole process. The Tata Company was also challenge by the level of the success that Daewoo had.

They were seeing that due to the success that the company had especially in South Korea being the biggest automobile in the country, they would have a problem in integrating this to the people. They knew there might be a problem in the process that would have caused their company investment. This needs them to put in place good management strategy to ensure that they attain their goals after acquiring the company. Major potential synergies of Tata Company The major potential synergies that the Tata Company would acquire from the deal were as follows: Market expansion There were projections that the company would enlarge their market for their products. Due to the market that the company had previously covered, the Tata Company would take it advantage to follow the same route as they market their products.

It was projected that the company would increase their domestic and export marketing through this acquisition. They were projecting increased international market a line that they previously did not have. Realization After acquiring the Daewoo Company, Tata Company was able to venture in areas such as South Korea through ensuring that most of the employees who were in the company were amalgamated in the company management. This is one of the market that they had not ventured earlier thus, their market was expanded. In addition, the company was able to venture in other parts of the world especially through the, manufacturing of the Tata heavy commercials that were sold across the globe.

The marketing of these heavy commercial among other light vehicles and their spare part were realized through Tata Motor Distribution Network that was made available worldwide (Tata motors, 2004).. Competitiveness This acquisition was seen by the company to be positive as the company was out to check the competition that it was experiencing from companies as Volvo Indian Unit. This is through ensuring that they start producing heavy trucks of up to 210 hp that they did not produce previously. This was through integrating the Daewoo company technology.

Therefore, they were to continue manufacturing these trucks as the Daewoo company had been doing as they had heavy commercial vehicles that ranged from 210- 450 hp (Tarun, Palephu,& Bullock, 2009). RealizationThrough the retention that they did to the former workers, they were able to learn the market especially international businesses where their entry was not a great problem. They also offered their products at considerably cheap prices making the company compete very well with the other competitors especially in the European countries. This is because despite of their low priced vehicles, they were able to produce quality vehicles. Due to good competitive edge that the company has realized, the company has become one of the biggest heavy commercial exporters in the world.

Increased turnover The turnover of the company was projected to increase as the acquisition of the company would increase Tata company sales of automobiles both domestically and through exports. This was projected to earn the company turnover to increase four to five times the current position. This was also projected to be equivalent to the profit that the company would make. Realization The turnover of the company has been increasing steadily since that year with the 2010 doubling the 2004. The turnover of the company has rising since then from $14million in 2004 to $27million in 2010.

This has been realized through capitalizing with the demand of the people across the country and around the world. Production The production level of the company was projected to increase after the company acquires Daewoo Company. The Tata motors were expected that they would increase the capacity of them by 60% with a span of three years. This would consequently increase export volume by 25% by 2007. The production of the company was to go hard in hard with the resources that Daewoo Company had especially through its plant. Therefore, the Tata Company was almost certain that production would rise due to the resources that they had.

Realization The productivity of the company increased significantly after the Tata Company acquired Daewoo Company. This was realized through upgrading of their vehicles to Euro III. This was because Daewoo Company had Euro III compliant engines that ensured that the Tata company to increase and diversify their production (Tata motors, 2004). Their systematic integration of their technology ensured that they were able to increase truck productions that did well in the European countries as well as china. The production of the company was also realized by integrating the company design that saw the company have a good design of the truck that projected future market entry. Conclusion The Tata Company had become a great threat in the automobile manufacturing field especially after fully acquiring the Daewoo Company.

The company has seen it competitiveness in crease over the years as it had been able to access new market places. Due to the competitiveness that the Daewoo company had introduced across the globe, Tata company has seen it way through many markets without much struggle as they were able to combine the technology that they wren both existed in the companies. The company turn over has grown up to $ 58. 3 million in 2010 according to Tatamotors, 2010. Its production has also increased following utilization of the Daewoo company plant and resources.

The company ids also able to compete especially with European company, as they are able to offer products at considerable lower prices. The company has also increased their technology heavily as the company has been able to incorporate the company’s previous employees who had diverse experiences and technology. This has seen the company be a force to reckon with especially in the matters of heavy commercial vehicles.