

Tata Acquired Jaguar Land Rover: A Strategic Decision towards Liquidity, Cost Control and New Product

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ABSTRACT

Mergers and acquisitions are being considered as one of the most important parts of any internationalisation strategies practised by any multinational company. When any organisation is involved in mergers and acquisitions, they generally used it to accelerate growth and to have access to various valuable assets of other company such as human capital and also to reduce competition in the marketplace to gain absolute competitive advantage in the market. Furthermore there are multiple empirical evidences proved that many mergers and acquisitions fail and being a reason to loss of market shares and exit of key top management personnel from the company. Different examples of failed mergers and acquisitions are found in almost all industries in different contexts. Many failure cases show us genuine discrepancy between the expectations, motivating acquisitions and the difficulty encountered to realise the expected value in the market and a complete miscalculations by the company and without knowing the ground reality they opted for or the acquisition. In June 2008 India-based Tata Motors Limited had announced that it had completed the acquisition of the two extremely glamorous and iconic British brands Jaguar and Land Rover from the US based food Motors for 2.3 billion USD. There are many experts who had shared their comments and it was mentioned that such acquisition would eventually help the parent company in several ways especially to attract the global audience, to get an international footprint and it will also help the parent company to enter the high end premium segment of the global automobile market and with the help of that the company would able to strengthen their presence in premium segment.

How to cite this paper: Pritam Chattopadhyay "Tata Acquired Jaguar Land Rover: A Strategic Decision towards Liquidity, Cost Control and New Product"

Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-5 | Issue-4, June 2021, pp.537-540,



IJTSRD42361

URL:

www.ijtsrd.com/papers/ijtsrd42361.pdf

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KEYWORDS: Acquisition, Brand Value, Product line, Strategic dimensions

Objectives

Objectives of the paper are mentioned below:

- To study the automobile industry in the global market.
- To analyze the acquisition process of Tata Motors while buying Jaguar Land Rover.
- To understand various challenges faced by Tata due to serious economic downfall in 2008.

Introduction

In any competitive marketplace it is an absolute imperative to attain the success and to create sustainability in the marketplace any company should become a global player to manage or diversify the business risk and the company need to formulate market and marketing related strategies based on the SWOT analysis. Analysing internal strength and external opportunities are also two crucial factors before entering into any kind of mergers and acquisition especially to explore the global market aggressively. Before acquiring Jaguar and Land Rover Tata Motors did complete their internal assessment quite well. While completing their internal assessment they are involved in analysing external opportunities quite specifically. Basically Tata Motors wanted to expand its product portfolio and with the help of that they tried to diversify their market base at the global platform and they wanted to increase their product line as well. According to some of the industry analysts some of the key problem areas that could trouble Tata Motors were

economic slowdown in two major International markets namely European and American market those are specialised in premium auto segment. At the same time they had mentioned that funding risks for currency rates could be major impediments for Tata Motors. It is also observed that in the 10 months post acquisition period the cells volume shrink 32% and the unit recorded a loss of approximately 461 million USD. Total date in March 2009 was close to 9.72 billion USD. In such market situation there are a lot of question raised by experts from industries about the acquisition decision of Tata Motors right or wrong and they also raised questions related to analysing risk factor before entering into global market in premium segment.

About the automobile industry

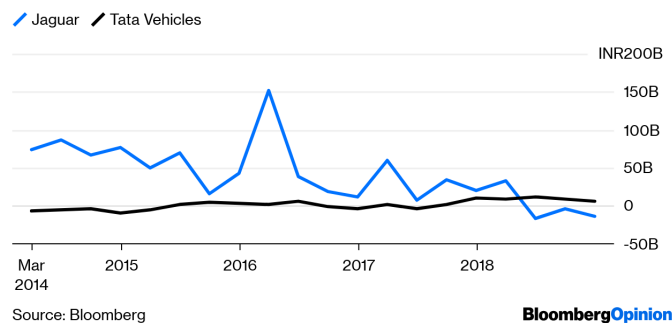
The automobile industry in India is one of the most successful industries in post liberalisation manufacturing space and it can be said that it is completely based on very efficient and robust policy support of various government. However there are different types of economic changes experience by the nation which can be considered totally unfavourable for the automobile industry and due to such situation at times there are serious downfall in sales volume of different companies. Some of the crucial factors which eventually affects automobile industries are GDP, inflation rates, exchange rates, interest rates and along with all these

factors recession would play its own part in such industry. The impact of these varied factors are continuously changing pitch ultimately affect the demand of the product in the marketplace and consumer choice criteria also influences the overall dynamism. In such turbulent scenario only strong and efficient strategies will help the organisation to survive in the market and to create a competitive position to survive. The overall strategy of Tata Motors considering diversification acquisition and merger could be considered as one of the best possible examples for the survival and growth in different economic situations. In spite of such a successful company the company was struggling right after the acquisition of Jaguar and Land Rover in June 2008 due to a very important factor called global financial crisis. The Bridge loan of 3 billion USD was actually used to fund the acquisition of Jaguar and Land Rover was actually due on June 2009 but yet at the end of the year 2008 Tata was only able to repay the amount of 1 billion USD. It was quite evident that tortoise revenue was declining and they were experiencing a very tight credit condition which was actually disturbing the company's cash flow and due to that they were not in a position to take any decision as far as marketing strategies are concerned. It is also observed that due to the management competencies and a very positive work ethics the company to overcome the situation and also so every to sustain in the market place in the changing economic situation.

Exhibit 1

Losing Its Touch

The Jaguar Land Rover unit's operating income has now fallen below that of the Indian domestic business



Source:

<https://brandequity.economictimes.indiatimes.com/news/business-of-brands/jaguar-land-rover-is-headed-for-a-cash-crash/68056899>

About the acquisition

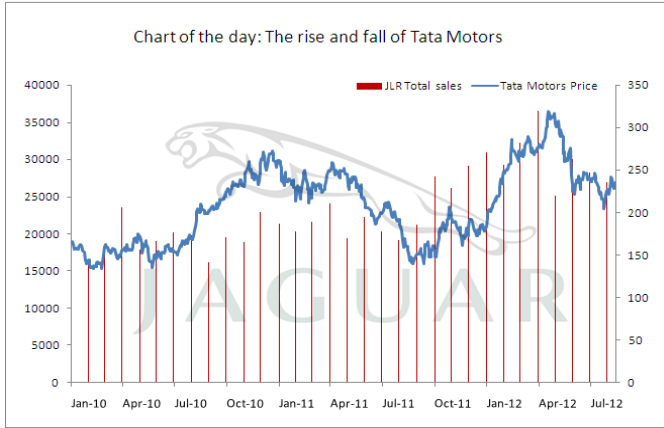
After acquiring the Jaguar and Land Rover Tata Motors top management was quite confident and pleased by looking at its prospect in automotive industry in the world. The top management had realised that they have created an enormous scope for the company which will help them to build their competitiveness over their competitor in the global market and at the same time they will be able to keep their identities intact as well. The brand value of Tata Motors will move in the opposite direction with immense support from these global players. Tata Motors aim to support their growth by holding their basic business principles of allowing the management and employee to bring their experience and expertise to grow further not only in Indian market but also in the global market as well. With the help of this business deal Tata Motors gained many business advantages. The acquisition would help the company to enter in the high end

and premium segment of the global automobile market and with the help of that Tata Motors would be able to access a different market segment altogether without disturbing their basic target audience. Tata Motors also got to advance design studios and technology as part of the deal and with the help of that they would be able to access the latest technology which would eventually allow Tata to improve their total products in Indian market. With the help of this acquisition they are trying to build it a different business synergy altogether to enhance their sustainability in the global market for the long run. In the long-run Tata Motors will definitely diversify its dependence on Indian market and slowly they will try to strengthen their footprint in the global market with the help of such large scale international brands.

While we are discussing the success story of Tata Motors at the same time we must not forget the kind of impediments they may face due to this acquisition at the global level. There is a lack of access to credit to repair the bridge loan of 3 billion USD Tata Motors was facing various problems related to cash liquidity and have negative working capital after the acquisition of Jaguar and Land Rover. Their problem areas don't stop here because in relation to that their ratio had increased over five years time and they have negative interest coverage which clearly indicates that the company was having serious problems in the payment of bridge loan. A bridge loan can be defined as a short term loan which is used until a person or a company able to secure a permanent financing or removes an existing obligation that they already started experiencing. Such type of financing allows the user to meet recently faced publications by providing the immediate cash flow at different levels. The loans are short-term in nature with relatively high interest rates and are actually backed by some kind of collateral such as real estate for inventory related things. Tata Motors was actually finding it quite difficult to access the credit and raise fund from the stock market due to the tight liquidity conditions that they started experiencing due to this acquisition. Depressed stock market and the lack of investors' confidence had also created lot of issues for Tata Motors. Beside all these elements there is lack of working capital which had actually caught them into trouble to repay the bridge loan of 3 billion USD which actually used to finance the acquisition of Jaguar and Land Rover. The bridge loan was actually due on June 2009 and it and at the end of 2008 the company somehow was able to repay only 1 billion USD so it is quite evident that the company is in deep trouble in post acquisition phase.

At the same time global financial crisis had severely impacted the international automotive industry especially the premium or luxury car segment which had experienced a mortgage crisis which had caused the domains of Lehman brothers and due to that there was a huge collapse of the global financial market and the financial crisis further deepened due to this phenomenon. The result of this demand of automobile also decreased at large scale in the global market and it is observed that different premium car manufacturers had struggled a lot to survive in the global market due to this deepened economy. The industry also experience that the export was declined by 38.6% during the year 2009 due to serious meltdown in the major International markets and due to lack of market potential.

Exhibit 2



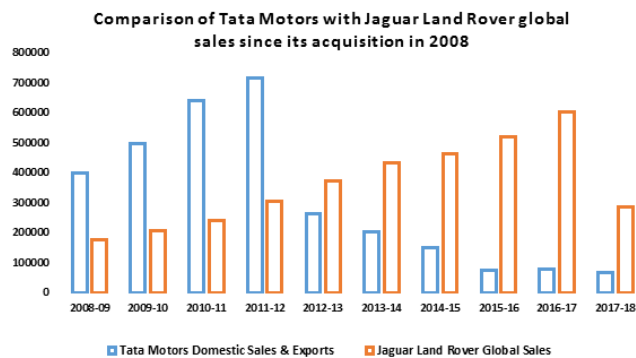
Source:

<https://financepostsite.wordpress.com/2012/08/17/is-the-steering-of-tata-motors-completely-in-hands-of-jaguar-land-rover/>

Factors affecting

Increasing material price and the fuel price had also impacted the overall demand of vehicles and due to the impact of very stiff monetary policy with the higher interest rates we had seen there is a serious crisis in the raw material price namely steel, tyre etc. Due to the rise in fuel prices Tata Motors also experienced the slowing demand in the market. So it was quite evident that the external business environment was also not in favour of Tata Motors at the time. The company had experienced a steady decrease in sales volume and the increasing cost which was wearing the increment of short-term debt which was actually responsible for killing the business of Tata Motors. Share price was also dropped weight drastically and it effects the global image and the brand image of the company as the debt market was also frozen and due to that Tata Motors decided to turn to the equity market to raise the fund by looking at other available options in the market to survive for the long run and to create a sustainable business in the global market. But unfortunately the share price of Tata Motors was also went down quite significantly due to quiet obvious and certainty of the acquisition success and the global crisis which result even in the decrease in net profit and earning per share of the company. Looking at the picture it is quite clear that since acquisition it was not at all a smooth journey for Tata Motors.

Exhibit 3



Source: <https://rmoneyindia.com/research-blog-traders/cyrus-and-crisis-are-they-synonyms-for-tata-motors-ltd/>

It is quite clear for everybody that Tata Motors was facing a lot of issues after the acquisition but despite of all these difficulties the company is trying to generate two different

synergies out of this acquisition such as cost synergies and revenue synergies. Tata Motors has a competitive advantage in the Global market through the Tata Group of Companies like Corus for Steel. The company was the main supplier of automotive high grade Steel to Jaguar and Land Rover and other automobile company in US and European market. Undoubtedly Tata Group of Companies having a good reputation in the global market and with the help of this brand image and brand equity the company was trying its level best to gain in and to establish cost synergies and revenue synergies.

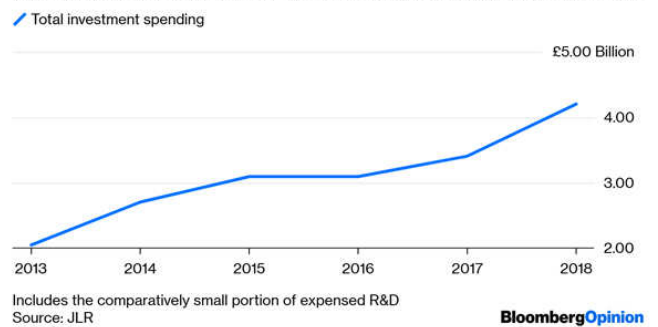
Market related issues

It is also observed that during the year 2018-19 the demand of vehicle decreased due to multiple reasons which already in explained in the research paper like global financial crisis exchange rate issues increase in crude oil price and a serious decline of demand in the domestic market. Consequently the Indian automotive industry had also experienced a serious decline in both categories namely passenger vehicles and in the commercial vehicle segment by almost 4.7 % and 22.4 % in the financial year 2014. To diversify its marketplace and by looking at the decrease in domestic sales of automobile due to recession and economic downturn the company tried to enter in China and encash the opportunity by changing its overall corporate strategy to enjoy a significant market share in the global market. Tata Motors try to grow in places like China, United Kingdom and European market etc.

Exhibit 4

Big Spender

Writedowns are a bad sign when Jaguar Land Rover's spending habit looks like this



Source: <https://auto.economicstimes.indiatimes.com/news/industry/the-wheels-have-come-off-at-jaguar-land-rover-for-tata-motors/67914007>

Conclusion

Tata Motors decision of the acquisition can be criticized on the ground of time of dealing that is changing the economic situation in the global market and a serious downfall of global economy. Post acquisition due to slowdown in the domestic and world market the demand of commercial as well as the passenger vehicle was also decreased and Tata Motors was the victim of that. One of the major revenue streams for Tata Motor was commercial vehicle before this fascinating acquisition and the top management thought process towards this acquisition was to develop its brand value and equity separately in the luxury or premium car segment in the global market but it went in vain. The overall opportunity came to Tata Motors for the acquisition was also the part of economic downtrend and the top management fail to understand the consequences of the decision. What are the strong areas for Tata Motors was their managerial competencies along with their experience in a large market like India and their goodwill. A great brand value and

financial base actually help them to take such important strategic decisions to go ahead in the global market despite of a serious fall in domestic market demand. Now Tata Motors is trying to develop its brand value and equity in the global market with the help of some other acquisition strategies to grow further and they try to make sure that there should not be any further issues in financial front.

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