

Acquisition Strategy: Analysis of Tata Motor's Jaguar Land Roar

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Abstract

In June 2008, India-based Tata Motors Ltd. announced that it had completed the acquisition of the two iconic British brands - Jaguar and Land Rover (JLR) from the US-based Ford Motors for US\$ 2.3 billion. This acquisition would help the company in several ways, to get a global footprint and enter the high-end premier segment of the global automobile market. Now the Tata Motors would own the world's cheapest car - the US\$ 2,500 Nano, and luxury marquee like the Jaguar and Land Rover.

In the Competitive market for attaining the Success, one needs to be a global player to manage the business risk and company need to be strategies themselves based on its internal strengths & external opportunities and Tata Motors acquisition of Jaguar and Land Rover is an unique example for this. Tata Motors wanted to expand its product portfolio and diversify its market base.

According to industry analysts, some of the issues that could trouble Tata Motors were economic slowdown in European and American markets, funding risks, currency risks etc. In the 10 months post-acquisition, sales volumes plunged 32% and the unit recorded a loss of 281 million pounds (\$461 million). Tata's total debt in March 2009 rose to 435.8 billion rupees (\$9.72 billion), nearly double what it owed in the previous fiscal. In such scenario the question generated about the acquisition decision of Tata motors is right or wrong. This paper is an attempt to critically analyze that the decision taken by Tata Motors about acquisition of Jauger Land Roar two iconic brands was the right decision.

Keywords

Tata Motors, Acquisition, Jaguar and Land Rover, Strategy

I. Introduction

The automobile industry in India is one of the most successful stories of post liberalization manufacturing space in India and entirely based on prudent policy support of the Government. However, the recent economic changes have not only been unfavourable but they have been inhibitor for the automobile industry. Some of the critical factors which is affecting the automobile sector are GDP, inflation rates, interest rates, Exchange rates along with the some qualitative factors like recession. These factors are continuously changing which affect the demand of the product. In such scenario only strong strategies will help the company to survive in market.

Tata motors strategy of diversification, acquisition, and merger will be an best example for the survival and growth. This paper covers the Strategy adopted by Tata motors to enter into premium class segment by acquiring Jaguar Land Rover. Although the company was in trouble right after the acquisition of Jaguar and Land Rover (JLR) in June 2008 due to the arrival of global financial crisis. The bridge loan of US\$ 3 billion which used to fund the acquisition of JLR was due on June 2009 and yet at the end of the year 2008, Tata was only able to repay the US\$ 1 billion. The declining revenues and a tight credit conditions was hurting the company's cash flow. But due to the management competencies & changing economic situation help the company to not only to overcome the situation but also to grow.

II. Objective of the Study

- To understand the Reasons behind Ford Motor's decision to sell JLR.
- To examine the rationale behind Tata Motors' acquisition of Jaguar and Land Rover.
- To understand the need for growth through acquisitions in foreign countries.
- To analyze impact of the strategic decision taken by Tata Motors about acquisition of Jauger Land Roar two iconic brands.

III. Reasons Behind Ford Motor's Decision to Sell JLR

*"Acquisition of JLR provides the company with a strategic opportunity to acquire iconic brands with a great heritage and global presence, and increase the company's business diversity across markets and product segments."*¹

- Tata Motors, in April 2008

In 2006, reports said that losses at Jaguar stood at USD 715 million. Jaguar was not performing well as it was unable to provide any profit for Ford due to high manufacturing costs in United Kingdom. Bringing down production costs and turning around the company successfully will be the challenge for the company. That was the reason Ford was ready to sale the JLR at half of the price.

Tata take this as an opportunity to enter into premium class segment to take an advantage of demographic dividend of India because of the double digit GDP growth during that period. Company have an assumption that the situation may last for few years and disposable income of people may increase which help the company to diversify their business in India into premium class segment. But due to economic slowdown not only world market but also Indian market get affected and Tata Motors was in trouble.

IV. The Rationale to Acquire JLR

On acquiring JLR, Ratan Tata, Chairman, Tata Group, said, "We are very pleased at the prospect of Jaguar and Land Rover being a significant part of our automotive business. We have enormous respect for the two brands and will endeavor to preserve and build on their heritage and competitiveness, keeping their identities intact. We aim to support their growth, while holding true to our principles of allowing the management and employees to bring their experience and expertise to bear on the growth of the business."

Tata Motors stood to gain on several fronts from the deal.

- The acquisition would help the company to enter in to the high-end premier segment of the global automobile market.
- Tata also got two advance design studios and technology as part of the deal. This would provide Tata Motors access to latest technology which would also allow Tata to improve their core products in India,
- The cost competitive advantage as Corus was the main supplier of automotive high grade steel to JLR and other automobile industry in US and Europe. This would have provided a synergy for TATA Group on a whole.
- In the long run TATA Motors will surely diversify its present dependence on Indian markets (which contributed to 90%

of TATA's revenue). Along with it due to TATA's footprints in South East Asia will help JLR do diversify its geographic dependence from US (30% of volumes) and Western Europe (55% of volumes).

V. SWOT Analysis of the Company

A. Opportunities:

1. Demand of luxury automobiles in growing markets like India and China
2. Support from Jaguar in Technology
3. Complete product line with addition of luxury brands
4. Access to European and American Market

B. Threats

1. Volatility in market driven by new products
2. Strong presence of competitors like Mercedes, BMW, Lexus and Infinity
3. Receding sales and brand image
4. High interest rate Investment riskier and costlier

C. Strengths

1. Tata's strong management capability
2. Strong monetary base to invest
3. Synergy due to Corus, TACO and TCS
4. Experience in growing market like India
5. New product development and brand building experience

D. Weaknesses

1. Inexperience in Handling luxury automobile brand

VI. Problems faced by Tata Motors due to acquisition of Jaguar Land Roar

Problem 1: Lack of access to credit to repay the bridge loan of US\$3 Billion

Tata Motors was facing problem in cash liquidity and have negative working capital after the acquisition of JLR. Besides, the debt ratio had increased over the five years and they have negative interest coverage which these show that the company was having problem in paying the bridge loan. A bridge loan is a short-term loan that is used until a person or company secures permanent financing or removes an existing obligation. This type of financing allows the user to meet current obligations by providing immediate cash flow. The loans are short-term (up to one year) with relatively high interest rates and are backed by some form of collateral such as real estate or inventory.

Tata Motors was finding it difficult to access credit and raise fund from the stock market due to the tight liquidity conditions, depressed stock market and lack of investors' confidence. Besides, lacking of working capital has caught them into trouble to repay the bridge loan of US\$ 3 billion which used to finance the acquisition of Jaguar and Land Rover (JLR). The bridge loan was due on June 2009 and yet at the end of the year 2008, the company was able to repay only US \$ 1 billion.

Table 1: P & L Account with Increasing Interest Amount after Acquisition JLR In yr 2008

	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14
Sales Turnover	23490.55	31089.69	33123.54	28538.2	38173.39	47088.44	54306.56	44765.72	34319.28
Operating Profit	2146.36	2586.51	3030.52	1723.1	4032.83	4665.14	4177.55	1717.98	-879.98
PBDIT	2998.77	3700.89	3764.69	2644.39	5253.69	4940.99	4166.39	3380.31	2382.02
Interest	350.24	455.75	471.56	704.92	1246.25	1383.7	1218.62	1387.76	1337.52
Depreciation	520.94	586.29	652.31	874.54	1033.87	1360.77	1606.74	1817.62	2070.3
Tax	524.93	660.37	547.55	12.5	589.46	384.7	98.8	-126.88	-1360.32
Net Profit	1528.88	1913.46	2028.92	1001.26	2240.08	1811.82	1242.23	301.81	334.52
EPS (Rs)	39.94	49.65	52.63	19.48	39.26	28.55	3.91	0.95	1.04

Source: Company's Annual Report

Problem 2: Global financial crisis has severely impacted the global automobile industry especially the luxury cars segment Subprime mortgage crisis has caused the demise of Lehman brothers which later lead to the collapse of the global financial sector and further deepened the global financial crisis. The result of this demand of automobile is also decrease. The Company's export was declined by 38.6% during the year 2009, due to the meltdown in major international markets.

Table 2: Comparative Demand of Automobile in FY08-09 of Industry & Tata Motors

Category	Industry sales Nos			Company sales NoS.			market share (%)	
	FY 07-08	FY 08-09	Growth(%)	FY 07-08	FY08-09	Growth(%)	FY 07-08	FY08-09
Commercial Vehicle	503218	415652	-17.4	312935	265373	-15.2	62.2	63.8
Passenger Vehicle	1533268	1525313	-0.5	218055	207512	-4.8	14.2	13.6
Total	2036486	1940965	-4.7	530990	472885	-10.9	26.1	24.4

Source: Society of Indian Automobile Manufacturers report and Company Analysis

Problem 3: Increasing materials and fuel prices have slow the demand of vehicles

Due to the impact of tighter money supply with higher interest rate, there will be meteoric rise in fuel and materials (e.g.: steel, tyres) price. High fuel price has caused Tata Motors to feel the heat of slowing demand. Decrease in sales volume and increase in cost as well as bearing the increment of short term debt would easily kill Tata Motors.



Source: Index Mundi

Fig. 1:

Problem 4: Share price dropped drastically and affect its global image

As the debt market was frozen, Tata Motors turn to the equity market to raise fund. But the share prices of Tata Motor is also significantly decrease due to uncertainty of acquisitions success and global crises which result even in decrease in net profit and EPS (Earning Per Share) of company as explain in Table 1.



Fig. 2:

VII. Acquisition is Right or Wrong

Tata Motor was facing a lot of problem after the acquisition. But still the deal was anticipated to generate generates two synergies such as Cost Synergies and Revenue Synergies.

A. Cost Synergy

The TATA Motors has the Competitive Advantage from the overall International Market through the Tata Group of companies like Corus for steel, Corus was the main supplier of automotive high grade steel to JLR and other automobile industry in US and Europe, TCS for providing engineering design, manufacturing solutions and sourcing services, INCAT Provides services like supplier programs, consulting services and global outsourcing. This would have provided a synergy for TATA Group on a whole. The whole cost synergy that can be created can be seen in the following diagram.

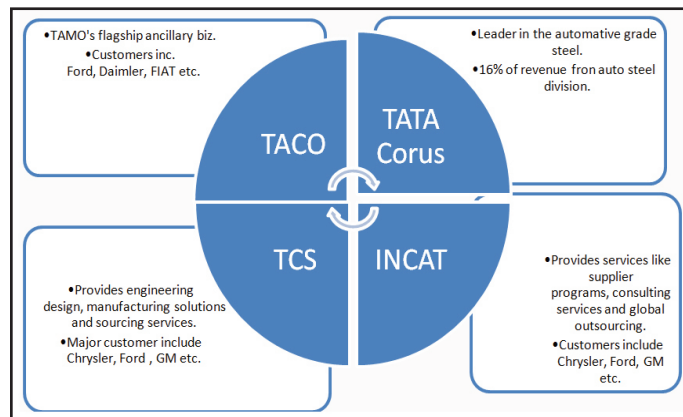


Fig. 3:

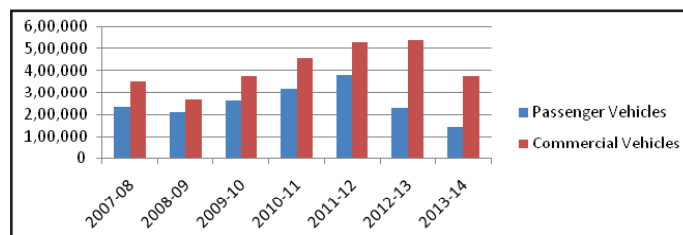
B. Revenue Synergies

Such as well known brands, distinguish brand identity of Land Rover and Jaguar, emerging Indian car market and opportunity to sell brands in India and opportunity of global presence. Due to these reasons these products being taken over by Tata group.

C. Financial Analysis of Tata Motors after the Acquisition

To understand the impact of acquisition on Tata Motors first we will see the overall domestic & export sales trend of Passenger & Commercial Vehicles in India from FY 07-08 as Tata motors is only in these two segments.

Chart1 : Tata Motors Sales Trends (No. of Vehicles)



Source: Company Annual Reports

Fig. 4:

It explains that during the year 2008-09 the demand of vehicle decreases due to numerous reasons as explain earlier the global financial crises, exchange rate, increase in crude oil prices, and in case of domestic market one of the reason is agriculture etc.

The decrease in demand for the FY13-14, reasons explain in the annual report of Tata Motors company are India's GDP growth continued to be below 5% and Industrial growth remained in negative territory. Consequently, the Indian auto industry witnessed a decline in both passenger vehicles and in commercial vehicles segment by 4.7% and 22.4% respectively in year FY14. High interest rates, inflation leading to relatively low consumer interest in buying new vehicles, and, in many cases, postponement of purchase.

Before the acquisition of JLR Tata motors major revenue is coming through commercial vehicle and during the FY07 to FY09 the demand of commercial vehicle is decreased. Thus it is important for Tata motors to minimize the risk and dependence on commercial vehicle, to diversify the business.

VIII. Performance of Jaguar Land Rover business

The turnaround of Jaguar Land Rover has become part of corporate experience. For the 12-month period ended Dec 31, 2010, the auto

maker's revenue was in excess of 9.2 billion pounds (\$15 billion), and net income for that period was \$1.5 billion. Present financial outcome will clear the competencies of the Tata for the success.

JLR has significantly consolidated its position in the premium car segment. The strengths of JLR include iconic globally positioned brands, strong product portfolio of award winning luxury and high performance cars and premium all-terrain vehicles, global distribution network, strong product development and engineering capabilities, and a strong management team.

Present financials of company will help to analyze the success of strategy of acquisition JLR. The Indian auto industry witnessed a decline in both passenger vehicles and in commercial vehicles segment by 4.7% and 22.4% in FY13-14

Table 3: Comparative Demand of Automobile in FY12-13 of Industry & Tata Motors

Category	Industry sales Nos			Company sales NoS.			Market share (%)	
	FY 12-13	FY 13-14	Growth(%)	FY 12-13	FY13-14	Growth	FY 12-13	FY 13-14
Commercial Vehicle	900,433	698,907	-22.4	536,232	377,909	-29.5	59.6	54.1
Passenger Vehicle	2,557,566	2,438,502	-4.7	229,325	141,846	-38.1	9.0	5.8
Total	3,457,999	3,137,409	-9.3	765,557	519,755	-32.1	22.10	16.60

Source: Annual Report

Following table will explain the performance in passenger vehicle segment. All brands including Premium and luxury vehicle sales are showing decline trend in Industry .But the same segment in Tata Motors is in 73.3 % growth because of JLR.

Table 4: Sales Trend of Different Segments of Tata Motors Vs Industry Sales

Category	Industry sales Nos			Company sales NoS.			Market share (%)	
	FY 13-14	FY 12-13	Growth(%)	FY 13-14	FY 12-13	Growth	FY13-14	FY 12-13
Micro	21,130	53,847	-60.8	21,130.0	53,847.0	60.8	100	100
Compact	786,888	794,284	-0.9	84,141	117,377	-28.3	10.7	14.8
Midsized	154,981	200,013	-22.5	2,414	7410	-67.4	1.6	3.7
Executive	18,272	23,537	-22.4	164	1,061	-84.5	0.9	4.5
Premium & Luxury	3,973	5,214	-23.8	1,430	825	73.3	36.0	15.8
Utility Vehicle	532,963	560,892	-5.0	29,409	45,841	-35.8	5.5	8.2
Vans	118,618	123,254	-3.8	3,158	2,964	6.5	2.7	2.4
Total	2,438,502	2,557,566	-4.7	141,846	229,325	-38.1	5.8	9.0

Source: Annual Report

Table 5: Individual performance of Jaguar Land Rover

	FY 2013-14		FY 2012-13		Growth from last year	FY 2011-12		Growth from last year
	Units	%	Units	%		Units	%	
Jaguar	79,307	18.5%	57,812	15.5%	37.2%	54,039	17.2%	7.0%
Land Rover	350,554	81.5%	314,250	84.5%	11.6%	260,394	82.8%	20.7%
Total	429,861	100.0%	372,062	100.0%	15.5%	314,433	100.0%	18.3%

Source: Company Annual Report

During FY 2013-14, total sales increased to 429,861 units from 372,062 units in FY 2012-13; an increase of 15.5%. The increasing sales trend of JLR explains the success story of decision.

IX. Jaguar Land Rover's Performance In Key Geographical Markets on Retail Basis

Decrease in domestic sale of automobile due to recession and economic downtrend the Tata motors enter the developing economies like China and encash the opportunities by changing their strategic decision towards these countries.

A. China

Passenger car sales reached a new peak of almost 18.4 million units

in the year to March, growing faster than either of the previous two years. Total JLR sales in the China Region reached 103,077 up from 77,075 in FY 2012-13. Jaguar volumes more than doubled to 19,891, while Land Rover sales reached 83,186.

B. Asia Pacific

Total JLR sales increased by 27.7% year-on-year to 22,795. Of the three NSCs in the region, South Korea experienced the fastest expansion. On the back of a rebound in economic growth following the slowdown in 2012, JLR sales jumped 51.8%.

C. United Kingdom

Against the backdrop of improved labour market conditions, rising consumer and business confidence and buoyed by cash

compensation from the mis-selling of payment protection insurance, total vehicle sales jumped 12.5% compared to the previous year.

D. Europe

In Germany, Jaguar Land Rover sales grew 6.5%, against a meagre 0.2% for total passenger cars. In Italy, Jaguar Land Rover sales edged up 1.1%, driven by Land Rover, against a total market contraction of 1.3%. Although in France sales fell across the board, the most surprising performance came from Spain where, after three years of double-digit contraction, the market rebounded by 11.7% and Jaguar Land Rover sales rose 14.7%.

X. Conclusion

Tata motors decision of acquisition criticise on the ground of time of deal that is changing economic situation of the world. Post acquisition due to slowdown in domestic and world economy demand of commercial as well as passenger vehicle decreased. Tata motors major revenue is coming from commercial vehicle before acquisition. This acquisition will help the company to develop its brand in luxury passenger vehicle. The opportunity came to Tata motors for the acquisition is also the result of economic downtrend. Ford was ready to sale these two iconic brand at half of its price which is at the time of acquisition paid by Ford in 2005. Such distress sale by Ford is an opportunity for Tata motors to become globalise and enter into premium class passenger vehicle which may not possible as early in other case. Tata motors strength, that is their managerial competencies along with experience of large market like India, great brand and financial base help them to take such strategic decision. Fall in domestic market demand may change their strategy to move to growing countries like china is also the strategic decision taken towards the fulfilment of strategic intent of company. Tata motors now develop its brand value in world because of this successful acquisition and growth of these two companies.

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Dr. Seema Laddha completed her post graduation, MBA in marketing and finance and Ph.D in management. She is having 4 years corporate and 9 years of academic experience. Her subjects of interest are Strategic Management, Marketing Strategies, Retail Management and various other subjects of marketing. Presently she is associated with SIES College of Management Studies (SIESCOMS).

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