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The Analysis of Bright Food Company's M&A Behaviors

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Abstract: Merger and acquisition has become a popular way for companies to increase their market shares. This paper focuses on the analysis of the M&A strategies of Bright Food Company. The goal is to identify the strategies made by Bright Food Company and its future goals. The whole paper uses credible sources and data from different websites. This paper reveals the reason why some M&A strategies made by Bright Food Company are not successful.

Keywords: bright food company, Merger&Acquisition, bidding, state-owned enterprise, conglomerate

1. Introduction

Gradually, the business world started to focus more and more on Mergers and acquisitions, giving high expectations of earning a lot by committing to this initiative. Bright Food Company is one of the most successful food companies which has succeeded by some brave business activities, M&A in particular. The motivation for this research is to analyze the process of M&A made by Bright Food Company and dig into the reasons why some succeeded while others failed. This essay uses literature review and statistic analysis as tools. A literature review can give us the necessary information for this company and its business activities. Statistic analysis can help to prove whether this activity is successful or not. This essay can help people to understand M&A and provide the key to success in business for other companies, especially those related to the food industry. In addition, the whole society will have a deeper understanding of Bright Food Company, which may potentially develop their interests in economy and business.

2. Introduction to M&A

Since the 1980s, mergers, and acquisitions (M&A) have been a crucial role to stimulate economic growth and shaping industry structures. Separately, a merger is defined as the action of two different companies combining to create a brand new business company. While acquisition means that a large company expands by purchasing a small company. Indeed, there are various reasons explaining why M&A is necessary for the new brand and companies emerging nowadays to strengthen their impact on the industry. According to J.P. Morgan equity research analyst Vaidya, M&A not just eliminates the eliminate excess workforce but also accelerates the growth of the economy helps to overcome competition, and acquires monopoly by reaching the economies of scale (the redundant cost of operation would be reduced due to the cooperation) [1].

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For example, Addidas benefited by acquiring Reebook North America in 2005 to compete with Nike's dominant control of the footwear market. It was such an attractive deal for Reebook that Addidas was willing to offer a 34% higher premium price [2]. Also, Addidas has a strong global presence which was something Reebook urged to reach. Simultaneously, Reebook provided its stylized quotient to Addidas. and captured the women's sector by producing products relating to them such as women's apparel and etc. As a result, they successfully created a win-win situation together and occupied more market share, contributed by the technology sharing, overlapping operations, and all the cost-cutting strategies.

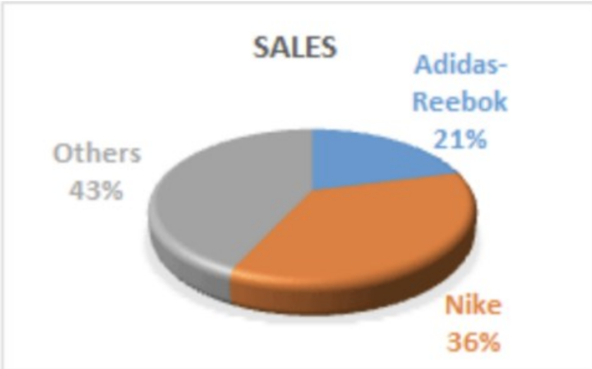

Figure 1: Reebook and Addidas market share comparison [2]. (Before and after acquisition)

However, mergers and acquisitions can be seen as dangerous too. Changes in ownership may result in a huge impact on the stock price. In addition, wrong market actions can lead to huge losses especially when a firm overevaluates the target firm. Unemployment may occur due to the duplicity of roles. There was a vivid case 20 years ago that can exemplify it perfectly.

Americal Online was the leader in interactive services with more than 30 million users across the world at that time, striving to provide convenient communication for users.

While Time Warner was one of the largest media and entertainment companies in the 1990s. In fact, Time Warner was the result of a company called Time which experienced 2 times of successful mergers: one with Warner Communication and the other with Turner Broadcasting Systems. In the late 1990s, American Online realized that they needed a better delivery system to deliver their service, while the high-speed cable lines from Time Warner can effectively solve this problem. Also, American Online believed that the merger can reduce the operating cost greatly. Thus, these two companies decided to merge. However, the new media landscape was not what American Online expected. The market gave up on dial-up service and shifted to broadband gradually. Time Warner was not able to provide the service needed by American Online, making it difficult for them to do financial forecasts. As a result, they lost $65 billion which is the largest loss in all mergers [3].

Therefore, how to perform the right actions is extremely vital for a firm on M&A.

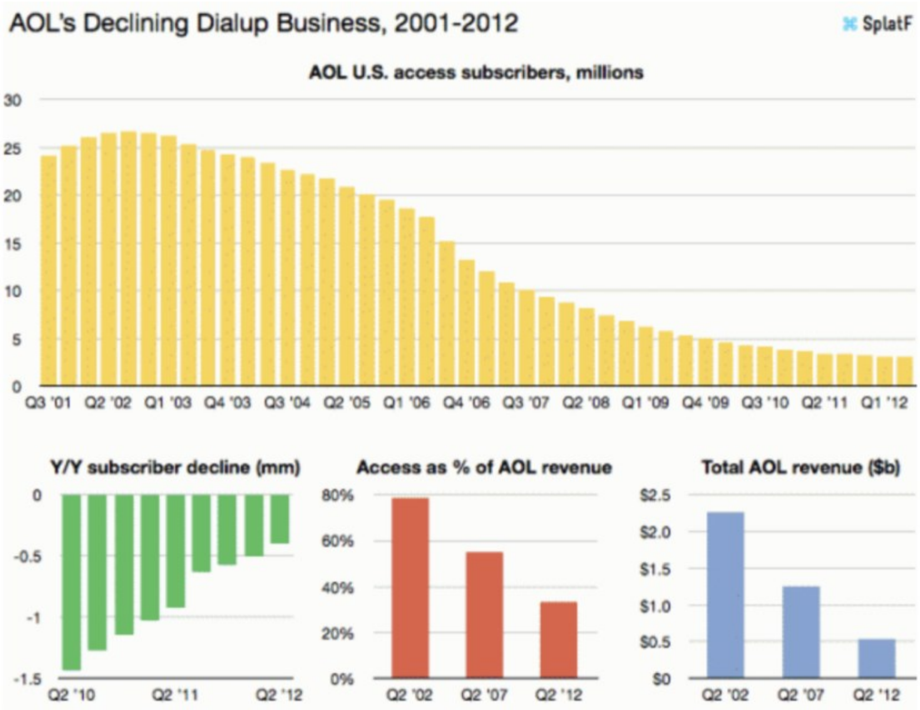

Figure 2: AOL's declining dialup business, 2001-2012 [3].

3. Introduction to Bright Food Company

Bright Food Company was founded in 1956 as a state-owned enterprise (SOE). It is a company that performs business activities such as sugar, dairy, winemaking, food brand operations, chain store operations, modern agriculture and etc.

In a society where companies were facing intense competition and drastically tried to occupy more market shares, the Chinese government decided to consolidate the large companies related to beverages and food, assigning Bright Food Company as the head of them. Larger companies that experienced losses have been merged to join the consolidation in particular. Chinese government hoped to stop the economic losses in these companies by forming a large conglomerate. Seeking to penetrate more into the market, Bright Food Company tried to adopt numerous business strategies to increase its competitiveness and achieve globalization. The conglomerate is now valued at $45.8 billion and owns more than 3300 retail stores. With more than 12000 cows and 12 pasteurization facilities in China, the company's capacity is about 500,000 tons per year [4]. Its mission statement is "to build the company into a leading enterprise group in the national food industry, with famous brands, advanced technology, strong competitive power, and deep influence in the world by the end of 2015".

4. SWOT Analysis of Bright Food Company

SWOT Analysis is a way of business analysis proposed by Albert Humphrey. By analyzing a company's strengths, weaknesses, opportunities and threats, we could identify the company's competitive advantage in the market and conduct appropriate strategies.

4.1. Strength

Bright Food Company is highly diversified, operating not just in the food industry but in other industries such as real estate. This enables Bright Food Company to be less likely to go bankrupt. On the other hand, Bright Food Company is offering services and products of the highest quality in China according to David E. Bell and Hal Hogan [5]. They believed that this can help Bright Food company to compete with the international food companies.

In addition, a strong balance sheet and financial statement make it possible for Bright Food Company to invest its money in economic activities such as mergers and acquisitions. And because it is a state-owned enterprise, the government will provide financial support for this conglomerate. While most importantly, Bright Food Company has high brand recognition among its customers. It also has a huge number of loyal customers in the country.

4.2. Weakness

Bright Food Company also has some critical weaknesses which cannot be ignored. Firstly, Bright Food Company is not doing a good job of managing inventory. This can be deadly for the company's future success. A large amount of expired food can cause huge losses and may even trigger loyal customers to think that Bright Food Company is not trustworthy. For example, the production of unhygienic infant milk in 2008 hurt the company's brand dramatically. This company still needs to put more concentration on the guarantee of food safety. Moreover, due to the fact that Bright Food Company is managed under Shanghai Local Administration and China's Central Government's State-Owned Assets Supervision and Administration Commissions, it is not free enough to conduct economic activities immediately.

4.3. Opportunities

Opportunities, in other words, are the macro factors that can help Bright Food Company to expand its market. To begin with, the fast-developing technology on social media has made it possible to spread the brand. The highly developed E-commerce and social media medial oriented business model creates numerous advantages for Bright Food Company. For instance, it reduces the cost of reaching new customers and exploiting foreign markets. In this case, Bright Food Company can easily communicate with local suppliers and thus increase production efficiency. In addition, nowadays people in China are gradually becoming richer and richer and seeking better lives. They now are more capable to chase better products. Bright Food Company can construct a business model base on these current trends.

4.4. Threats

Macro factors that disturb the growth of the Bright Food Company are also important. Firstly, since Donald Trump's election, more and more intense protectionism has gradually taken place in the world. The international business environment is impacted by events such as the fluctuation in oil prices. Therefore, the expansion of Bright Food Company faces a lot of difficulties. According to David E.Bell, the increasing bargaining power of Bright Food customers puts the company in an embarrassing situation, forcing a lower price. Horizontal integration can be the solution for the company to cut the bargaining power of consumers.

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5. Analysis of Bright Food M&A Strategies

5.1. Acquisition of Synlait Milk

A private limited company incorporated in New Zealand, Synlait Milk, functions to produce infant and adult nutritional formulations, functional food ingredients such as Ultra-High-Temperature mild and calcium-fortified powders, and specialized products to support a healthy lifestyle.

Bright Food Company successfully acquired 51% stake in Synlait Milk. Synlait Milk hoped to step ahead in the Chinese market than its competitors due to the partnership with Bright Food Company [6].

Some may wonder whether New Zealand's Overseas Investment Office (OIO) would approve this acquisition. But the CEO of Synlait Milk quickly clarified that they were already in processing and industrial manufacturing.

This is the first time that Bright Food Company invests in a foreign market. Since then, it started to conduct its global sales strategy with a three-way market focus: one-third of its business in China, one-third in the rest of Asia, and third in the rest of the world.

5.2. Acquisition of France's Yoplait SAS

Yoplait is a private equity firm owned by PAI and Sodiaal jointly and the world's second-largest yogurt brand by sales. Yoplait earned $53 million euros before tax and was valued at $400 million euros in 2002. Yoplait was also the market leader in the US with more than 35% market share which was more than Danone. It launched a competitive bidding process, which is the way for a company to compete with other companies for a contract [6]. In fact, it was so attractive that companies such as the US's General Mills, Switzerland's Nestle SA, Mexico's Grupo Lala, AXA private, and Bright Food desperately tried to prove that they are the best choice compared to others.

In fact, the acquisition of Yoplait exactly matched the goal of globalization from the Chinese government. Thus, they highly supported Bright Food Company to win the bid. As a result, Bright Food Company provided the highest value at $1.7 billion euros. While unfortunately, Sodiaal still chose to negotiate with General Mills and announced the acquisition valued at $1.6 billion euros in 2012.

5.3. Acquisition of Australia's Manassen Foods

Manassen Foods Australia is a company that relates to food retail and food services ranging from dry groceries, confectionery, biscuits, and cakes, to perishables and frozen foods. In 2011, Bright Food Company successfully acquired a 75% stake in Manassen foods [6]. They wanted to be influential in Australia. They can import raw materials from Australia and improve product quality.

5.4. Acquisition of Weetabix Ltd

Weetabix is a food company that produces and sells breakfast cereal. It was founded in 1932 in the UK and has been exported to more than 80 countries. By 2011, Weetabix had over 460 euros in sales and more than 1800 employees [6]. However, considering the competition rules in the UK, large market players such as Dorset were unable to launch bids for Weetabix.

In 2012, Bright Food Company successfully acquired a 60% stake in Weetabix, paying 180 million euros for its share. The business behavior enabled Bright Food Company to enlarge its breakfast cereal market share in China.

In addition, Bright Food believed the future of cereals would be hopeful. Chairman Wang Zongnan said that Weetabix's sales in China will outperform the growth of the Chinese cereal market.

6. Future and Globalization

Bright Food will continue to put endeavor globalization through acquisitions according to its Vice president Ge Junjie. “After we acquire overseas firms, we help them to make significant strategic changes, so that they are well positioned to take advantage of China’s tremendous market opportunities. As well, some of their products would also require minor adjustments to suit Chinese consumers’ tastes” he says.”We also need to recognize and accommodate the different ways firms do business in different markets, so we accept and welcome different cultures that exist at our overseas subsidiaries.”

Unlike other companies, Bright Food is able to value whether the firm has products suitable for the Chinese market and has a sustainable reputation. They have a strong team consisting of managers that can make the best decisions for them.

7. Conclusion

This paper overall analyzes the M&A strategies made by Bright Food Company in the last 20 years and points out why some succeeded while others did not. In fact, due to the fact that there are not too many available resources on the internet related to this topic, this essay probably lacks extensive demonstration. In the future, as the company continues to perform amazing business strategies, people may have a new picture of the company’s ambitious goal and how they accomplish it step by step.

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