

Strategic Case Study August – Mock Exam 5

Question 1

60 Minutes

You received the following email

From Andrew Jarvis, Director of Finance

To Senior Manager

Subject Takeover bid by Primnav

Hi

I have attached the article published in Upland business times regarding the takeover bid by Primnav. The board is highly concerned on the negative statements created by Primnav and is expected to respond through a press conference in two weeks' time.

Controlling interest is currently a significant issue. We don't have a dominant share holder and as a result Primnav can obtain 51% by buying from the retail investors. In a financial perspective, we need to convince the market that we can offer a better return to the shareholders than Primnav. We need to issue a clear statement with facts in the press conference.

This should provide a clear financial strategy based on sound evidence to counter attack Primnav. AutoAuto needs to present a solid long-term strategy to create a positive impact on the share price and build investor confidence.

I have to present a report on the financial implications next week at a special board meeting

Prepare a report which address the following

Discuss the potential strategic options that can be used to increase the share price based on the product market matrix

Evaluate the available tactics to overcome the hostile takeover

Reference Material - Mock 5 – Question 1

Upland Business Times

Takeover Bid of AutoAuto by Primnav

21st August 2017



In a surprising press conference Primnav CEO Bill Blueberry announced a takeover bid for AutoAuto. Bill emphasised that the recent poor performance of AutoAuto is due to the lack of future direction of the management. The members of the Primnav team at the press conference indicated that AutoAuto owned many brands with very high reputation and market potential. However, the present management has failed to capitalise on the opportunities in the market and was not able to create significant shareholder wealth.

In addition, the CEO pointed out that there will be many synergies due to pooling of resources of both companies which will ensure economies of scale. However, no detailed information was provided on the potential synergy and financial implications.

Primnav offered U\$ 1.25 per share as the takeover bid.

It's expected that the shareholders will act positively to the bid

Suggested Answer Mock 5 Q 1 – SCS August 2017

Section	Tech		Bus		People		Lead		Int	Total
1	Defence Tactics	12	Strategic Options Ansoff Matrix	18					3	33
2					Evaluation of strategies for issues	14	Ethics and GRI	16	3	33
3	KPI	12	Balanced score card	4	Value chain	8	Supplier selection criteria	7	3	34
Total		24		22		22		23	9	100

This suggested answer is developed for the purpose of teaching and learning. This is far more comprehensive than the answer expected in the examination. The objective of this answer is to help students to understand the examination technique required to be successful.

This plan includes 30 points. This demonstrates how a point can be used to develop a paragraph to generate one mark. The paragraphs in pink colour represent the marks for Integration criteria. Therefore 33 paragraphs are presented to obtain 33 marks applicable for one question including 3 for Integration criteria.

You are advised to develop a brief answer plan based on the different tasks and the breakdown of marks prior to typing. A reasonable plan is expected to ensure that your answer is in line with the question requirement.

You will be provided with a writing pad and a pen to develop the answer plan and points at the examination centre.

Good Luck

Question 1

Answer plan

Two Tasks

- | | |
|--|---------------------|
| 1. Strategic Options - Ansoff | 18 Marks |
| 2. Defense Tactics – Takeover
Integration | 12 Marks
3 Marks |

Task 1

Strategic options

1. Evaluate – current bid
2. Options to challenge

Existing Market – Existing Product

3. Penetration
4. OEM
5. Licensing
6. Co – Branding

Existing product – New market

7. Market Development
8. after Market
9. Exporting
10. Foreign subsidiary

New product – Existing Market

11. Product Development
12. Autonomous Vehicle
13. Driverless Vehicle
14. Active Window Displays

New Product – New Market

15. Diversification
16. Manufacture own vehicle
17. Acquisition of a supplier
18. Home security devices

Task 2

Defense Tactics

12 Marks

19. Communicate – Shareholder
 20. Application to AutoAuto
21. Revaluation of Assets
 22. Application to AutoAuto
23. Poison Pills
 24. Application to AutoAuto
25. Shark repellent
 26. Application to AutoAuto
27. White Night
 28. Application to AutoAuto
29. Greenmail
 30. Application to AutoAuto

Answer Task 1

From Senior Manager
To Andrew Jarvis , Finance Director
Subject Strategic Options and defense strategy

Hi,

The following report identify strategic options and defense tactics that can be developed to counter attack Primnav offer.

Primnav has offered U\$ 1.25 per share in the takeover bid. This is a very favorable price for the existing shareholders especially with our recent poor results. We need to present a plan which provides a better price than this offer.

The future plan should demonstrate a net present value per share greater than U\$ 1.25. We need to develop a strategy to provide a value at least 10% above the price offered by Primnav

Ansoff matrix can be used to identify strategic options based on the products and markets. This provides four options considering existing and new opportunities in developing future strategic options.

Penetration

This demonstrates strategic options based on the existing products and existing market. We need to improve the same products and processes in order to provide a better value to the same customers.

We can identify the present demand for the Original Equipment Manufacturing segment. We need to improve the features of our products and provide additional options to the vehicle manufacturers in order to increase the number of orders in future.

Increasing revenue is a key factor which contributes to the increase in share price. We need to identify more manufacturers to develop licensing agreements to manufacture our products. This will provide direct profit because there is no operational cost on our part.

AutoAuto can develop a core branding strategy with a potential vehicle manufacturer to relaunch the current products. This will provide a higher reach in communicating the products to the customers and create higher revenue.

Mercedes Benz and Swatch industries in Switzerland created a co- brand SMART car. This combines Mercedes vehicles manufacturing technology with the Swatch electronics facilitating a higher market reach. (Swatch Mercedes ART)

Market Development

This strategy demonstrates entering a new market targeting a new customer segment using the existing products. This will provide additional revenue and profit because there will be no incremental investment.

AutoAuto can focus on selling the product directly to the end consumer targeting the aftermarket segment. This will provide higher sales, cross selling opportunity and reaching a larger consumer segment.

Exporting the products to other countries will be a very profitable business. This will provide additional revenue, better capacity utilization, enhanced global reputation and will guarantee long-term success for the company.

Establishment of a foreign subsidiary is another option to facilitate growth and contribute towards increasing the share price. Selection of a country with a lower cost base will provide higher opportunities for research and development.

Product development

This strategy focus on developing new products to the existing market and target the current customers. This will increase the market share and improve the position in the market which facilitates higher sales and profitability.

Autonomous vehicle is a great option in the present situation to indicate our ability to innovate. We can easily counter attack Primnav strategy by providing potential statistics on future sales and convince our shareholders not to consider Primnav offer

Driverless vehicles will provide us the opportunity to become the market leader in the segment. We need to communicate the plan to the shareholders including the testing phase which will commence in September to build investor confidence.

We can consider a new product such as Head-Up Display (HUD) technology. This is an active glass capable of displaying vibrant images based on the road conditions. The navigation will be based on the driver's own perspective, through the windshield. These new concepts will enhance our reputation.

Diversification

This strategy can be developed through innovative thinking where the focus is to develop a new product focusing on a new market. This will provide additional scope, revenue and potential reduction of the business risk.

AutoAuto has built a sound reputation in the last 15 years based on technological advancement and quality. We can consider possibility of developing our own car with special features and options which will be similar to Google Self-drive car.

We can consider entering the suppliers market through vertical backward integration as a strategy of related diversification. This will provide additional revenue and the opportunity to reduce existing cost of production if we could acquire a supplier.

The company can consider a completely new concept such as a home security system using our expertise on sensors and detection technology. This will reduce the risk of depending on one industry for performance and survival.

Answer Task 2

AutoAuto can consider the option of communicating the situation directly to the shareholders. The objective of this strategy is to persuade the shareholders not to sell the shares to the potential bidder.

25 % of our shares are owned by the founding directors. The founders should develop a clear message to the shareholders indicating a valid reason to reject the offer made by Primnav. This should justify the company's existence as a single entity.

Revaluation of assets is another option available to stop a hostile takeover. The revaluation will increase the value of equity thereby increasing the market value of the company. This will require the bidder to increase the offer beyond the capacity

AutoAuto has no manufacturing facility. Therefore, the value of fixed assets as at 30th June 2017 is US\$ 256.2. This creates a difficulty to practice this option to reject the offer of Primnav.

Poison pills is the strategy of operating with convertibles which can be turned into ordinary shares in order to stop an acquisition. This will expand the share capital which make the acquisition expensive and impossible.

This cannot be practiced by AutoAuto because we do not operate with convertible instruments. These are mainly debentures and hybrid instruments which gives the flexibility to convert in to ordinary shares.

Shark repellent is the strategy of operating with a specific statutory clause where the articles of association requiring a super majority based on shareholding to sell the shares beyond & particular point of ownership.

This option can be available to AutoAuto provided that the company articles of association include a specific clause on the subject. However, we can investigate this matter with the legal department to verify the application of the guideline

White knight is the strategy of inviting another organisation to acquire the company instead of the hostile bidder. The objective is to ensure goal congruence and the protection of the interest of the existing shareholders.

This is not a very practical strategy for the company in the present context. The industry operates with limited companies. Therefore, it's not possible for us to identify another company because the interest will be similar to Primnav.

Greenmail strategy involves repurchasing the shares of stock that have been acquired by the Bidder at a premium price in exchange for an agreement that the Takeover company will no longer target the company for takeover.

Revlon targeted Gillette for a hostile takeover. The board of Gillette, negotiated to buy its own shares for 558 billion USD, which gave the bidder, Revlon 43-million profit through a Greenmail agreement.