

1.6C: Growth and Evolution: Activity



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1.6 GROWTH AND EVOLUTION: ACTIVITY C

Read the case study information below and answer the questions that follow.

GROWTH STRATEGIES

Jet Airways takes over Air Sahara



India's largest private airline, Jet Airways, says it has agreed to buy its smaller rival, Air Sahara, for \$140 million. The takeover gives the airline a combined market share of 32%. Jet Airways acquires the aircraft, equipment and landing and takeoff rights at the airports Air Sahara had. "The deal is definitely going to be good news for Jet Airways shareholders", Jet Airways founder and chairwoman, Indira Goyal said. Some analysts are predicting substantial synergy (cost reductions and other benefits) from this takeover. Better deals from

aircraft manufacturers are expected. Streamlining the two head offices into one unit should reduce fixed costs. The interlinking of the different air routes should allow more passengers to be offered connecting flights with the new enlarged airline.

Before the takeover could go ahead, it had to be approved by the Indian Ministry of Company Affairs. There was some concern that the takeover could lead to a monopoly position, as Jet Airways will now enjoy a dominant position on many domestic air routes.

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Mercedes Benz sells Chrysler after failed merger



After nine years of trying to make the merger of two large car makers work successfully, Mercedes Benz has at last admitted defeat and sold its 80% stake in the US-based operator Chrysler. The merger never increased returns to shareholders and it failed in its original claim of creating a global motor company to compete effectively with General Motors, Ford and Toyota.

Management problems in controlling the merged businesses were huge. Distance between Germany (Mercedes Benz) and the USA (Chrysler) made communication difficult. The product ranges of the two companies had little in common so there were few shared components, and economies of scale were less than expected. Culture clashes between the two management approaches led to top-level director disputes over the direction the merged business should take.

Source: www.BusinessManagementIB.com

35 MARKS, 60 MINUTES

1. Explain the type of integration used in **both** of these case studies. **[6 marks]**

2. If Jet airways were now to merge with an aircraft manufacturer:
 - i. Explain how this merger would be classified **[3 marks]**

 - ii. Analyse **two** potential benefits to Jet Airways of this merger **[6 marks]**

3. Examine the likely impact of the Jet Airways takeover of Air Sahara on any **two** stakeholder groups. **[10 marks]**

4. Using the Mercedes Benz/Chrysler case study and any other researched examples, e.g. AOL and Time Warner, discuss why mergers and takeovers fail to give shareholders the benefits originally predicted. **[10 marks]**