



Strategic Synergy of Post-Acquisition: A Case Story on ACL Cables PLC vs Kelani Cables PLC & Key Insights of Brand Positioning of “Kelani Brand”

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ABSTRACT

Strategic acquisition and merges are quite challenging and risky decision in the business world. The strategic decision made by ACL Cables PLC (hereafter refers as ACL), the then market leader of cable manufacturing and marketing industry of Sri Lanka, acquired Kelani Cables PLC (hereafter refers as KCL or Kelani as required in the explanations) in the year 1999. However, both companies catered to the same market segments adopting different marketing strategies whilst strategic decisions were carefully managed by its senior management to find synergy between the value chain operations of two companies. However, by the time this case study is being written in 2017, KCL was able to mark its strategic position in the market with high-flying performances as a brand compared to the position of ACL had been. Presently, both brands are positioned in B2B and B2C scopes delivering customer expectations with differentiated value propositions. Authors followed case story style to organize and present this case study by focusing to strategic management as the main foundations of case explanations. Authors did comprehensive discussions with the present ownership and senior management of both companies whilst related publications of ACL and KCL were used to verify the information. Some of the empirical publications done on cable market of Sri Lanka were also associated to support the contents.

Accordingly, this case study narrates the case story of the acquisition decision of ACL Cables PLC including the main highlights of the incident. Alongside, this case study presents the history of KCL, main incidents and milestones of both companies, implementation of acquisition decision and the post-acquisition scenarios of both companies. Then, the core of the case study is to explain the strategic model and decisions implemented by the senior management of ACL and KCL to strategize the synergy effects of value chain operations of both companies. The operational insights of such strategic model need to be investigated to learn the managerial insights for practitioners. Thus, the case study unveils key operational aspects brought into implementation phase with related information sources. Finally, authors concluded the main learning directions of the content whilst key insights of the case study were also summarized within the scope of strategic synergies.

Keywords: *Acquisitions, Cable Industry, Strategic Synergy, Value Chain.*

1. HISTORY AND EVOLUTION OF KELANI CABLES PLC

KCL was founded in 1969 as a manufacturer and distributor of power and telecommunication cables and enameled winding wires. KCL has undergone several changes in ownership over the years. Founded by the Wijewardana family, the company became a subsidiary of the Australian Multinational Pacific Dunlop Cables group in 1994 to 1999. In 1999, the major shareholding was transferred to ACL Cables PLC. It made some opportunities for expansion and knowledge sharing resulting company to enhance its operations. KCL became a public quoted company in 1973 and its shares were traded via the Colombo stock exchange.

Before 1977, KCL had a good time as it had no competition and customers came to KCL and purchased cables on cash. In 1973, the company took a very wise decision to invest in the manufacturing of enameled winding wires. From the day of investment to date, the company maintains prime quality and no one can even come closer in quality. This product is used for winding and rewinding of water pumps and any other motors. In 1995, Sierra Cables started to manufacture enameled winding wires in Sri Lanka but couldn't compete with KCL. Moreover, KCL has been developing this product by adding various quality improvements and technological improvements over the years. Currently, KCL has 120 metric tons capacity and caters total local requirement and balance is exported. All required local and foreign certifications are obtained to certify the quality (Annual Report of Kelani Cables PLC, 2017). Kelani had never compromised their product quality under any circumstances. This is the main reason why Kelani has been registered in consumer minds as a quality cable for different applications of B2B and B2C contexts.

2. THE MARKET LEADER “ACL” ACQUIRED THE MARKET CHALLENGER “KCL”

ACL cables was the leading cable manufacturing company in Sri Lanka as a technologically advanced and pioneering organization. ACL had a reputation by introducing Armored, unarmored cables and Arial bundled conductors to the Sri Lankan market. ACL introduced distribution network for first time in the cable industry of Sri Lanka. They had technical collaboration with Nokia Finland to introduce Arial bundled conductors. By 1999, ACL was a well-driven cable manufacturing and distributing company in Sri Lanka. They did many market development activities to increase their market share.

KCL was the second player in the market and had no proper segment wise focus and strategic focus on their business compared to ACL in late 1990s. It highly focused on Government tenders and large orders. KCL was not into island wide distribution and selected large dealers were catered directly from the company. Kelani belonged to Pacific Dunlop Cable Group in Australia whereas 67% of shares were held by Pacific Dunlop Cable Group, 08% shares were held by DFCC Bank and 25% shares were traded

in the market and that was among many shareholders. In 1999, Pacific Dunlop Cable Group decided to stop their foreign operations. According to the agreement between DFCC Bank and the Pacific Dunlop, 67% of Pacific Dunlop shares were acquired by the DFCC bank and their total stake increased up to 75%. Meantime, ACL cables gave an offer to DFCC Bank whilst Kelani management with Hatton National Bank gave another offer. After evaluating both bids, DFCC Bank decided to offer it to ACL cables by considering future of Kelani. At the time acquisition was taken place, ACL was a strong company and it was there in the market for more than 30 years by then.

Finally, ACL acquired KCL in the year 1999 and some managers and marketing staff joined to Alucop Cables which is currently operating as Sierra cables during this period. Marketing manager and the Finance manager of the KCL were also among them. ACL acquired another 04% shares from the market and ACL share capital increased up to 79%. After the acquisition, 6 million worth shares were distributed among employees of KCL and employees could withdraw it only when they leave the organization. Mr Suran Madanayake was appointed as the Managing Director (MD) of Kelani Cables and he gave assurance about job security of employees. MD put his fullest effort to minimize issues between the two companies and built good relationship with management and workers of the company. During MDs period, he was trying to develop KCL for its staff feel security for their employment at Kelani. MD got the control of the organization slowly and steadily without making any disturbances to its senior management. Meanwhile, the Chairman, Mr Upali Madanayake, Mr Suren Madanayake (MD) and Board of Directors decided to appoint Mr Hemantha Perera as the MD of KCL and Mr Suren Madanayake became the Deputy Chairman of KCL.

Figure 1: Turnover of KCL from 1999-2016

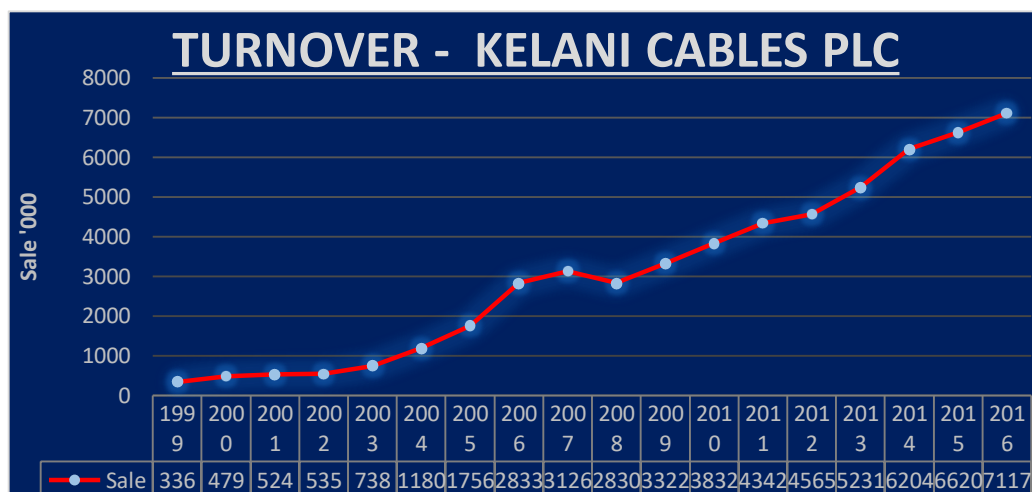


Figure 2: Turnover of ACL from 1999-2016

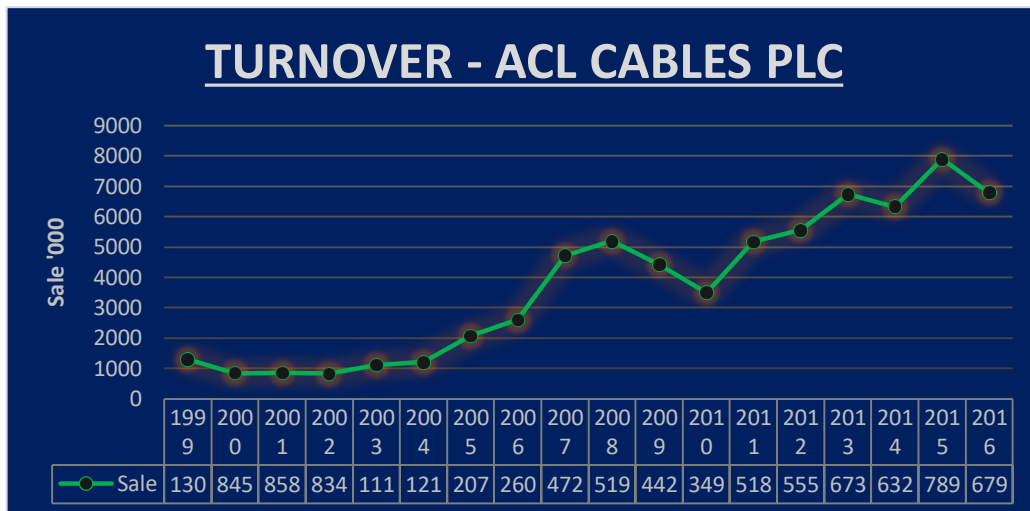
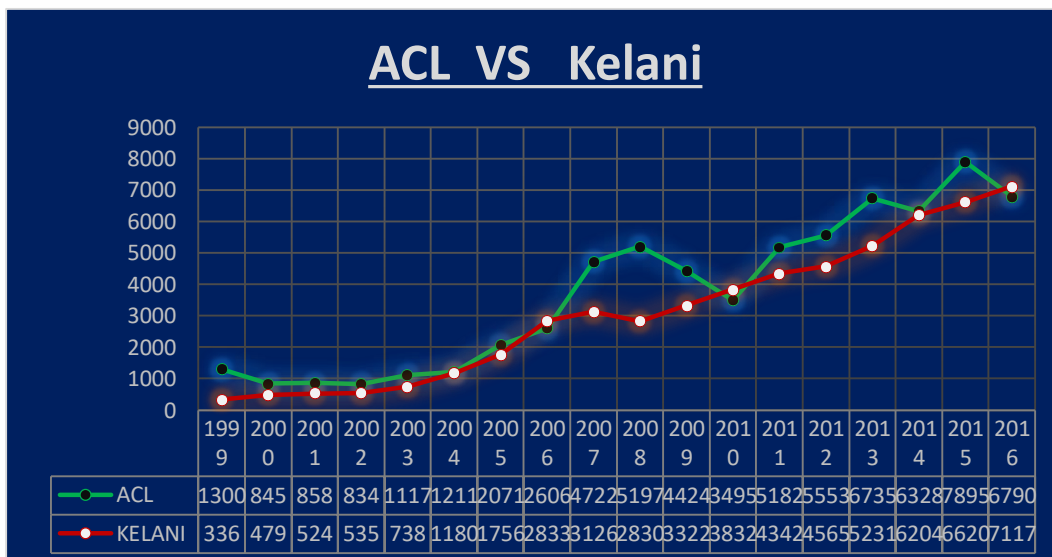


Figure 3: Comparative Analysis of the Turnover Results of ACL vs KCL



Source: Internal Records of ACL and KCL

3. KEY INSIGHTS OF VALUE CHAIN SYNERGY OF ACL AND KCL :

The value chain synergy between ACL and KCL could be recognized through some of the critically important functions related to the industry as mentioned in the following explanation.

3.1. Manufacturing Synergy

The main objective was to utilize excess capacity of one company for the benefit of other company. If ACL or KCL become specialized for one product range, it was always advised to manufacture particular range in one place and supply to other company under their brand. With this concept, both companies were able to find a chance of utilizing individual idling capacity for the benefit of the group. This was operationally executed by having regular meetings with two production units whilst synergy efforts are pushed through the senior management.

3.2. Synergize for Raw Materials

There are four major raw materials namely Copper, aluminum, PVC and XLPE relate to cable manufacturing industry. As a backward integration strategy, the group invested in three major raw materials and started three plants in the country. Group requirement of PVC, Copper and Aluminum are supplied by three plants resulting group benefited immensely. Total requirement of PVC and Aluminum are supplied by two raw material plants and major requirement of Copper is also supplied by the copper plant and full requirement will be supplied in the near future as some improvements in the capacity are required. All three raw material plants are operated as separate strategic business units (SBUs). Those SBUs are benefitted in a bigger way when group is going for higher volumes.

3.3. Synergized Logistics

In year 2017, ACL and Kelani had couple of meetings to see the possibilities of synergizing logistics to minimize the cost and to enhance customer service. As a result, one mega stores was opened up in Matara for the benefit for both the companies. Still separate feeding Lorries are going

to Matara and possibilities have been testing to use one feeding lorry for both the companies from Colombo to Matara. Common staffs are employed at the stores and beyond Matara deliveries are arranged by two vehicles operating from Matara warehouse. Instead of two company delivery vehicles, one non-branded vehicle is used for delivering both brands by enhancing dealer service and at the same time getting the cost advantage to the group. Group has decided to open another three same type of company outlets after analyzing six months' data and customer feedbacks. This is one example how ACL and Kelani committed for logistics synergy for the betterment of the group. Similarly, raw materials are exchanged when one company faces stock out situations due to machine break downs or some other reasons.

3.4. Synergy Established for Credit Controlling Mechanism

Both companies decided to implement one credit policy for the benefit of both the companies. It is noticed that some problematic customers (dealers and contractors) bought from ACL and without settling their dues and buys from KCL. This situation was continuing for many years until a collaborative credit policy was established. Alongside, marketing and sales staff of both companies was seriously advised to be alert on ‘group credit exposure of customers’. Credit limits, credit period, credit worthiness, and procedures of appointing customers, credit rating of customers and how to black list customers were commonly determined. This is practiced by both companies on a common platform to get the benefit to the group.

3.5. Transforming a Hard-Core Industrial Product into Consumer Brand Value Proposition: Success Story of Brand Positioning of KELANI Brand

One of the critical case insights is how KCL was framed with a differentiated value proposition as a cable brand when ACL was positioned as a premium and quality brand. KCL was backed by a clear brand development strategy to make it relevant, connected to customer and salient against ACL and the rest in the market. KCL was eligible to claim its value proposition as a quality and premium brand since all of its value chain and functions holistically committed for unmatched quality and performance. The value chain activities were mainly focused on supply chain matters to ensure quality output is delivered. Meantime, cable market was attributed with huge dependability with the intermediaries and electricians as opinion leaders when it comes to B2C context. Thus, KCL planned to apply pull strategy whilst push strategies were maintained after 2010. The brand equity of KCL was framed with both emotional and rational contents and appeals. Company initiated few consumer research activities to get the insights about B2C users on how they involve with cable product or wire product buying behavior. As per insights received consumer expectations and the brand-health of the KCL, it started to position the brand in consumer mind as a “Safety” promise since customers finally need get wired their homes with no risk. This value proposition was converted into a tagline as “Safety Forever” and used emotional visuals alongside the brand colors of green and blue to create brand identity and brand perception. This was a turning point for KCL to get highlighted and connected consumer mind even better than ACL as a B2C brand. Meanwhile, KCL management started to prioritize the importance of branding as a separate function coming within the marketing division and appointed a brand manager which was quite new to cable market in Sri Lanka when it comes to marketing functions usually industry had been doing by then. In addition, company decided to have consumer research activities rather limiting to product development and technical research and development activities carried out for years. Those matters were new to the industry as how Marketing and Sales Manager of KCL once expressed when authors conducted some meetings to develop this case story. Somewhere around 2010, KCL management decided to obtain external consultancy for brand building activities when it refers to develop a brand

template and brand equity architecture for Kelani brand. Based on the value proposition of “Safety Forever” it came up with a comprehensive brand equity model for KELANI brand defining brand purpose, brand personality, brand value proposition and positioning muscles in line with consumer insights unveiled through brand-health research and consumer surveys started in 2011 and continuing so far. KCL hired professional services for branding including a consultant from academic field to logically frame its holistic brand development strategy. As per the views of consultants and the senior management of KCL, it invested for consumer research works and brand-health audits with research agencies and the research services conducted by the Department of Marketing Management of University of Kelaniya for scientific insights to develop effective brand strategy. In overall, KCL made a marketing trend in the cable market of Sri Lanka proving the strategic importance of developing a brand for consumer market rather heavily focusing on B2B sales and customer relationship management (CRM) strategies with project customers and government sector customers.

In addition, company maintained push strategy getting brand recommendations to end users via electricians as one of the main opinion leader categories. One of the highlighted matters undertaken by KCL was creating a brand community with electricians with the project named “Kelani Visura”, and executed as a corporate social responsibility (CSR) model and public relation approach since 2005. The “Kelani Visura” program was able to form an electrician club with 6500 members by 2017 and it was a huge advantage for Kelani brand to get positive referrals for its end users. This made huge impact for KCL to get positive recommendations to purchase KCL brand items when B2C consumers need wires for their house building or renovation activities. KCL made a sales strategy by connecting its marketing promotion officers with the members of electrician club formed through Kelani Visura to enhance the regional sales and expand brand credibility with the word of mouth (WoM) effect.

Moreover, KCL wanted to create brand image and trust through the credible institutes and sources. In brief, it started a program called “Kelani Saviya” in 2007 with the Engineering Faculty of University of Peradeniya to sponsor one-year educational program conducted by the University for a selected group of electricians and professionals found within the same career scope. This made an opportunity for the participants to obtain professional knowledge from a recognized university whilst connecting Kelani brand to their career. The same program was launched to University of Jaffna in the year 2013 with the name of “Kelani Shakthi” for the same meaning it had with “Kelani Saviya” and that made extended penetration for the KCL brand. Both programs are conducted as annual events as a CSR project. Likewise, KCL made its presence in the market as a brand with clear value proposition whereas strong marketing communication strategies were followed to create the mindshare of consumers. By the time 2017, KCL was able to be awarded as the best brand titles in different brand evaluation forums and national level competitions conducted in Sri Lanka. Today, Kelani Cables PLC strives ahead as a professional company delivering its brand value promise thorough integrated business model with people-friendly culture.

3.6. Snapshot of Case Insights

Kelani acquisition has been recorded as one of the successful acquisitions happened in Sri Lanka due to various contributory factors. The core of this case story was to educate the readers on how ACL implemented a successful post-acquisition strategy to enhance the performance of Kelani Cables PLC providing management autonomy in a gradual manner.

Authors highlighted how corporate vision acted to maintain strategic synergy to face challenges of post-acquisition contexts whilst expanding market growth and performance potentials for ACL and KCL.

This case study mainly discussed how the group initiated synergy on their value chain and related key functions. Mainly, it initiated the synergy with manufacturing, materials, credit controlling and logistics. The leadership culture is one of the main matters unveiled in this case study as its senior management was very keen on professional cultures and corporate governance to be maintained within the two companies. The last phase of the case study explains how Kelani brand was established followed by a comprehensive branding focus that made a new trend to the industry in overall. Readers are invited to examine the key plots what KCL followed to connect Kelani brand into consumer mind with a clear and differentiated value proposition. It includes the brand strategy development and marketing communication insights followed by KCL providing hands-on learning for readers to understand effective methods of transforming an industrial product into consumer brand.

3.7. Teaching Guide

Authors invite teachers to use this case story as a real life business case produced on the knowledge scopes of post-acquisition synergy strategies, Value chain integration and industrial product branding implemented by ACL Cables PLC and Kelani Cables PLC. It includes the hands-on insights on how Kelani has been transformed into consumer brand equity alongside the post-acquisition synergy models being implemented. Thus, teachers may use this case study for the teaching areas on modeling post-acquisition strategies for business synergy, value chain integration for diversified companies in same industry and how industrial product could transform its brand equity with marketing communication strategies when penetrating to consumer markets. Pre-class room activities may include assignments to review the post-acquisition synergy models, value chain modeling & integration theories and brand equity-related models and theories with specific arguments on industrial or durable goods for students to attend in the class room sessions with informed knowledge.

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