

ONLINE COUNTERPOINT 11.7

This is a truism but a potentially dangerous one. It can be used to justify all kinds of ventures that, with hindsight, turn out to be foolhardy. The global 'credit crunch' of 2007-8 with the subsequent downturn can, with hindsight, be viewed as a consequence of rash innovation and marketing of financial products and the change made by 'boring' banks into investment banking. Another example presented later in this chapter is Rio Tinto's highly priced (\$40bn) leveraged acquisition of Alcan in 2007. In December 2006, there was speculation by UBS Securities analyst Glyn Lawcock, that Rio Tinto would be writing down its Alcan assets by \$5-billion to \$7-billion, resulting in a substantial dilution of company's equity value and increasing its leverage which will prove very expensive as a consequence of the credit crunch. A commentary on the acquisition and its aftermath noted that 'Miners are generally a conservative bunch, a characteristic developed from weathering repeated bull and bear market cycles over years. A component of good stewardship in the Mining Industry is to be generally debt averse. Debt has its place to finance new projects, expansions, etc. and to manage liquidity, but during mineral commodity bull markets, mining executives must always keep in mind the need to position their companies for the next mineral commodity bear market. Strategy during price upswings should generally include reducing debt so that a company would not face a liquidity crisis or have little borrowing capacity if mineral commodity prices decline. As the current bear market in mineral commodity prices attests, the timing of price downturns cannot always be predicted and can sometimes result from external shocks to the market that have little to do with supply/demand dynamics. Rio Tinto's assumptions that it could pay back the Alcan acquisition debt from \$15 billion in proceeds from the sale of acquired subsidiaries and from continued strong cash flows from operations appears quite aggressive in retrospect. Mining executives should think twice before financing major acquisitions primarily with debt, and this is why most mergers and acquisitions in the Mining Industry are stock deals. Hugh Burns 'Rio Tinto Stock Price Woes Tied to Debt-Financed Acquisition of Alcan' <http://www.glgrou.com/News/Rio-Tinto-Stock-Price-Woes-Tied-to-Debt-Financed-Acquisition-of-Alcan-29724.html?obj=Search&Keyword=leveraged>

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Change may be supported by 'key managers' without them agreeing that it is desirable if they anticipate that their jobs or credibility is put at risk by challenging the proposals. If this occurs, then adoption may be conditional or half-hearted. The outcome may be that the proposed change is incompletely or inadequately implemented. This may not necessarily be a 'bad thing' if the proposed idea is itself poorly through through or if it has the effect of undermining established strengths.

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Unilever's careful segmenting of markets and tailoring of products to meet the needs and wishes of consumer segments could be tarred as cynical and somewhat manipulative. The Axe campaign in particular has been criticised not only by American religious fundamentalist groups but also activists campaigning against the commercial exploitation of women and girls. The Ax the Axe campaign points out that Unilever demonstrates double standards in its differential marketing of Dove soap and Axe male toiletries. While in its Dove advertising the company sides with campaigners against the 'objectification' of women by the beauty industry ("Talk to your daughter before the beauty industry does"), its Axe campaign does the opposite. Ax the Axe says that the campaign is fronted by a highly sexualized female singing group, the "Bom Chicka Wah Wahs", whose suggestive theme song and video is all about how the Axe aroma causes women to lose control sexually (sample lyric: "If you have that aroma on, you can have our whole band.")ⁱⁱ

ⁱⁱ "CCFC to Unilever: Ax the Axe Campaign if You Care about "Real Beauty"", accessed at <http://commercialfreechildhood.org/pressreleases/axtheaxe.htm> on December 15 2008

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Rio Tinto executives were keen to attribute the dramatic drop in the share price (from around \$600 to \$100 in the space of a few months) to the reduction in commodity prices associated with the global economic downturn in 2008. However, a major contributory factor was the massive debt incurred in the acquisition of Alcan in 2007 which became more expensive to service as the credit tightened. At the beginning of December 2008, BBC News linked the slashing of 14,000 jobs (see In Practice) directly to the problems of servicing the debt:

'The world's third-largest mining firm, Rio Tinto, is cutting 14,000 jobs as part of plans to reduce its debt by \$10bn (£6.8bn) by the end of next year. It also plans to defer some of its planned spending on exploration and combine its two London offices.

Rio Tinto, which is listed in the UK and Australia, currently employs 97,000 people worldwide. It said it was responding to "the unprecedented rapidity and severity of the global economic downturn".

<http://news.bbc.co.uk/2/hi/business/7774698.stm>