

A Case Study of Bright Food's Acquisition of GNC in 2011

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Abstract: With the development of the capital market, Mergers and Acquisitions has become an important way to enhance market competitiveness. As the most popular dairy industry in China, Bright Food tries to expand its scale through M&A with GNC Corporation. The Bright Food uses their specific method and characteristics to M&A the GNC. Although it ended in failure, we can still learn a lot from this event business. Based on this situation, this article will use the case study method to analyze the theory behind mergers and acquisitions. It will also focus on the reasons why Bright Food failed in M&A. It will, from the financial angle and industry angle, conduct an in-depth analysis and put forward the corresponding countermeasures and suggestions. The final result is that Bright Food has failed on M&A at GNC. The main reasons that caused failure were poor financial capacity and a slow speed to make a decision, as well as a lack of international recognition. In order to countermeasure the problem that caused the failure of M&A, the GNC can borrow from the bank to expand their financial capacity and do more advertising abroad to increase their international recognition.

Keywords: bright food corporation, mergers and acquisition, GNC, financial ability

1. Introduction

Bright Food Group is a large state-owned comprehensive food industry group integrating modern agriculture, food manufacturing, and commercial circulation. The group is committed to building the whole food industry chain “from field to table”, and has many well-known brands such as Guangming, White Rabbit, Guansheng Yuan, Merlin, Shikumen, and wine, as well as nearly 5,000 retail stores such as agricultural, industrial, and commercial stores and the first Food Store. Also, M&A is important to a corporation because mergers and acquisitions can bring economies of scale to enterprises. Mergers and acquisitions can bring market power to enterprises. Mergers and acquisitions can reduce transaction costs for enterprises. Mergers and acquisitions can enable enterprises to achieve diversified development at the lowest cost. The background of the topic of why Bright Food had a failure in M&A with GNC has been thoroughly analyzed [1][2]. However, it's difficult to search online about analyzing the failure business deeply. The reason is that people are more likely to focus on the case of Bright Food's successful M&A with GNC. This article will focus more on the reasons why M&A is a failure and the corresponding countermeasures and suggestions. This part is seldom seen in the public article. This article will use the event study method to conclude the result. The meaning behind this research is to help some merchants and students who want to know about the basic reasons and knowledge behind this failure event. It will

bring a lot of benefits for the whole social cognition of the method of M&A and practice people's abilities in M&A.

2. Background

2.1. Background of M&A and GNC

As the main dairy industry in China, Bright Food has always enjoyed high national popularity and international recognition [1]. As the famous economic theorist George said, 'All of America's big companies have come through mergers and acquisitions in some way or another. There is hardly a large business that has grown primarily through internal expansion.' So in order to expand the scale of corporations, Bright Food has merged with other famous companies in the world.

At that time, it's a really tough thing to M&A overseas companies. But why do we say it is a tough thing? The reason behind this is that China's dairy industry seems less reliable than those overseas. Some famous scandals, like the melamine incident' and hormone gate, and even some toxic milk powder events, were published and exposed by the news. These things really are drawbacks of China's dairy industry. Not only did the dairy industry itself suffer a setback, but the whole reputation of China has also plummeted internationally. Even on some overseas market goods shelves, it says china free. So it's not easy to let the mainland corporations go abroad.

GNC was founded in 1935 by David Shakarian. Shakalien opened the first health food chain called General Nutrition in Pittsburgh. GNC has grown into one of the world's leading dietary supplement brands, with operations in more than 50 countries and regions around the world. It is now considered the world's first health care brand and is exported in to several countries [2].

2.2. The Reason of Bright Food's Acquisition of GNC

The Bright Food Group is a large domestic food group that has four listed companies, covering a wide range of major industries and other industries, including the dairy industry, sugar industry, wine industry, integrated food manufacturing industry, brand agency industry, chain retail industry, modern agriculture, urban logistics, real estate, and tourism hotels. At the beginning of the establishment of the group company, the business was overlapping and scattered, the quality was uneven, the resulting management efficiency was questioned, and the criticism of "big but not strong" was widely discussed. Further more, the bright food's ROE is lower than YiLi dairy and MengNiu dairy. The ROE (return on equity) refers to the ratio between the net profit and the net assets of the listed company, reflecting the size of the profitability of the listed company [3]. In order to compete with the other major dairy industries like MengNiu dairy and YiLi dairy in China, Bright Food decided to expand their company in order to make a higher ROE and receive more benefits. Why does Bright Food want to acquire GNC? According to the Pengmin, there are several reasons that can support it. The first reason is that bright foods need retail consolidation. At that point, what is the retail industry? How can we define the retail industry? According to the common definition, retail is any individual or company engaged in the marketing of products from producer to consumer, buying goods from wholesalers, middlemen, or manufacturers and selling them directly to consumers. The benefit of consolidation is that it can really help a company reduce the cost of buying goods from whole suppliers, middlemen, or products from producer to consumer. Since 2010, with the development of China's whole economy, salaries have risen, which means that the Chinese living standard has also risen. People are more likely to pay attention to their own health instead of just thinking about how to survive. Thus, the demand for some imported health-care products has increased. As a result, the increase in demand for health-care products means that the development of the health-care industry is rising. As the biggest health-care industry in the world, the GC has a variety of health care products. The final reason why Bright Food wants

to M&A with GNC is because GNC has a unique supply base. As the biggest health-care industry in the world, the GNC has an integrated product line and product machine, and the GNC has already accumulated a lot of customer reliance. Thus, if Bright Food can M&A GNC successfully, it can receive an amount of benefit directly instead of building the product line or hiring some professional workers. So it's very convenient to make a profit.

2.3. The Timeline of the Bright Food's M&A's

Table 1: The timeline of the bright food's M&A [4].

Date	Acquired Enterprise	Description	Amount	Stock Right	Profession	Result
August 2010	CSR	It holds 45% of Australia's raw sugar capacity	A \$1.68 billion	N/A	Sugar Industry	Lose
January 2011	GNC	Ranked first in the global health products industry	\$2.5 billion	N/A	Snack food	Lose
March 2011	Yoplait	The world's second largest yogurt maker	1.75 billion euros	51%	Dairy product	Lose
May 2012	Weetabix	The second largest breakfast cereal brand manufacturer in the UK	12.2 billion RMB	60%	Snack food	Successful
June 2012	Diva	Foreign trade deals all over the world, mainly serving markets in Europe and Asia	Markets in Europe and Asia	70%	Food and beverage	Successful
January 2014	Mundella foods	Australia 40 years of history of dairy enterprises	Products are mainly cheese, fresh yogurt	N/A	Dairy food	Successful

Table 1 is a timeline graph showing the bright food M&A since the 2010 year, and it can be seen that there are several businesses that are failing: CSR, GNC, and Yoplait. It really shows that at that time, it was so difficult to let us domestic companies go abroad.

3. The Process of the Acquisition

On December 7, 2010, foreign media reported that Bright Group was close to reaching a deal to buy the United States vitamin retail chain Jian 'an for \$2.5 billion to \$3 billion. This is the first large-scale overseas merger and acquisition of domestic food enterprises. Then on January 26, Cao Shumin, president of Bright Group, told this reporter, "The reason for not talking is that GNC is ready to go public and fund companies. (GNC shareholders) want to exit all, and Bright Group wants to control the fund. Prior to this, in 2010, Bright Group had negotiated the acquisition of Australia's CSR Company and United Biscuits Company in the UK. CSR Corporation United Biscuits, which was seized by Wilmar International Group, was "abandoned" because of the simultaneous acquisition of GNC. However, according to Cao Shumin, although there have been no successful overseas mergers and acquisitions, Bright Group's internationalisation will go out sooner or later".

4. The Failure

Why Bright Food is a failure on the M&A of GNC? There are several reasons that can explain it. But according to the public report, the major reason is that the GNC Worried that the approval time of China's mergers and acquisitions is too long and the pace of mergers and acquisitions is too slow, they gave up cooperation with Bright and decided to exit by IPO. (An initial public offering is when a business sells its shares to the public for the first time.) [5] However, except for this, I think there are several other reasons that led to the failure of M&A at GNC.

4.1. Financial Stress

The GNC acquisition may have put Bright Food under significant financial stress. After an acquisition, it may be necessary to pay high debt or balance sheets, which may negatively affect the company's financial condition [6].

Table 2: The main accounting data graph [7].

Item	Amount
Operating profit	208621589
Gross profit	240962588
Net profit attributable to shareholders of listed companies	194375554
Net profit attributable to shareholders of listed companies after deducting non-recurring gains and losses	166999179
Net cash flow from operating activities	534244918

Table 3: Whole year financial statement [7].

Main Accounting Data	2010	2009	Increase or decrease (%) over the same period last year	2008
Operating Income	9,572,111,030	7,943,169,711	20.51	7,358,544,348
Gross Profit	240,962,588	189,821,125	26.94	-319,543,911
Net profit attributable to shareholders of listed companies	194,375,554	122,470,128	58.71	-285,994,374
Companies after deducting non-recurring gains and losses	166,999,179	97,583,841	71.13	-420,331,957

Table 4: Analysis of financial position during the reporting period [7].

Item	2010	2009	Amount of increase and decrease
Income tax expense	13267403	61265099	-78.38

Table 5: Analysis of normal financial asset graph [7].

Item	2010	2009	Amount of increase and decrease
Long-term equity investment	10896132	23138226	-52.91

Tables 2–5 show Bright Food’s financial situation during 2010. In the first graph, it shows the Bright Food Corporation’s whole-year financial situation in 2010, including some operating profits and some gross profits. We can clearly see that there are hundreds of millions of dollars in profit that the Bright Food Corporation earns. Although there are a lot of profits that Bright Food earns in 2010, according to Bright Food’s official financial situation in 2009, we can see that there are several items whose amounts are less than in 2009. Like the income tax expense and the long-term equity investment. These two items are less than 2009 in 2010. The income tax revenue means that Bright Food pays back a large proportion of debt. However, the long-term equity investment is less than in 2009 and 2010, which means that the investment of other corporations is decreasing. It may be that during that time, the bright food overseas M&A is not so bright at that time. So many companies choose to take back their investment. Thus, the bright food hasn’t enough money, also called the financial ability to M&A at the GNC. So that’s the major reason why Bright Food failed in M&A at GNC. Invest.

4.2. A Challenging Market Environment

Why it’s a challenging market environment? because GNC operates in the health and nutrition retail industry, which faces changing consumer needs and fierce competition, making the industry challenging. International manufacturers also have some challenges because GNC operates globally, involving regulatory and cultural differences in different countries.

4.3. Limitations of Brand Recognition

Although GNC has a high brand recognition in the international market, its visibility in China is relatively low. According to the research, China’s economy actually increased during the 2010 and 2011 years. However, there are many people who can’t maintain their normal lives, including making sure they feel full and wearing warm clothes on cold days. Thus, it’s impossible to let many people make sure their minds are clear and their bodies are healthy. Most people are unlikely to recognise the brand GNC. As a result, Bright Food may have failed to effectively enhance GNC’s brand awareness in the Chinese market, affecting its business expansion. In China the market conditions may have changed after the acquisition, and there may have been problems that were not anticipated. If Bright Food does not make timely market adjustments and strategic changes, it may lead to a decline in performance. Bright Food may face the challenge of a lack of management capacity after the acquisition of GNC, especially in handling international operations and diversifying businesses [8][9]. Based on these reasons, that’s why Bright Food is a failure at M&A GNC.

5. Discussion

Based on these reasons, we can conclude that there are some main reasons that will affect the M&A. All in all, the first component that can affect mergers and acquisitions is the environment of the whole market. If a company is in a competitive market, they need to have some special points that can attract an M&A company. Financial ability will also be an important point in M&A. The speed of the M&A is also very important. According to the important angles that can affect the M&A, the author has some suggestions on it. For the environment of the merger, a good leader who leads the

company to make the decision and decides the specific details of the merger is useful to the merger. For financial ability, a corporation can actually borrow some money from the bank if they don't have enough financial ability [10]. But the point forward is that they need to ensure the development of the M&A corporation. If they can make sure the company's development is raised. They can borrow it for a certain amount of benefit.

6. Conclusion

As a result, the main reason that affects the bright food failure M&A on GNC is their too slow M&A speed and indecisiveness in M&A decision-making. Also, according to the case study of bright food failure M&A on GNC, it shows that several reasons that cause the M&A failure of GNC are the inadequate financial capacity and lack of recognition in the international market. The GNC can borrow from the bank to boost their financial capacity and increase their international recognition in order to address the issue that led to the failure of M&A. There are still some drawbacks in this article that need to be amended, like some specific data analysis and calculating and using the cap to run the data. So future research will focus on calculating and analyzing the data.

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