Keeping it in the family

BUT AT WHAT COST?

THE BERTELSMANN GROUP is the world's largest media company. It operates in 63 countries worldwide and employs over 78,000 workers. In 2005 its turnover was almost €18 billion. It owns or has major holdings in companies involved in book and magazine publishing, film and music recording, online services and other multimedia activities.

Bertelsmann was established in Gütersloh, Germany in 1835 by the printer and bookseller Carl Bertelsmann. In 1887 the company passed from Carl Bertelsmann's son Heinrich to his son-in-law, Johannes Mohn. It has stayed in the hands of the Mohn family ever since.

Bertelsmann became an AG (a German public limited company) in 1971, but instead of offering shares to the public on the stock exchange, the Mohns decided to keep all the shares themselves and to become an unlisted public company.

Bertelsmann is now €4.5 billion poorer

Why? Normally the only reason for a company to form an AG is to raise capital to finance new projects or ideas. However this also weakens the power of the original owners because the shareholders then want the company to represent their interests. Moreover a company that is listed on the stock exchange also has to meet a lot of other requirements, such as publishing its consolidated financial reports every three months. Meeting these requirements can cost a company several million euros a year.

On the other hand one considerable advantage of being an AG is that you can take over other companies without it costing you a single cent. All you need to do is to offer the owners some of your shares in return for some of theirs.

This is exactly what Bertelsmann did when they took over Groupe Bruxelles Lambert, a financial group, in 2001. They offered the owner, Albert Frère, a 25% stake in the Bertelsmann AG with an option to sell those shares on the stock exchange later.

In 2005, Frère announced that he wanted to do just that. This left the Mohn family with only two choices – they could either buy back Frère's share of Bertelsmann to keep everything in the family or let Frère do an IPO *(Initial Public Offering)* and risk having outside shareholders.

The Mohns decided on the buyback option. They offered Frère €4.5 billion for his share of Bertelsmann AG and Frère accepted.

As a result, the Bertelsmann Group is now €4.5 billion poorer and may have to sell its 50% stake in Sony BMG Music Entertainment, one of the world's largest and most successful music publishers, to finance the buyback.

Reading for detail

5 Work with a partner and mark these sentences *T* (true) or *F* (false).

1 Bertelsmann was established in 1835 and started producing films and records. ☐
2 When the company went public in 1971, it did not offer its shares on the stock exchange ☐
3 The company is not listed on any stock exchange. ☐
4 It can cost a company millions of euros every year to meet a stock exchange's requirements. ☐
5 The only way to take over a successful company is to offer the owners a lot of money. ☐
6 The owners of Bertelsmann paid €4.5 billion to stop the company from being listed on the stock exchange. ☐

Discussion

6 Work in small groups. Were the Mohns right to pay so much money to buy the shares back? Why? Why not?

TB Discussion

7.6 Case study Trading stocks

Discussion

1 In small groups, discuss the questions about shares.

1 What are the advantages and disadvantages of investing in shares?
2 Are there any types of company you would not want to have shares in?
3 Would you prefer to invest money in:
   a) shares that are risky – i.e. you could make or lose a lot of money?
   b) 'safer' shares of large, well-known companies (blue-chip companies)?
   c) bonds that guarantee fixed interest rates?
   d) a mixture of all of the above? Why/why not?

Discussion

2 Work with a partner. Look at the companies below.

CanGas Corp. – a Canadian Gas Company
Cyberchip Plc – a British computer chip manufacturer
Zero Emission Cars – a German producer of electric vehicles
Feijão Pretos SA – a Brazilian coffee producer
Genezap Inc. – a US biotech company which produces genetically-modified seed

Decide what kind of opportunities and threats there are for these companies. Think about environmental factors, market stability and competitors.

	Opportunities	Threats
CanGas Corp.		Gas supples will run out soon
Cyberchip Plc	Cost of manufacturing has fallen.	
Zero Emission Cars AG		
Feijão Pretos SA		
Genezap Inc.		

Reading for detail

3 Read the information about the five companies and add any other opportunities or threats they mention to the table above.

Negotiating

4 Shares in the five companies are currently worth €100 each. You have €5,000 to spend on shares. Decide with a partner which companies you are going to invest in.

Company	No. of shares	No. of shares after first report	No. of shares after second report	Value
CanGas Corp.				
Cyberchip Plc				
Zero Emission Cars				
Feijão Pretos SA				
Genezap Inc.				
Total value:	€5,000			

Internet research

Search for the keywords *trading basics* to learn more about when to buy and sell shares.

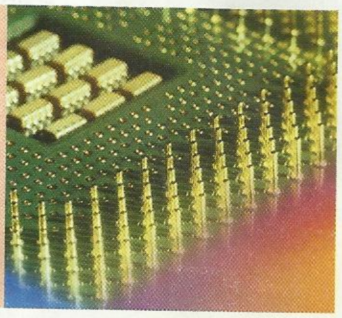
5 2:31 Now listen to an economic report and decide whether you would like to swap any of the shares you have for other shares. Talk to other pairs and try to exchange shares.

6 2:32 Listen to a second report and decide whether you would like to make any further swaps.

7 2:33 Now listen to an interview with stock market analyst Sarah Johnson and find out how much your shares are worth and why.

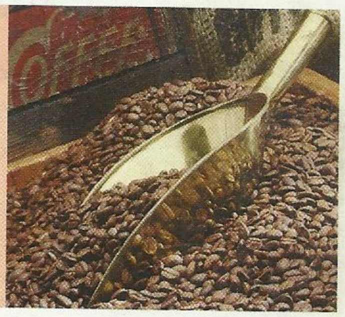
CanGas Corp. is a medium-sized Canadian gas producer. It owns several gas fields in western Canada and currently produces about 8% of Canada's natural gas output. Some of the smaller gas fields will run out within the next five years, but the company has been investing a lot of money in new pipelines to increase production from its larger gas fields. Environmental groups, such as Greenpeace, are angry at CanGas' plans to start exploiting a new gas field in Alberta and say the planned pipeline will have a negative effect. The increase in oil and gas prices has helped push CanGas' share price up to $100 in recent months. A fall in energy prices would seriously affect CanGas' profitability and investment plans.

Cyberchip Plc has two 'fabs', or fabrication plants, in the UK and recently announced it has developed a new method of manufacturing chips which will reduce production costs significantly. Developing another plant will probably cost Cyberchip several million euros and some investors are worried that Cyberchip does not have the financial resources. FabPro, one of Cyberchip's competitors, has also announced that its new plant in Seoul will also go into full production of its new chip shortly. Many computer chip manufacturers have moved to the Far East where labour costs are significantly lower.



Zero Emission Cars produces small electric vehicles for city driving. It sold 50,000 units last year and plans to increase production by 50% in the next two years. High fuel prices have helped to increase the demand for these cars and new rules and regulations on emissions could push demand even higher. Critics say the car is too expensive and that the 80 km maximum range makes the car impractical for longer journeys. Zero Emission Cars says it is developing a new model which uses a new high-tech battery which could increase the car's range to 180–200 km.

Feijão Pretos SA produces high-quality, organic coffee. Its suppliers are mainly local coffee growers in the southern state of Paraná, Brazil, but it is increasingly buying more coffee from the states of Espirito Santo and Bahia which has helped to reduce the risk of frost because they are further north. Most of the coffee it exports is for the North American markets, but it is hoping to expand to the EU. Coffee prices have been falling on the world's markets, but Feijão Pretos' strategy of targeting the top end of the coffee market has worked well and last year it reported a profit of 42 million Brazilian Real (BRL) – or €15m, up 20% on the year before.



Genezap Incorporated produces genetically-modified seed, such as rice, wheat, maize and potato. Its turnover has increased more than 250% in the last five years and its profits have tripled in the same period. There are signs, however, that the demand for genetically-modified seed is slowing in the USA and Genezap is now hoping to be able to break into the European and Asian markets. Opposition to genetically-modified food is growing, particularly in Europe and the USA.