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Should Yi-Lung Agricultural Co., Ltd Acquire Dole Taiwan?

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Abstract

Dole is the largest multinational enterprise in the production and sales of fruits and vegetables in the world. Dole established a Taiwan branch in 2005 (Dole-Taiwan) and set up banana cutting and packaging plants in Beitou, Taipei and Wanluan, Pingtung in 2006. Dole-Taiwan cooperated with 7-11 and successfully launched the single banana sales business. In 2014, Yi-Lung Agricultural Co., Ltd (Yi-Lung) was established by Yu Chihjung, a banana farmer from Nanzhou Township, Pingtung County. By means of cooperation with Dole-Taiwan, Yi-Lung became a major supplier to 7-11 and Costco. At the beginning of 2020, Dole-Taiwan, which has been operating at a loss for some considerable time, announced its withdrawal plan from the Taiwan market. Yi-Lung was asked to acquire Dole-Taiwan, but Yi-Lung refuses to acquire Dole-Taiwan, it may lose their orders from 7-11 and Costco. However, this acquisition may lack economies of scale and scope for Yi-Lung, while operational integration is another problem. The key question is: Should Yi-Lung acquire Dole-Taiwan?

Keywords: Acquisition, vertical integration, banana industry, Dole, Yi-Lung

Case

Dole Food Company, Inc. (hereinafter, Dole Company), established in 1851 in Hawaii, USA, is the largest multinational fruit and vegetables production and sales corporation in the world. Dole Company collaborates with supermarkets such as 7-Eleven in the Japanese market, successfully peddling the sale of single bananas by means of a marketing strategy which involves splitting each banana from the bunch singly as well as dividing them into small groups to be packaged for sale. Additionally, Philippine bananas were imported, thus supplanting the position of Taiwanese bananas in the Japanese market. In 2005, Dole Company, with hopes of breaking into the Taiwanese market, established its first Taiwan branch company as well as, in 2006, banana-splitting and packaging factories in Taiwan's Taipei Beitou district and Wanluan Township, Pingtung. Dole Taiwan used its capital advantage to expand its share of the domestic banana market in Taiwan, with the purpose of increasing its market occupation ratio in Taiwan in addition to gaining control of Taiwan's marketing and distribution channels. Although the profitability of this venture did not meet expectations, Taiwan Dole has long awaited the opening up of banana imports so as to replicate the Japanese model of importing Philippine bananas into the Taiwanese market. Since the beginning of 2020, when the initial outbreak and spread of novel coronavirus pneumonia (COVID-19) occurred, industries and businesses in various sectors have been greatly impacted. It was precisely at this time that Dole Taiwan realized that the government would not open up banana imports in a foreseeable short-term period, and therefore announced its official departure from the Taiwan market.

Yu Zhirong of Nanzhou Township, Pingtung County founded Yi Lung Agricultural Co., Ltd. (hereinafter, Yi Lung Company) in 2014, which integrated a multiplicity of local banana farmers to engage in the large-scale planting of bananas, and by collaborating with Dole Taiwan, obtained orders from 7-Eleven and Costco. Upon news of Dole Taiwan's closure, Yu Zhirong realized that if it didn't acquire Dole Taiwan, he may have to face the possibility of

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losing the orders from 7-Eleven and Costco. At this time, Pingtung County's blazing sun had been shining brightly; it had brought warmth and comfort, but in Yu Zhirong's heart, there were conflicting emotions. Should he buy out Dole Taiwan? Or shall he give up his achievements borne from many years of collaboration, then seek out a different path for success?

1. The Current Situation and Predicaments of the Taiwanese Banana Industry

Bananas are Taiwan's most representative agricultural product, with a planting area which at one point surpassed 50,000 hectares. In 1967, its export sales to Japan reached 35.6 million boxes, representing a peak of approximately 427 thousand metric tons, accounting for 81% of Japan's banana imports that year. However, in the 1970s, Dole Company implemented a marketing strategy in the Japanese market that involved both dividing bunches into single bananas and selling packages of small groups of bananas. Additionally, Philippine bananas were imported into the Japanese market, giving rise to the emergence of Philippine's banana export industry. Then in 2005, owing to the prevailing global trend in free trade, Taiwan comprehensively demolished its sales system of unified export, ending Taiwan Provincial Fruit Marketing Cooperative monopoly in the Japanese market and initiating free export by traders.

Although a situation of free competition was created for banana exports, Taiwan's banana farmers and traders did not pay particular attention to the changes in banana export markets. On top of that, due to high cost of sales and a quality inferior to that of Philippine bananas, Taiwan's banana farmers held a weak competitive position in the international market. After the 1970s, Taiwan left the Japanese market of its own accord, and with Philippine bananas holding an occupation share of over 90% of that country's market, Taiwan, the country formerly known by the title of "Banana King", gradually lost its place in the Japanese market.

2. From Banana Farmer to Agricultural Enterprise: The Production and Marketing Problems of Taiwan Bananas, Yu Zhirong's Entrepreneurial Process

Yu Zhirong was born in Nanzhou Township, Pingtung County, to a family that had planted bananas for generations. He believed banana planting to be arduous work, as the price for this fruit is completely determined by merchant who reseller them; one could hardly earn a profit during a lifetime of planting bananas. To extricate himself from the fate of planting bananas, after serving in the army, he sold phones, became a suit apprentice, and served as a trader in the stock market industry. However, in 2004, he was left without a choice but to return to the countryside and rejoin the banana industry.

Banana cultivation in Taiwan is mostly engaged in by small and old farmers, who, on average, each have a planting area of less than 1 hectare. Due to issues such as the different field management models and planting areas of each banana farmer, variance in the ripeness, size, and length of bananas, and concerns regarding quality susceptibility to small exterior blemishes, the quality level of bananas grown in Taiwan varies greatly. In addition to quality and specification, stable supply is another condition that needs to be met. Thus, to successfully expand the market requires convincing banana farmers to be willing to integrate operations with other growers. Therefore, Yu Zhirong believes the following:

The biggest issue regarding banana sales is the absence of banana farmers who can provide a stable supply. Yet agricultural produce sales require stability in terms of three aspects: stable quality, stable supply amounts, and stable prices.

Agriculture is a vertical-type and value co-creation ecosystem. With agricultural enterprises taking the lead, banana farmers are led to cooperate with each other so that the relationship amongst them changes from that of "buyer/seller" to a co-creation value of "co-partner". Thus, the power of the collective is used to improve the quality of agricultural produce, reduce costs, and shorten delivery times so as to enhance the competitiveness of the entire agricultural ecosystem. A plan was in place. By means of such an approach, Yu Zhirong assumed the identity of a banana farmer to share previously recorded field data with other banana farmers, allowing them to attain greater safety and efficiency in cultivation, pesticide use, and fertilization management. Yu Zhirong said the following:

Banana farmers are different from agricultural enterprises. Banana farmers rely on their experience and are often inexact in their usage of fertilizers, which is even more so for pesticides. After they suffer of consequences of messing up once, they try something different the next time around, and even then, it may not be correct. Meanwhile, agricultural enterprises rely on statistics and sustain their operations based on science. In the agricultural education of the past in Taiwan, to teach farmers how to plant was, in itself, a difficulty, much less could one teach farmers how to conduct agricultural enterprise management. Teaching farmers equated to doing the work for them to see, as only by seeing would they believe.

Through continuous improvements in planting technologies and banana quality, along with the opening up of channels and the establishment of banana farmer networks, Yi Lung Company's planting area increased from 1

hectare in 2004 to over 30 hectares in 2010, then further to 53 hectares by the end of 2019, when the company's registered capital reached NT\$15 million.¹

3. The Key to Agricultural Enterprising: Collaboration with Dole Company

Banana value chain activities include the planting, harvesting, procuring, selecting, washing, warehousing, ripening, splitting, packaging, warehousing and refrigeration, cold chain transporting, shelving, and selling of the product. Banana farmers (Yu Zhirong) are responsible for planting and harvesting; agricultural enterprises (Yi Lung Company), resellers (banana peddlers), and traders are responsible for procuring and collecting, selecting, washing, warehousing, and ripening; processing factories (i.e., Dole Taiwan, Ru Ji Foods Co., Ltd. (hereafter, Ru Ji Foods), Fu-Fruit Co., Ltd. (hereafter, Fu-Fruit) are responsible for cutting, packaging, warehousing and refrigeration, and cold chain transporting; and channels (major channels such as 7-Eleven, Costco, Carrefour, PX Mart, etc., and traditional markets) are responsible for shelving and selling. Retailers such as Taiwan's supermarkets and convenience stores require a banana planting area of over 1000 hectares each year. The major characteristic of these modern channels is that those in them are not deterred by expensive bananas, only bad quality ones. However, food safety standards must be fulfilled, and a long-term stable supply is required. Yu Zhirong's efforts at the time earned him the affirmation of 7-Eleven supplier Dole Taiwan. Yu Zhirong expressed this in the following terms²:

We create value for Dole Company to make use of~

The major supplier to 7-Eleven and Costco is Dole Taiwan. Yi Lung Company is the producer and green banana procurement field that owns the place of production and is the main supplier of Dole Taiwan. The professional splitting and packaging factories in the industry include Ru Ji Foods and Fu-Fruit, who are holistic suppliers of fruit products. In addition to bananas, they also supply guava, small tomatoes, and pineapples, while Yi Lung Company focuses exclusively on the cultivation and supply of bananas.

Agricultural planting, splitting and packaging are each distinct professions. Upon first collaborating with Dole Taiwan, Yi Lung Company realized that Dole Taiwan had exceptionally high management standards; for example, this was the case in traceability management, the cleanliness of splitting and packaging factories. As supplier to Dole Taiwan, Yi Lung Company had to set its own standards accordingly. Though the bananas procured by ordinary resellers generally have a difficult time meeting the requirements of Dole Taiwan in terms of traceability management, Yi Lung Company is, for the most part, able to meet Dole Taiwan's standards. With a plethora of advantageous conditions, in addition to control of the place of production, barriers to entry are imperceptibly created. Yu Zhirong said the following:

The real stories are in the production process. From the place of production to the planting of seeds to the dining table, we all have stories to tell. Place of production and splitting and packaging factories are two different worlds. Presumably, 7-Eleven should not come to me to film a commercial; instead, they should seek out Dole Taiwan. But since I am Dole Taiwan's supplier, I can tell stories to consumers. However, the intermediate splitting and packaging factories have no stories to tell.

4. Starting to Invest for Dole Taiwan

For the sake of its collaborative relationship with Dole Taiwan, Yi Lung Company has, over the years, successively invested tens of millions of Taiwanese dollars in pre-cooling equipment and a further NT\$30 million in expanding ripening warehouses, increasing processing hardware equipment, along with other such ventures. Yi Lung Company interacts with Dole Taiwan's purchasing, quality management, financial affairs, and operating departments, a process through which problems are addressed immediately when they are first discovered. For example, upon discovering that bananas have stains a few days after shipping, an investigation was immediately conducted on whether the cause could be attributed to the refrigeration being too cold or the field environment being too warm; therefore, adjustments were made to wash and refrigerate within 24 hours, with the aim of controlling the temperature and maintaining the freshness of the bananas. Yi Lung Company constantly learns from and cooperates with Dole Taiwan's quality requirements, which they then adopt to improve the planting on their farms and the quality management techniques in their processing factories. Yu Zhirong describes the learning process as follows:

In Taiwan, the company we are most thankful for is Dole. Dole brought our SOP to Taiwan. Taiwan has never had a cultivation group like Dole that can plant from hundreds to tens of thousands of hectares of

¹ Department of Commerce, Ministry of Economic Affairs (2020), "Get Information about Companies or Businesses in Taiwan," (accessed August 27, 2020), [available at <https://findbiz.nat.gov.tw/fts/query/QueryBar/queryInit.do>].

² AgriHarvest (2017), "Yi-Lung Creates Value to Be Used and Enters the 7-11 Banana Market," (accessed August 27, 2020), [available at <https://www.harvest.org.tw/archives/27708>].

bananas. We learn from them to improve our planting and have learned how to calculate actuarial costs. From understanding this cost concept, I now know how to bargain.

5. The Integration and Dynamic Equilibrium of Production and Sales Networks

After the bananas are planted, they start blooming within approximately the sixth month and continue to bloom until the eighth month. After blooming, they are about two months away from harvest, which is conducted about once a week. The peak production amount is reached in the third month of this process, while ripening is even faster in the summer. Crops that are seasonally harvested once or twice a year are easy to contract (such as rice), but crops harvested many times a year, such as non-seasonal crops like bananas, are not easy to contract. The result of contracting may result in the suffering of losses by either the buyer or seller. Thus, the effectiveness of banana contracting is not ideal. Manager Chen Hsin Hsuan of Yi Lung Company expresses the following:

For bananas, you can contract amount, but you cannot contract price, which is very hard to define. Because everyone runs to the high-price setter, price fluctuations are considerably high.

Without a fixed marketing channel, it is impossible to increase purchase price, without which there isn't a stable supply of goods. In other words, if banana farmers are willing to sell their bananas to Yi Lung Company, it must be because the price is superior to that of the market. But to be able to propose a purchase price superior to the market price is predicated on being able to sell off the bananas. To achieve the "dynamic equilibrium between production and sales", Yu Zhirong has devised a personal method:

When I purchase from the market, I purchase using a price of 1 yuan higher than the market price. Having established a steady scale, I then bargain with retailers to a higher price. With regard to the supply of the goods that retailers buy from me, its stability is greater than that of other suppliers. After I ascertain the total amount, I then determine my own planting amount and the amount I should buy from banana farmers. My growth situation is determined by this estimated total amount. After I use the total amount to convince my customers, I am then able to give them a steady supply.

Yi Lung Company externally purchases a planting area of about 150 hectares (shared amongst approximately 150 banana farmers, each with an average planting area of 1 hectare). Yet this is not adequate if you are depending on the integration of banana farmers who each work from their own place of production; to maintain a steady supply, one must also improve the production on one's own farms. Yu Zhirong said:

Bananas are generally harvested separately eight times a year. As for the pricing regarding these eight harvests, I am content with breaking even. But when I am buying and selling, I realize that the total amount is not enough. I also realize that it is more reliable to depend on myself than on others. So, I begin to plant myself, since, even if I ask for banana farmers to sell, it is not going to happen.

6. Transformation in the Domestic Sales Market of Taiwan Bananas

During slow banana sales in recent years, the government has initiated a takeover campaign known as "decommercialization", in which bananas are purchased at a price of NT\$5 per kilogram and then destroyed. However, when banana prices drop to below 8 yuan per kilogram, banana farmers incur more losses. In 2010, 7-Eleven promoted the "Major Project for Rescuing Banana Farmers" campaign to induce the sale of bananas at 9 yuan apiece during the abundant summer harvest months from May to July, reaching, at one point, a peak of NT\$29 apiece. The peak season for traditional markets is in January. Using a week's sales amount in their calculations, if traditional markets sell 1000 items, 7-Eleven would only sell about 600 items. But in the summer, the sales volume of traditional markets becomes 600 items, while 7-Eleven's becomes 1000 items. During the price crash which affected Taiwan bananas, 7-Eleven bananas maintained a price of 20 yuan apiece. The ecology of the domestic banana market has consequently changed. Yu Zhirong said the following on this matter:

7-Eleven is the enterprise that I am the second most thankful to, with the first being Dole Taiwan. This is because 7-Eleven helped us a lot during that time. Traditional markets do not have a refrigeration system, and in the summer the bananas in traditional markets are prone to growing spots. On the other hand, 7-Eleven does have a refrigeration system, and due to the free air conditioning that 7-Eleven provides, consumers automatically choose to circulate at 7-Eleven, increasing the sales volume of bananas. My initial suggestion was an effective one, and particularly so during the summer. The price of 7-Eleven bananas is currently set at NT\$20 yuan apiece. This is equivalent to contract pricing in which the revenue for a single banana product is approximately NT\$200-300 million, with a gross profit margin of 18% to 25%.

7. Yi Lung Company's Potential Competitors

In addition to Yi Lung Company, suppliers to Taiwan's modern channels include Ru Ji Foods, and Fu-Fruit. Ru Ji Foods was established in 1982, and its factory is located in Zhutian Township, Pingtung County. It began by producing blood and rice related products³, and its capital is NT\$213 million⁴. In 2019, its revenue was NT\$1.2 billion. Its main business is oden, bananas being the only fresh fruit that it works with. In 2004 it began a partnership with 7-Eleven in frozen packaged foods, and in 2014 it began supplying 7-Eleven and PX Mart with bananas and corn on the cob. Its channel partners include 7-Eleven, PX Mart, Costco and Carrefour, as well as famous restaurant chains. In 2018, Ru Ji Foods also established banana ripening and automatic washing production lines, allowing every banana processed to fulfill of the stringent requirements for export to Japan⁵.

Fu-Fruit was established in 1972 and its factory is located in Zhonghe District, New Taipei City. In 2003, it imported fruit and vegetable cutting equipment and technologies from Japan and began promoting new products such as fruit platter meals and fruit juice bars⁶. Fu-Fruit's registered capital is NT\$120 million and it is Taiwan's largest fresh fruit and vegetable cutting factory. Its products encompass practically all of the packaged fruit and cut and boxed fruit markets. Its partner channels include 7-Eleven, FamilyMart, Carrefour, RT-Mart, PX-Mart, Wellcome, and Costco, of which supermarkets account for roughly one-third of revenue. In 2008, its revenue had already broken the milestone of NT\$1 billion, and its revenue in 2019 was nearly NT\$2 billion. In 2020 it allocated NT\$800 million for the establishment of new smart factories; low-temperature freshness preservation storage systems; and high-level clean rooms in Tucheng District, New Taipei City. With those, it became Taiwan's largest storage base that regulates and preserves large amounts of fresh fruit⁷.

8. The Conflict of Interest in Yi Lung Company's Acquisition of Dole Company

The president of Dole Company Taiwan is of dual nationality, also holding Hong Kong nationality as well as Taiwanese. Within the organization, there are the Beitou and Wanluan splitting and packaging factories, along with the four departments dealing with operations, procurement, quality management, and financial affairs. The chief financial officer assumes day-to-day operational leadership, and the products of specialization are bananas and pineapples, with bananas accounting for ninety percent of those. Its main channel customers are 7-Eleven and Costco, and its highest annual revenue peaked at NT\$400 million before dropping back down to 300 million yuan. Due to the dense population and large market in the northern region of Taiwan, a splitting and packaging factory was established in Beitou in 2006, although the main production location regarding bananas is in the southern regions of the country. In the same year, Dole Taiwan also established a banana procurement and washing processing factory in Pingtung-Wanluan.

In recent years, due to competition from place of production co-operatives, agricultural product companies, and green banana traders, banana procurement has been difficult, with the banana industry as a whole suffering a decline. Besides Yi Lung Company and Dole Taiwan, there are approximately eight to nine other suppliers, with Yi-Lung Company accounting for forty percent of the supply amount. Due to the company having a factory in both the north and the south of Taiwan, there is also an issue of manpower redundancy. Impacted by investment depreciation and amortization and declining business efficiency, Dole Taiwan has suffered an annual loss of about NT\$13 million and an accumulated loss of about NT\$200 million. During the period from 2017 to the present, internal departments at Dole Taiwan have continually mentioned the suggestion of the end of operations. In the beginning of 2020, Dole confirmed its plan to leave Taiwan, proposing a sale price of \$NT20 million while actively notifying Yu Zhirong of their hopes that he could take over operations.

Because almost the entirety of its land is rented, Dole Taiwan regards its 20- million NT dollars of assets to consist mainly of its hardware facilities and construction costs at its two processing plants in Beitou and Wanluan, as well as various packaging material reserves, along with the professional experience and expertise of its personnel. The Beitou factory has an area of 320 plains and had 33 employees as of the end of 2019; the Wanluan factory has an area of 850 plains and employs a staff of 37 employees. In 2014, the Beitou factory invested NT\$17 million in facilities

³ KISARAKI Food Co., LTD (2020), "Story-Company Introduction," (accessed August 27, 2020), [available at <https://www.flno1.com.tw/list/cate-227816.htm>].

⁴ Department of Commerce, Ministry of Economic Affairs (2020), "Get Information about Companies or Businesses in Taiwan," (accessed August 27, 2020), [available at <https://findbiz.nat.gov.tw/fts/query/QueryBar/queryInit.do>].

⁵ KISARAKI Food Co., LTD (2020), "Story-Historical footsteps," (accessed August 27, 2020), [available at <https://www.flno1.com.tw/list/cate-227813.htm>].

⁶ FU-FRUIT Co., LTD (2020), "Company Introduction," (accessed August 27, 2020), [available at <http://www.fufruit.tw/cetacean/front/bin/ptlist.phtml?Category=179063>].

⁷ Ministry of Economic Affairs (2020), "News and Releases," (accessed August 28, 2020), [available at https://www.moea.gov.tw/Mns/populace/news/News.aspx?kind=1&menu_id=40&news_id=89526].

such as hardware facilities, refrigeration storage units and ripening rooms; in 2005, the Wanluan factory invested NT\$22 million, making a total of NT\$39 million in construction costs. Additionally, at the end of 2019, there remained NT\$ 1.5 million of value in Dole packaging bag reserves. However, there are 70 workers whose employment had not been included in the merger and acquisition contract, while the buyer has the authority to decide whether to hire them or not, or how many of them they wish to hire. If no workers are hired, Dole Taiwan would be responsible for the severance pay, not the buyer.

Yi Lung Company has created an annual revenue of about 150 million NT dollars from the cultivation and sale of bananas. Yu Zhirong has already devoted years of efforts to Dole Taiwan; currently, Yi Lung Company has processed more than 1500 bananas every day, to be sold at 7-Eleven and Costco, which, assuming each banana weighs 15 kilograms, equates to a total of 22.5 metric tons in production daily. During the production season, a large amount of manpower needs to be invested in the harvesting, storage, and transportation of bananas. However, starting in 2014, 7-Eleven started nurturing a second supplier, Ru Ji Foods, and although the extent of its business is still considerably less than that of Yi Lung Company (Ru Ji accounts for 40 percent, while Dole Taiwan makes up 60 percent), the total number of orders in Dole Taiwan's account for up to 60-70 percent of Yi Lung Company's revenue. If Yu Zhirong were to halt purchases, Ru Ji Foods and Fu Fruit would immediately be seeking to take advantage of this. As soon as Dole Taiwan is terminated or acquired by another party, Yi Lung Company would face a major issue concerning order churn. Therefore, thinking in terms of business strategy, forward vertical integration can maintain a company's operational performance and growth; from this perspective, it is almost as if Yi Lung Company ought to acquire Dole Taiwan. Once acquired, the challenges on the implementation front would become extremely large. On the management front, though Yu Zhirong was born into a family of banana farmers and is currently studying agricultural enterprise operations with a specialization in production end management, a different type of professional management style would be needed for splitting and packaging factories. In this regard, Yu Zhirong expressed the following:

The industries of splitting and packaging factories and banana planting and production are two entirely different worlds. If I were to acquire Dole, I would have to devote all my energy into splitting and packaging factories, which to me is a completely foreign industry. Thus, I would have to let go of the banana production end. The key to running splitting and packaging factories is earning the trust of retailers. Dole Taiwan is a foreign company, so the credibility of its operational management makes it easy to trust. Yi Lung is a small company, so it is not easy at all to earn the trust of these major retailers. As soon as retailers switch their allegiances, the splitting and packaging factories would become a huge burden for me.

Besides professional knowledge in operations, any acquisition would also introduce another difficulty, namely, a lack of products and the economies of scope of vertical integration. On this matter Yu Zhirong expressed the following:

The two factories in Beitou and Wanluan require experienced professionals to come in and manage them. However, we only produce one product, bananas, and nothing else. If our business hope to compete with Ru Ji and Fu-Fruit, it would be quite difficult.

Another concern of Yu Zhirong's is that a company as large as Dole Taiwan would not be able to make a profit until many years of operation have passed. Would he be able to turn the company's fortunes around? He really cannot guarantee this! Thinking carefully about Dole Taiwan's business operations, Yu Zhirong determined that the Beitou and Wanluan factories would both require a group of people to manage them, with the cost of these two groups and operations being quite high. Combined with the 33 full-time and hourly-wage employees at the Beitou factory whose salaries total approximately 1 million yuan in wages monthly, NT\$260 thousand in monthly factory rent, NT\$100 thousand in monthly water and electricity fees; and NT\$160 thousand in miscellaneous fees, the total monthly expenditure would total at least NT\$1.52 million. In addition, when you add on the issues of mismanagement and banana depletion, the endeavor could turn into a bottomless pit of deficits and loss.

At the same time, in terms of financial levels, Dole Taiwan's price of 20 million is too much of a burden for Yu Zhirong. Through its past few years of collaboration with Dole, Yi Lung Company has continually invested capital, especially in terms of refrigeration storage facilities and space. One question to emerge is, from what source would he raise this merger and acquisition fund? A further question is, can the price of NT\$20 million really be taken at face value? Reflecting on one particular aspect of the basic financial accounting knowledge he had learned at the stock market a few years back, Yu Zhirong thought about how to evaluate the company's true value:

Using the concepts of the depreciation of fixed capital and amortization over depreciation, how much residual level is left in these facilities? From their establishment in 2006, the two factories have now been in use for 14 years. If their service life is assumed to be 20 years, there should not be much surplus value. Using the replacement cost of second-hand facilities in the market, around 20 thousand yuan a plain

should be sufficient. Furthermore, the professional knowledge and experience of Dole employees is an intangible asset. If it really did hold value, perhaps it could help me solve my problem of manpower shortage, but how does one value intangible assets? Do I really have the ability to work with these high-level professionals who have all worked before at overseas companies?

With the hurdles in management and finance being so high, is it necessary that Yu Zhirong acquire the splitting and packaging factories, an effort aimed at obstinately clinging on to the Taiwanese market? In fact, in 2019, Yi Lung Company was introduced to Japan's Rai & Co., Inc by Yuamowu Shokken Co., Ltd, and successfully obtained a three-year order of 500 metric tons in banana exports to Japan. "Fortification Project for Pingtung Banana Farmers" has continuously been a major project that has been heavily supported by both the Pingtung County Government and Council of Agriculture, Executive Yuan. In its vision of using "big farmers to lead small farmers" as a means of returning to the Japanese market, Yi Lung Company could play a bellwether role as a big farmer, so Yi Lung would receive considerable support from both the central government and local governments. On this point, Yu Zhirong has said the following,

I am extremely thankful for receiving the support of the government. I have heavy sentiments for local banana farmers. This major project allows us to go forward and strive in the direction of export to Japan, and it can lead banana farmers in their application of AIoT modules, big data, and even digital farms, allowing for the standardization of planting, automation of processes, certification of trust, and internationalization of production and sales, thereby improving export volume and truly achieving agricultural transformation. Only in this way will we hold a lasting competitive advantage.

Exporting to Japan does not require splitting and packaging factories. Additionally, in 2018, Yi Lung Company began establishing its brand "Nan Rong Farm", with "Nan Rong" representing the banana king from Pingtung in Taiwan, "Nanzhou Yu Zhirong". This type of brand marketing that paves the way for exporting and also presents the vision of a "Banana Kingdom" that Yu Zhirong most longingly wants to create. On this point, Yu Zhirong said this:

If New Zealand's kiwi exports can be so successful, why can't Taiwan bananas be the same? My dream is to put Taiwan bananas on equal footing with New Zealand kiwis. We have already smoothly obtained a large order from Japan. Although exports account for only 20 percent of our revenue, there is still room for growth in the future. I sincerely hope that the industry progresses, since the industry's progression is also my progression. I obtain resources from the country, and by putting my stakes in exporting to earn foreign currency, I am repaying the country.

Yu Zhirong is thus juggling two heads on one body; while he is contemplating whether to purchase Dole Taiwan, he is also plotting his dream of establishing a future banana kingdom. He faces a dilemma regarding what to do. Acquiring Dole would assist the company achieve vertical integration and would prove a useful step in controlling Taiwan's marketing and sales channels. But as far as exporting goes, although this is a comparatively long-term plan, it does not necessarily require a splitting and packaging factory, since the onus of the company would be on the production end. However, in the absence of export orders, there is no benefit to expanding production. The problems on the implementation front that arise from purchasing also directly pertain to Yi Lung Company's problems concerning the shortage of management knowledge and experience. There exists a shortage of manpower and adjustment of financial capital, and indeed, whether he can quickly turn losses into profit also remains to be seen. Furthermore, if he really were to purchase Dole Taiwan, he would have to conduct price negotiations. After much deep reflection on the matter, Yu Zhirong surmised that Dole would offer the possibility of contract agreements for its supply relationships with all its retailers. If there were to be no buyers at the price of N\$20 million, they would have to leave Taiwan, in which case, he would have to ask himself, would there be the risk of fines for the breaching of the supply contract? If there were, there would be room for bargaining. However, how much of his NT\$20 million would he be able to afford in such a scenario? Entangled and conflicted in his heart, Yu Zhirong is, at present, deep in thought!

Teaching Note

1. Case Overview

Dole Company is the largest multinational fruits and vegetables production and sales corporation in the world. Dole Company collaborates with supermarkets such as 7-Eleven in Japan, where it drives the sale of single bananas and has successfully replaced Taiwan bananas with Philippine bananas. In 2005, Dole Company established a Taiwanese branch company and in 2006 successively set up banana splitting and packaging factories in Taiwan's Taipei Beitou district and Wanluan Township, Pingtung County. Dole Taiwan awaited the opening up of the banana import market by the Taiwanese government, after which it would be able to import Philippine bananas into the Taiwanese market. However, at the beginning of 2020, Dole Taiwan realized that the government would not open up banana imports. This, combined with the outbreak of novel coronavirus pneumonia (COVID-19), Dole Taiwan, who was already in a long-term state of deficit, was left without a choice but to announce its official departure from the Taiwan market as well as relay its hopes that Yi Lung Company would take over its business. Yi Lung Company was established in 2014 by banana farmer Yu Zhirong, from Nanzhou Township, Pingtung County. Yi Lung Company produces only a single crop, bananas, and lacks economies of scope and operational knowledge for acquisition, not to mention the immense level of funding required for such an operation. . The question remains whether Yu Zhirong should purchase Dole Taiwan. The alternative is that he gives up his achievements borne from many years of collaboration and seek out a different path for success.

2. Teaching Objectives

The teaching objectives of this case study are to use the acquisition decision of Yi Lung Company's Yu Zhirong to discuss the market operations and current operating predicaments of the banana industry as well as to guide considerations on acquisition decision in terms of policy, organizational, and implementation. This discussion time for this case study is set at 100 minutes. In terms of teaching strategy, this activity is broken up into the three stages which consist of icebreaker, discussion, and ending, with the topics and time allocations for each stage being as follows:

- 2.1. What are the characteristics of the Taiwan banana industry, and what difficulties does it face? (10 minutes)
- 2.2. While within the domestic market, how did Yi Lung Company manage to establish a partnership with Dole Taiwan? (25 minutes)
- 2.3. From a policy standpoint, evaluate whether Yi Lung Company should purchase Dole. If they should, analyze and identify the challenges that Yi Lung Company faces regarding the management and financial levels of the implementation front. Do you believe that Yi Lung Company can overcome these challenges? If so, discuss the solutions that could be employed. (25 minutes)
- 2.4. Is there an opportunity for bargaining/price cutting in the purchasing process? If so, how should Yi Lung Company assess the reasonability of the NT\$200 million purchase price? How much money do you suggest putting out for purchase? (25 minutes)
- 2.5. If Yi Lung Company ultimately does not obtain the management rights of Dole, how should it maintain its future operations and growth? (15 minutes)

Due to the consideration that students of the School of Management have limited related knowledge on agriculture, it is recommended that in terms of the time allocated for teaching, the discussion time for the first question is extended as seen fit to ensure that students have ample knowledge of the market structure of the banana industry, which will also help serve as a guide for subsequent discussions.

3. Course Materials and Targets

This case is applicable to the Strategic Management, Industry Competition and Analysis, and Agricultural Enterprise Management courses. In terms of course planning, the Acquisition and Vertical Integration chapter may be discussed in the Strategic Management course, while the Industry Competition Analysis course is suitable for the discussion of the topics of the forming and structure of industry ecosystems. This case is suitable for the courses Agricultural Enterprise Management, Agricultural Product Transportation and Marketing, and Agricultural Enterprise Business Policy of the School of Agriculture for the discussion of agricultural enterprise operations and agricultural trade and marketing units.

In regard to target courses, the above case is suitable for students of the School of Management and School of Agriculture, as well as on-the-job specialized programs in Master's and Doctoral programs. Because students in the School of Management lack related knowledge on agricultural enterprise management, in terms of teaching strategy,

more time should be allocated for an explanation and discussion of the industry’s background as well as an understanding of the agricultural industry’s supply chain.

4. The Upstream and Downstream Relationships of Companies in the Case

This case encompasses the upstream, midstream, and downstream value activities of the banana industry. The case has specified the banana’s value chain activities as including planting, harvesting, green banana procuring, selecting, washing, ripening, splitting, packaging, warehousing and refrigeration, cold chain transporting, and finally shelving and selling. Banana farmers (Yu Zhirong) are responsible for planting and harvesting; agricultural enterprises (Yi Lung Company), resellers (banana peddlers); and traders are responsible for procuring and collecting, selecting, washing, and ripening. Processing factories (Dole Taiwan, Ru Ji Foods, Fu-Fruit) are responsible for cutting, packaging, warehousing and refrigeration, and cold chain transporting. Channels (major channels such as 7-Eleven, Costco, Carrefour, PX Mart, and traditional markets) are responsible for shelving and selling. Different companies play different roles at different stages of the value chain. The value chain activities and manufacturer relationships for the case are shown in Figure 1.

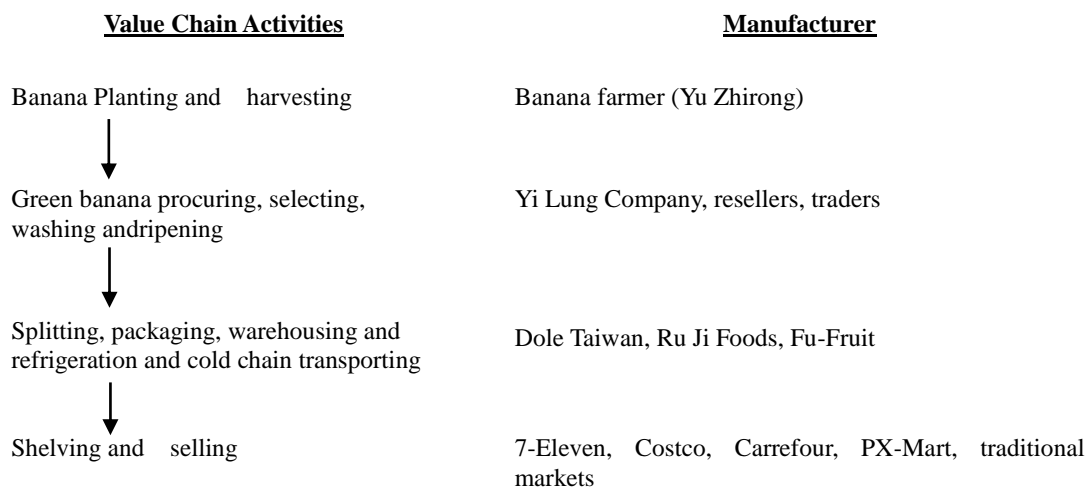


Figure 1 Taiwan Banana Industry Value Chain Activities and Manufacturer Relationships

5. Discussion Topics and Teaching Suggestions

To plan for the ice breaker activity, students may be asked before class to visit channels such as traditional markets, 7-Eleven, or PX-Mart to observe the sale of bananas. During class, students may be questioned as to whether they have bought bananas from 7-Eleven before and whether there are differences in the bananas they bought from 7-Eleven compared with those sold in general markets. In addition, students are advised to pay careful attention to student responses that touch on management topics such as “price” or “brand”. If a student replies to the effect that the brand is Dole’s “premium”, the teacher may end the ice-breaker activity and take the opportunity to ask questions such as, “How did Dole bananas end up at 7-Eleven?”, thereby starting the discussion phase.

It is suggested, in terms of teaching strategy, that after ending the ice breaker activity, the teacher ask the students, “Do you believe that Yi Lung Company should acquire Dole Taiwan?”, and record student responses to the question. After that, the discussion of related topics may begin, with the teaching suggestions being as follows:

5.1. What are the characteristics of the Taiwan Banana Industry, and what difficulties does it face?

The characteristics of the Taiwan banana industry include the following four elements:

- (A) The Taiwan banana industry is mostly composed of small and old farmers, which, on average, each have a planting area of less than 1 hectare. Because small farmers are unable to operate on a large scale, they lack international competitiveness.
- (B) The case text outlines the following situation: “The banana industry currently faces the predicament of uneven quality.” The cause of uneven quality is the lack of uniformity in farm management experience, in addition to the lack of uniformity in product quality. For example, the ripeness size and length of each banana vary greatly, while even the exterior surface of a banana almost always is marked by scrapes.

- (C) Expanding upon the information provided in the case text, the proneness to imbalance of production and sales in the banana industry is itself a characteristic of the banana industry, a point which the case text explained: “Agricultural produce sales require stableness in three aspects: stable quality, stable supply amounts, and stable prices.”
- (D) In Taiwan, large planting areas that rely on export markets, in particular, the Japanese market, are typical. The case text explained that “The planting area at one point surpassed 50,000 hectares..... In 1967, its foreign sales to Japan reached 35.6 million boxes and a peak approximately 427 thousand metric tons, accounting for 81% of Japan’s banana imports that year.” In terms of difficulty, Taiwanese bananas face competition from low-priced Philippine bananas in the international market and have gradually lost the export market. The case also mentioned that “Philippine bananas hold a market occupation rate of over 90% in the Japanese market.”

At this point, the teacher may wrap up the discussion by asking students this question: “In response to difficulties in the market, what kind of changes should the Taiwan banana industry make?” The purpose of this question is to guide student to a response such as, “Change area of focus from foreign exports to the domestic market”. If similar answer is obtained, the teacher can then move on to a discussion of topic two.

5.2. While within the domestic market, how did Yi Lung Company manage to establish a partnership with Dole Taiwan?

It is suggested that student responses during the ice breaker activity as to their banana purchasing experiences are used to lead the discussion. First, they should ask questions such as, “What kind of company is Dole?”, or “What is its business model, and what are the characteristics of this model?”

The case presented the following background facts concerning Dole Taiwan: “An agricultural enterprise company established in 1851 in Hawaii, USA, it is the largest multinational fruits and vegetables production and sales corporation in the world. Dole Company collaborates with supermarkets such as 7-Eleven in the Japanese market, successfully peddling the sale of single bananas through the marketing strategy of cutting bananas singly or dividing groups of bananas into small packages for sale. Additionally, Philippine bananas were imported, supplanting the position of Taiwan bananas in the Japanese market. To replicate the Japan model, Dole accordingly collaborated with 7-Eleven in Taiwan to peddle the sale of single bananas.”

- (A) It is asked that the teacher asks the students questions such as these: “What is the difference between the sale of single bananas and a bunch of bananas? What are the differences in its value activities?”

From the case text the following is known: “...the marketing strategy of cutting bananas singly or dividing them into groups to be sold in small packages. In 2006, Dole Taiwan successively set up banana splitting and packaging factories in Taiwan’s Taipei Beitou district and Wanluan Township, Pingtung County.” From this, it is known that the two value activities of “splitting” and “packaging” are added based on whether bananas are sold as singles or in a bunch.

- (B) The teacher can make the following request and ask the students the following questions: “Describe the business model of Taiwan Dole”, “What kinds of collaborations are needed for this type of business model?” and “Why was Yi Lung Company able to obtain the orders of Dole Taiwan?”

From the case material, one can see that all of Dole’s channels are modern channels (supermarkets, convenience stores, and mass retailers). The case text stated that, “The characteristic of these modern channels lies in that they aren’t deterred by expensive bananas, only bad quality ones. However, food safety standards must be fulfilled, and a long-term stable supply is required.” The reason that Yi Lung Company was able to obtain Dole Taiwan’s orders was due to their ability to control banana quality and provide retailers with traceability management and a long-term stable supply. This is also what Yu Zhirong meant when he said, “We create value for Dole Company to make use of.”

Regarding the aspect of a long-term stable supply, the case stated that, “Retailers such as Taiwan’s supermarkets and convenience stores require a banana planting area of over 1000 hectares each year.” This scale of supply, which uses its own planting area combined with the planting of partner farmers, is difficult for competitors to match. In addition to the characteristics of banana growth in which the peak period of production is the third month after planting, and qualities such as faster ripening during the summer, production amount varies greatly during the production period, creating difficulties in price setting. Relying on market transaction mechanisms will greatly increase transaction cost (Williamson 1985), making long-term contracts (so-called contracts) difficult to conduct. In addition to production amount differences, personal speculation preferences are another cause of high trade cost (Williamson 1975), as well as the difficulty in contracting crops that have multiple harvests. For example, it is difficult to set a long-term supply contract for mangos or guava, but it is easy to contract crops with one-time-harvests,

such as rice and cabbage. Because a large amount is sold at once, it is easy to contract. Manager of Yi Lung Company, Chen Hsin Hsuan, expressed the difficulties and price fluctuations in banana contracting in the following way:

“For bananas, you can contract an amount, but you cannot contract price, which is extremely hard to define. Because everyone runs to the high-price setter, price fluctuations are considerably high.”; “Yi Lung Company purchases externally a planting area of 150 hectares.”

The case text explained that Yu Zhirong uses a purchasing strategy which involves using a price 1 yuan higher than the market price to make up for his own insufficient production capacity, attaining the so-called “dynamic equilibrium between production and sales”, establishing a stable collaborative relationship and achieving supply chain integration (Huang and Huang 2019). This sharply decreases the transaction cost of retailers, so then with a stable production capacity, he can strike a bargain with retailers. As a consequence, Yi Lung Company currently has to process over 1500 7-Eleven and Costco bananas every day (about 22.5 metric tons in production daily) and has expanded the scale of its refrigeration facilities so as to hold such a cargo quantity.

Speaking of the aspect of traceability management, a considerable portion of Yi Lung Company’s production capacity comes from its own farms. Additionally, due to Yu Zhirong’s willingness to teach partner farmers planting technologies, “...assuming the identity of a banana farmer, I take the empirical values I’ve accumulated from the past to help old or young farmers conduct safer and more effective pesticide and fertilization management, thereby improving the quality and quantity of bananas”—Yi Lung company has the capability to realize traceability management. The bananas procured by ordinary resellers generally have a difficult time meeting the requirements of Dole Taiwan in terms of traceability management. Although Dole Taiwan may ask other companies to collaborate with him, if other companies are unable to do so, Yi Lung Company is, for the most part, able to meet Dole’s requirements. With a plethora of advantageous conditions, in addition to control of the place of production, barriers to entry are created. Yu Zhirong thus believes traceability management to be the area where retailers can tell brand stories to consumers. Therefore, traceability management is an important source of competitive advantage of Yi Lung Company.

Regarding the aspect of quality management, in addition to the field management involved in banana planting, Yi Lung Company interacts with Dole Taiwan’s purchasing, quality management, financial affairs, and operating departments, through which problems are addressed immediately once they are found. For example, upon discovering that bananas have stains a few days after shipping, an investigation is immediately conducted on whether the cause was attributed to the refrigeration being too cold or the field environment being too warm; furthermore, adjustments are made to wash and refrigerate within 24 hours, control the temperature, and maintain the freshness of the bananas. Yi Lung Company learns from, and cooperates with, Dole Taiwan’s quality requirements, which they use to improve the planting on their own farms and the quality management techniques of processing factories.

5.3. From a policy standpoint, evaluate whether Yi Lung Company should purchase Dole. If so, analyze and identify the challenges that Yi Lung Company faces on the management and financial levels of the implementation front. Do you believe that Yi Lung Company can overcome these challenges? If so, discuss the solutions that could be employed.

For Yi Lung Company, this acquisition decision is one of forward vertical integration, by which banana planting is integrated with front-end splitting and packaging and even direct interaction with retailers. In terms of passive strategy, the goal is to avoid losing the orders of 7-Eleven and Costco, while active strategy may see the situation as a growth strategy enabling entry into channel systems. Currently, Yi Lung Company only accounts for 40 percent of Dole Taiwan’s revenue supply, which represents a growth opportunity of 2.5 times previous levels in future vertical integration. However strategic fit, organizational fit, and the merger and acquisition process itself, amongst other factors, must be considered (Walsh 1989). Thus, this case first highlights the necessity of an acquisition strategy. As such, Xi Zhirong faces this consideration; “Is losing Dole Taiwan equivalent to losing important modern channels such as 7-Eleven and Costco?” Bearing in mind this consideration, perhaps many students may approve of the acquisition of Dole Taiwan in order to continue the business relationships with channels such as 7-Eleven and Costco. However, the considerations below are provided to teachers with a view to guiding students into a different mode of thinking and discussion.

In terms of the consideration of strategy fit, first, Dole Company is a highly vertically integrated agricultural enterprise company, comprising of the value activities of banana planting, shipping, cutting, packaging, and branding, while Yi Lung Company only focuses on planting. Moreover, the ultimate goal of Dole Company in Taiwan is to import Philippine bananas to replace Taiwan bananas, which is considerably at odds with Yi Lung Company’s land supply strategy. If Yi Lung Company’s acquisition is seen as a vertical integration or backward integration strategy, according to transaction cost theory, any decision to vertically integrate must consider whether there will be issues involving specific investments. (Williamson 1975). If there are, because specific investments have an additional risk

of being locked in, vertical integration must be considered. Thus, teachers are asked to pose the students the following questions:

- (A) Were the investments Yi Lung Company previously made for Dole Company specific investments?

Specific investment refers to the following: idiosyncratic, non-recoverable, and customized capital investment made to support a certain partner or transaction relationship; the value of using this capital investment for other means is extremely low (Huang and Huang 2019; Huang, Kang, and Chiang 2020). Although to support their collaborative relationship Yi Lung Company made a lot of investments on Dole Taiwan’s behalf, the majority of these investments were on planting technologies and refrigeration facilities. Without too much in conversion costs, these investments can be easily converted for the next transaction relationship, so they can hardly be labeled as specific investments.

Another reason for the implementation of vertical integration is because of the inseparability of value activities, meaning that the work of splitting, packaging and selling is inseparable, and therefore must be integrated. However, production can be separated from splitting and packaging, so it is not necessary for Yi-Lung Company to oversee both simultaneously. It is just as described by Yu Zhirong when we stated, “The industries of splitting and packaging factories and banana planting and production are two entirely different worlds.” Any merger and acquisition would necessitate the creation of competitive advantage and competitive synergy.

- (B) Next, the teacher can next ask, “Would any competitive advantages be gained from acquiring Dole Company?” Perhaps the upstream and downstream relationships with suppliers could become a source of synergy production. However, competitors such as Ru Ji Foods and Fu-Fruit hold large-scale economies in the two value activities of splitting and packaging. Therefore, if Yi Lung Company were to acquire Dole Taiwan, it would seemingly be unable to change this market structure or become the market leader. Thus, this merger and acquisition case appears to lack necessity in terms of strategy. At the same time, Yi-Lung Company’s sole product is bananas, and its economies of scale and economies of scope after acquisition do not compare with that of Dole Taiwan. Therefore, one could ask, would Yu Zhirong be able to convert losses into profit after being passed the torch? On this matter, Yu Zhirong has said the following:

“We only have the sole product of bananas and nothing else. If our business were to compete with Ru Ji and Fu-Fruit, it would be quite difficult.”

According to Tang, Ming-Je and Ji-Ren Lee 1999 research study, they believe decisions on business boundary must examine the two factors of “Is it a core business?” and “Is there a competitive advantage?” (See Figure 2)

		Core Business	
		Yes	No
Competitive Advantage	Yes	Insourcing	Leverage
	No	Strategy Alliance	Outsourcing

Figure 2 Relationship Diagram of the Self-production and Outsourcing of Value Activities

Source: Ming-Chang Huang (2013)

With regard to Yi Lung Company, splitting and packaging are not core businesses, and compared with the two companies, Ru Ji Foods and Fu-Fruit, Yi-Lung Company’s entry does not yield a competitive advantage. Using Figure 1 as reference, the work of splitting and packaging work could be outsourced, so there really isn’t a practical need to buy Dole Taiwan and use the method of vertical integration.

Secondly, in terms of challenges on the implementation front, the organizational fit between the acquirer and the acquired also affects management efficiency post-acquisition. Organizational fit can consider the two aspects of “similarity of business” and “similarity of structure” (Shang-Ping Lin, Shi-Hwa Lo, and Sue-Ming Hsu 2011), with a further consideration being operational risk. Next, we will discuss the following three considerations. The first of these concerns that fact that Yi Lung Company devotes its efforts to the planting and shipping of bananas and has yet to dabble in splitting and packaging and channel sales. Therefore, there are some discrepancies in the aspect of “similarity of business”. Bearing in mind its unfamiliarity in the fields of splitting and packaging and distribution

channels, how does it expect to earn the trust of major retailers such as 7-Eleven and Costco? As soon as retailers switch their allegiances, the splitting and packaging factories will likely become a huge burden. The second point centers around “similarity of structure”, meaning that the day-to-day operations of Dole Taiwan are directed by its chief financial officer, which differs greatly from Yi-Lung Company’s specialization in the business cultures of “field management” and “mutual sharing with farmers”. Additionally, Yi-Lung Company is a medium to small sized agricultural enterprise with limited manpower. For Yu Zhirong to oversee both the production and sales ends is an extremely difficult task, while, besides Yu Zhirong, there are currently no-one within the company with the requisite talent who could help Yu Zhirong shoulder the burden of production and sales work. Thirdly, regarding operational risk, in terms of finance, Yi Lung Company has limited financial resources. Yi Lung Company’s successive investments in the past have already caused its financial burden to become quite sizeable; if it were to have to raise yet another 20 million to purchase Dole, the financial pressure on it would become even greater. Dole, as a foreign company with abundant resources and experience, was unable to obtain a profit through its operations. Therefore, whether Yi Lung Company, a medium to small-sized company, would be able to turn loss into profit is an issue that Yu Zhirong cannot confirm.

- (C) Another influencing factor of acquisition is the acquisition’s negotiation process. To discuss this issue, the teacher may at this time ask students: “In terms of strategy, do you think Yi Lung Company needs to acquire Dole Taiwan?” The teacher can then observe how many students express their stances.

The teacher may transfer the discussion to the current discussion topic: “Do you believe that Yi Lung Company can overcome these challenges? If so, discuss the solutions that should be employed.” Though this issue was not explicitly explained in the case, students in the schools of business and management should, through their management training, be able to think of some ideas. It is suggested that the teacher encourage students to brainstorm possible solutions. With regard to students in the School of Agriculture, because they, for the most part, lack management training, the teacher can, according to their discretion, skip this topic and move on to the next discussion topic. The content below is provided as a discussion reference for teachers:

- (a) Bearing in mind the issue of shortage in talented professionals, selectively keeping Dole’s managers could be considered, especially the business and quality managers. That way, it is easier to obtain the trust of 7-Eleven and Costco. The hiring of new employees could also be considered.
- (b) On the topic of operating profit risk, cost efficiency may have been the cause of Dole’s original deficit. Therefore, Yi Lung Company can consider “lowering costs” to reduce deficit. The methods for reducing cost include organization restructuring, reducing manpower and, because the costs of foreign workers are comparatively high, switching to the hiring of Taiwanese workers. If a student has yet to bring up the issue of overlap between the two factories, the teacher can take the initiative to ask students whether it is necessary to have both factories, and if not, which factory should be removed. Seen from another angle, an increase of products can also be used to raise revenue and share more operating costs.
- (c) Regarding capital issues, students may suggest the taking of bank loans as well as price negotiation. If the subject of price negotiation is raised, the teacher can then transition to discussion topic four.

5.4. This topic raises the question, is there an opportunity for bargaining/price cutting in the purchasing process? If so, how should Yi Lung Company assess the reasonability of the 20 million purchase price? How much money do you suggest putting out for purchase?

During the acquisition process, Dole Taiwan set an asking price of NT\$20 million. What this purchase price reflects is the stand-alone valuation of the acquired company in relation to the information on the acquired company in the market. (Hietala, Kalpan, and Robinson 2003). Because Dole Taiwan does not have listing or OTC stocks, we assume that its information value in the market is 0. Thus, we can only use Dole Taiwan’s book value as a basis for estimating its purchase price. This case study provides the straight-line depreciation method and depreciation-replacement methods (Table 1) as reference.

Table 1 Estimation of Dole Taiwan’s Purchase Price

Straight-line Depreciation Method		Depreciation-Replacement Method
Initial Investment	39,000,000	20,000 per plain in factory refrigeration storage facilities
(-) Depreciation	27,300,000	340 plains of factory refrigeration storage area
(+) Packaging Material Reserves	1,500,000	1,500,000 in packaging material reserves
Book Value	13,200,000	8,300,000 in replacement costs

Approximately 6.8 million yuan in Know-how and employee value (subtracting the book value of 13.2 million from Dole’s asking price of 20 million)

Table 1 shows that the Company’s asset value has yet to drop below their replacement cost, which is not in accordance with the bargain hypothesis of acquisition. If Dole Taiwan is unable to swiftly be sold, it faces continual deficits or NT\$13 million yuan in compensatory damages. Additionally, Dole has contractual relationships for its supply with all of its retailers. If it is unable to be sold, it would have to leave Taiwan, in which case, it would face the risk of fines for the breaching of the supply contract. Therefore, the opportunity for price-cutting can be used as a reference during price negotiations on the purchase price. Yi Lung Company can make use of it as a bargaining chip in the negotiation process.

5.5. If Yi Lung Company ultimately does not obtain the management rights of Dole, how should it maintain its future operations and growth?

Because the production and processing operations can be separated, it is hard to control the growth and quality of bananas, which vary heavily depending on the season in terms of variance in both length and size. Therefore, compared with the processing end, integration on the production end is far more difficult. In addition, a traceability system for production and sales is another factor that increases retailers’ dependence on Yi Lung Company. Due to Yi Lung Company’s core capabilities of “farm management” and “traceability management”, while 7-Eleven continues to buy and sell single bananas, it will continue to rely on Yi Lung Company; even if Yi Lung Company does not purchase Dole Taiwan, it will not lose the markets of 7-Eleven and Costco. If Dole Taiwan cannot be successfully sold in Taiwan, it will incur the two likely costs of continued deficit and closing costs. If it continues operations, it will have to carry the burden of NT\$13 million in annual deficit, and indeed, after a further year, it will basically have lost all of their residual value. However, if it decides to “cut the rope” and leave Taiwan, it faces compensatory damages. Therefore, the wisdom in the statement, “if you don’t sell to me, you will be worse off!”, is a valuable as a bargaining chip in negotiations.

With regard to the combination of domestic and foreign markets, Taiwan’s market is small, and its domestic value chain is relatively complete and complicated. If continued investments are made, the risk of being locked-in is quite high, which is particularly true of packaging factories. To pursue growth, the development of overseas markets can serve as an area of focus. Although Taiwan bananas are competitively inferior to Philippine bananas in the export market, this industry can cooperate with the export promotion policies of local governments and the Council of Agriculture. Examples of this are “Fortification Project for Pingtung Banana Farmers” and “big farmers leading small farmers”. Yi Lung Company has already created its “Nan Rong Farm” brand, which is a form of brand marketing that paves the way for exporting. Yu Zhirong has said, “My dream is to put Taiwan bananas on equal footing with New Zealand kiwis.” From the perspective of overall strategy planning, Yu Zhirong can use the combination of export and domestic sales revenue proportions as another consideration for whether to acquire Dole Taiwan.

6. Ending

The teacher can ask students one final question: “Do you support Yi Lung Company’s acquiring of Dole Taiwan?”

7. Follow-up Developments of the Case

Following negotiations with Dole, Yi Lung Company acquired Dole Taiwan for NT\$8 million. Due to manpower redundancy in the Beitou and Wanluan factories, after acquisition, the Beitou factory’s operations were closed, while the Wanluan factory was retained.

8. Explanation of Acquisition Theory

Acquisition strategy is a company-level corporate strategy. Its diversified processes do not only concern what business to enter, but more importantly, the topic of how to enter (Lee and Lieberman 2010). Compared to internal organic growth strategies, acquisition strategy may be categorized as a type of external growth strategy (Walsh 1989; Zollo, Minoja, and Coda 2018) in which strategic fit, organizational fit, and the merger and acquisition process itself must be considered. Acquisition synergy is the most important strategic consideration. The case text also explained that from the perspective of business strategy, forward vertical integration ensures the operational performance and growth of the company, and thus from this perspective it is almost as if Yi Lung Company ought to buy Dole Taiwan. Factors that affect integration management and synergy after acquisition arise from the three aspects of “increasing product portfolio”, “improving the degree of system integration” and “becoming a market leader” (Chen, Jixiang and Lin, Ming-Jie 2006). The acquirer must ascertain relevance and synergistic production methods with the acquired company in the resource aspects of “product”, “customer”, “market”, and “resource”. In terms of strategic fit, the vantage points of specialized investments, separability of value chain activities, upstream and downstream market relationships, and competitive advantage can be used to examine the relevance between “customer” and “market”. Similarly, concerning product, the goal of Dole Taiwan is to import Philippine bananas into the Taiwan market while Yi Lung’s uses “partner relationships” with farmers to co-create values, thus using the power of the collective to enhance the competitiveness of the entire agricultural ecosystem. In terms of resource, Dole is a well-known brand while Yi-Lung Company’s branding is still in its formative stage, so the merging and acquisition of Dole Taiwan would not greatly impact the branding strategy of Yi Lung Company.

The perspective of organizational fit can be taken to evaluate the two perspectives of “similarity of business” and “similarity of structure” (Lee and Lieberman 2010; Shang-Ping Lin, Shi-Hwa Lo, and Sue-Ming Hsu 2011). As the correlation between scope of business increases, the greater the possibility that the method of merger and acquisition can be used for entering the market (Lee and Lieberman 2010). The greater the similarity in business and organizational structure, the greater the possibility of the redesign of operating systems, process service integration, and organizational structure post-acquisition (Lee and Lieberman 2010; Shang-Ping Lin, Shi-Hwa Lo, and Sue-Ming Hsu 2011). The possibility of synergy production is higher as well. Discussion topic three in the teaching manual discussed the differences in aspects such as “similarity of structure (planting versus splitting and packaging)” and “similarity of structure” (financial and business leadership versus field management leadership).

Commonly viewed as a courtship, acquisition can also be viewed as a negotiation process through which the success of businesses and the leaving or staying of managers is determined (Walsh 1989). During this stage, “confirming the purchase price” is key. In the process of negotiation, the negotiation of the purchase price is an important key factor through which the acquiring company’s bidding price and the acquired company’s book price will together influence the production of synergy (Hietala, Kaplan, and Robinson 2003). Overly confident managers will push a relatively high purchase price, which will negatively affect performance after acquisition (Pei-Gi Shu, Yin-Hua Yeh, Chyi-Lun Chiou, and Wan-Ting Wang 2013). For purchase price calculations, please reference Table 1 in the teaching manual.

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