

illustrates the beginning of the process and is presented as Case study 25.1. It requires you to identify the issues you think will have to be attended to if acquisition is to succeed.

Case study 25.1 KeyChemicals' acquisition of Eco-Pure: recognizing the opportunity and starting the process

KeyChemicals (as it will be referred to here) is a Swiss company. After a 30-year period of steady growth, based on the acquisition of other businesses, the original Vevey-based distributor of chemicals to the food processing industry was transformed into a distributor of a wide range of specialist chemicals operating across most of Europe. After spending four years integrating past acquisitions, reducing costs and increasing margins, the CEO recognized that the company was ready to embark on a new phase of growth and persuaded the board of directors to resume the company's previous strategy of acquiring existing businesses.

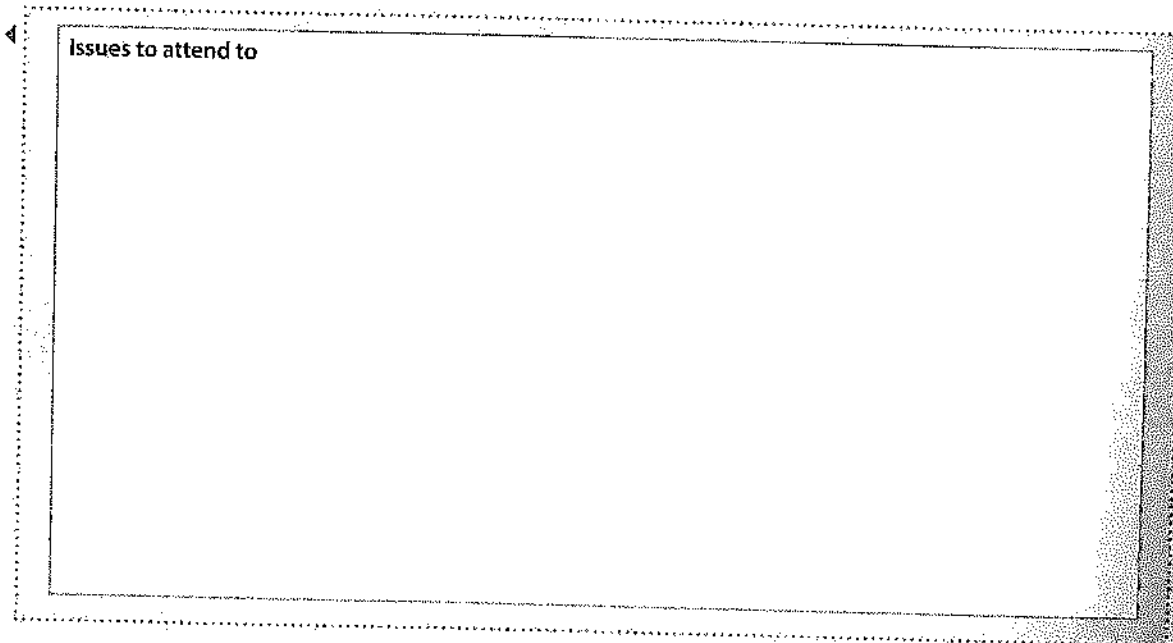
After reviewing the company's strengths and weaknesses and the possibilities for generating more shareholder value, the board decided to search for acquisition targets that would add value by providing access to new markets. The CEO worked with the marketing and finance directors to identify possible acquisition targets that could help KeyChemicals achieve this strategic goal. They enlisted a merchant banker to help them develop a search strategy, which

they quickly implemented. Within a few weeks, they identified a short list of three acquisition targets and presented their findings to the rest of the board. The three were whittled down to one, Eco-Pure, a family-owned company that dominated the water treatment chemicals market in Denmark. The company was attractive because a strategic analysis indicated that the only cost-effective way for a new competitor to break into this market would be to acquire Eco-Pure.

The owners were approached and indicated a willingness to consider the possibility of selling the company, so KeyChemicals embarked on a more detailed examination of Eco-Pure to ascertain whether the acquisition would add value and how much they should pay to acquire the company.

Before reading on, identify and list the issues you feel those leading the acquisition will have to attend to if it is to be implemented successfully. When you have read this chapter, reflect on the notes you have made here and consider whether your list needs to be amended in any way.





A number of factors interact to affect the outcome of this first step of the implementation process. Some of these are the range and complexity of issues that need to be considered, fragmentation of the data collection process, the relative ease of assessing some issues compared to others, the mindset of the buy team, and a pressure to complete the due diligence review quickly.

The range and complexity of issues

Due diligence needs to consider more than just a search for and appraisal of financial information about the target company. Depending on the acquisition objectives, it may need to include:

- an industry and competitor analysis
- a product and market analysis
- an assessment of the target's management talent
- an analysis of management fit in terms of philosophy and attitudes and a wider assessment of culture fit
- an assessment of potential synergies and any technical issues that could affect whether these synergies will be realized
- a review of the terms and conditions of employment
- an assessment of the compatibility of pension funds and so on.

Fragmentation of the data collection

Jemison and Sitkin (1986) suggest that this complexity results in these analyses being allocated to separate members of the buy team or delegated to external specialists. This segmentation and delegation often has the effect of increasing the influence of external specialists, who tend to be more focused on assessing strategic fit in terms of financial viability rather than the practicalities involved in integrating the two businesses after the deal has been agreed. A further complication is that in some cases, little attention is given to synthesizing these disparate analyses