ACQUISITION STRATEGIES IN EUROPE

INPUT EUROPE

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PREFACE

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The Computer Services Industry in the United States has been characterized by a consistent pattern, indeed a rythm, of growth by merger and acquisition. Every major player, in a marketplace that should produce a dozen firms each with an annual turnover in excess of $500 million, counts upon growth by acquisition as a key ingredient in its strategic plan.

We believe that INPUT EUROPE's study of the European acquisitions marketplace is a timely and sorely needed piece of research; the European market mirrors many of the economic and technical forces that drive consolidation and diversification efforts in the United States, such as the economies of scale relating to computer hardware, communications, program design and development. Achievement of these economies requires sufficient volume, which often must come from multiple computer service offerings, owing to the fact that specialized vertical markets are often relatively small, when measured alone; usually they are shared by a number of service competitors as well as hardware vendors.

Growth by acquisition can be used to rapidly build market share and achieve diversification. The common language of the computer, combined with a hopeful easing of communications across national borders, compounds the search for scale and will, we believe, fuel the pace of acquisitions and joint ventures in Europe.

Many opportunities are available to aggressive European companies. One must look carefully, since this is an industry that touches virtually everything. Specialty applications and industry solutions can frequently be found within the larger industrial organizations who first solved computer applications problems for themselves.

This report addresses some of the techniques of finding, evaluating and negotiating these transactions. On our side of the Atlantic the undersigned have completed in excess of 100 acquisitions (and, yes, divestments too) both as principals and agents. Expertise and experience are necessary ingredients in effecting a successful merger or acquisition and, if either party lacks these traits, they should be brought in from the outside without hesitation when an acquisition is being considered.

Acquisitions are not without risk; the trick is to structure them so that the potential rewards far outweigh the potential risks. Good hunting.

Bernard Goldstein

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I. INTRODUCTION

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- This report is produced by INPUT EUROPE as part of its European Market Analysis Service (MAS/E) subscription program but is also available separately.

- The subject of acquisition strategies in Europe was selected because of a very high interest expressed by existing clients. The acquisition process is important to all executives involved in strategic planning for computer services companies either as potential buyers or as potential prospects, as well as for understanding the competition and some of the forces at work in the industry.

- The objective of this report is to describe the various aspects of the acquisition process from strategy through search and negotiation to integration. These processes are illustrated in the context of eleven case studies of actual acquisitions. This analysis is preceded by an outline of the background factors influencing acquisitions in the European computer services industry.

- For each of the eleven case studies five questionnaires were completed:

Interviewee	Coverage
BUYER	General strategy, Acquisition strategy, Tactics, Acquisition history.
SELLER	General strategy, Divestment strategy.
BUYER	Full analysis of case study, Approach, Tactics, Negotiations, Reflections.

SELLER	Full analysis of case study, Approach, Tactics, Negotiations, Reflections.
SUBJECT	Reactions to being sold, Human problems, Integration.

- All of the buyers were interviewed personally and the majority of the sellers and subjects. A few sellers and subjects were interviewed by telephone. In total:

  - ten personal interviews were held with buyers (some covering more than one case study),
  - seven personal interviews were held with sellers,
  - four telephone interviews were held with sellers,
  - nine personal interviews were held with subjects,
  - four telephone interviews were held with subjects,

  some of the above interviews were held in stages but have been counted as one.

- An indication of the high level of interest attached to the study is that there were no refusals to discuss the cases by buyers, sellers or subjects on each of the eleven chosen cases despite the confidential nature of the subject.

- Interviews were conducted during 1979. The case studies range from 1973 to completion dates in 1979.

II. EXECUTIVE SUMMARY

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A. COMPUTER SERVICES ACQUISITIONS IN EUROPE

- Acquisition activity did not become a significant factor in the development of the computer services industry in Europe until the early 1970's.

- The largest services companies outside the USA are mainly French; the top three being GSI, CISI and CAP/Sogeti/Gemini. Acquisitions in France and other European countries are a key factor in this achievement which may not have been possible without the considerable support received from the French banks and government.

- After the French services companies, American services companies have been the next most successful, particularly in terms of the size of the companies acquired. They been noticeably successful in the United Kingdom; however, in contrast, American services companies have been relatively unsuccessful in France.

- Some British services companies have become very large in their home market by acquisition but their acquisition success has rarely extended into other European countries.

- The most successful companies in acquisition making have benefitted from the twin advantages of a well developed home market and adequate supportive financial backing. Each company (US and European alike) has first established itself as a major force in its home market and afterwards acquired a presence in additional countries; additional countries are usually defined as neighbouring and/or large European country markets followed by the US market. The French services companies are currently furthest along this progression.

- The frequency of acquisitions in the computer services industry in Europe will accelerate; some constraints on this forecast could, however, be imposed by government legislation and PTT policies. In a rapidly expanding market and with a corresponding growth in number and size the sometimes quoted "lack of acquisition candidates" will not be a constraint.

B. DEFINING AN ACQUISITION STRATEGY

- An acquisition strategy should be an integral part of an overall corporate strategy stemming from clearly set out corporate objectives.

- Corporate objectives were generally expressed in terms of profitability, growth and/or quality.

- Corporate strategies were expressed in terms of:

  - market sectors,
  - product range,
  - customer type,
  - type of growth,
  - quality aims,
  - profitability,
  - control systems.

- Acquisitions will be faster, cheaper and safer than organic growth in certain product and geographical areas. It is important to define which out of the areas selected for growth should be handled by acquisition.

- A quotation from a major acquisition maker was "Keep acquisitions clean in organisational terms and avoid common products in common locations".

- Joint ventures and mergers can suffer from problems of dual management, complex decision-making and incompatability of philosophies.

- Divestments, though often painful, can release management time, money and other resources to re-invest in better areas.

C. IMPLEMENTING AN ACQUISITION STRATEGY

- Self analysis and environment analysis are essential preliminaries to prospect analysis.

- Comprehensive definition of an acquisition prospect profile covering all major criteria and indicating flexibility should be carefully set out and agreed prior to search commencement.

- The most commonly used search channels mentioned by respondents were consultants, market research companies and personal contacts.

- The most frequently mentioned search criteria were management capability, financial position, reputation and expertise.

- The factors considered important criteria for screening prospects against by buyers and by sellers varied considerably but with 'degree of fit' being at the top of both lists. Price was considered a major item for screening by only one third of the sellers.

- Different approaches were seen to be right in different situations. The most common approach was a direct phone call to the owner suggesting a meeting, but all three French companies used a middleman or intermediary to make the introduction.

- Techniques of valuation play only a small part in the evaluation process. The forecasting, performance and synergy are the difficult elements and should be done in the context of an understanding of the market forces and products rather than simply extrapolation of history.

- Negotiation is a behavioural process requiring understanding and flexibility. It can take anything up to five times as long as expected and on average takes twice as long as anticipated.

- An essential part of pre-acquisition analysis is at least an outline plan for post acquisition operation especially if being integrated. This should include targets, organisation structure, strategies and control systems.

- One successful acquiror insisted on a policy of "restoring confidence and stability to a new group as soon as possible after an acquisition".

- The most often used tactics by sellers included the reference to competitive bidders, the reluctant seller approach, insistance on speed, incremental negotiation, and stating a price and sticking to it come what may.

- A typical quotation on mergers was "can the planned relationship endure the changes being brought about".

D. CASE STUDIES

- Each case study contains a description of the acquisition and reasons leading up to it but does not disclose prices paid.

- This information is structured for the eleven cases as follows:

  Buyer's acquisition history
  Buyer's strategy
  Implementation of buyer's strategy
  Seller's background, strategy and implementation
  Subject
  Motives for sale and initiation
  Negotiations
  Synergy
  Human problems
  Integration
  Timing analysis
  Conclusions.

E. EXAMPLES OF CONCLUSIONS IN CASE STUDIES (extracted from over 100)

- The buyer obtained experience and skill in the contract staff business which he had not realised he was acquiring.
- Subjects of acquisitions have ethical problems which buyers and sellers should be sensitive to.
- What may have been a good acquisition last year may not be so good this year.
- Buying a company is as much a selling process as a buying process.
- Independent companies who like their autonomy can be purchased with the right formula.
- Many companies in difficulty complain of a parent who doesn't understand them.
- A direct approach by a seller to a prospective buyer with a stated price can be a very effective disposal method.
- A first class middleman can be a very positive influence on negotiations.
- The U.S. law is complex.
- Distress sales can be the quickest.
- Early rapport can be crucial.
- Structuring an offer to meet the seller's needs as well as the buyer's can pay dividends.

III. ACQUISITION IN THE CONTEXT OF COMPUTER SERVICES INDUSTRY DEVELOPMENT

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A. EMERGENCE OF A SERVICES INDUSTRY

- In little over two decades the computer services industry has become a significant and essential part of the computer industry. Indeed, without it, it is unlikely that hardware manufacturers, particularly those mainly involved with mini-computers, could have achieved such high growth.

- Since the computer services industry became an important factor in the supply line of computer systems to end users it is suprising that computer manufacturers have not become noticeably acquisitive of services companies. Computer manufacturers large and small have generally stayed remote, from the end user and have rarely displayed an anxiety to get closer. Instead their main objectives have been restricted to the development of computer hardware and sufficient basic software to make their products saleable in large numbers. So far, vertical integration has not been of interest.

- Although electronic computers commenced their development in the early 1940's it was not until the early 1950's that installations were made in commercial organisations. The development of a services industry commenced shortly afterwards and has expanded in parallel with the growth in computer usage and evolution of computer systems technology.

- Initially computer services organisations provided programming assistance and machine time. Services offered were invariably problem or resource orientated and the organisations providing such services were often started by ex-employees of computer manufacturers. Computer manufacturers themselves also provided processing services additional to the essential testing and back-up service provided to purchasers of their hardware.

- Until the end of the first decade (see Exhibit III.A) major computer services companies which were widely known in the industry existed only in small numbers. Some examples are:

<u>UK</u>	CAP CMG Hoskyns Scicon (nee CEIR)
<u>France</u>	CCMC Franlab
<u>Germany</u>	AC Service ADV/Orga Datev MBP
<u>Holland</u>	ARC CVI

- The late 1960's was also a period of great expansion in the installed machine base. Deliveries of the IBM 360 series were in full swing as were deliveries of less numerous competitors such as the Spectra 70 based equipment (English Electric System 4, Siemens 4004 etc.), the ICL 1900 series, the Burroughs 500 series and Honeywell 200 series. In addition the surge in demand for mini and small business computers was emerging; the DEC PDP 8 was being installed in large numbers and European minis were also being launched including the Digico "Micro 16" and the Computer Technology "Modular 1".

- As if to compound the pressures on the services industry further, there became a trend among major manufacturers (notably IBM) to separately price software. The so called 'unbundling' created an opportunity for the services industry to compete with the manufacturers for the supply of standard systems and applications software.

SERVICES INDUSTRY DEVELOPMENT

	1950 -	. Early commercial installations
PRE-HISTORIC PERIOD		. First commercial computer installation (Univac)
Emergence of stimuli for a services industry		. First computer services companies
		. Reduction in computer size and cost begins (e.g., IBM 1401)
	1960 -	. IBM overtakes Univac as largest computer company
		. IBM System 360
FIRST DECADE		. Government plans for computer industry
Foundation of most of current major services companies		. Services to the services industry (press, recruitment) established
		. Vast expansion in installed computers commences
		. Formation of services industry associations
		. 'Unbundling'
	1970 -	. Start of acquisition 'boom'
		. US Acquisition starts in Europe
		. Mini computers become major growth factor
SECOND DECADE		. Acquisition activity surge
Consolidation, maturity and product orientation		
		. European companies start acquisition of US services companies.
	1980 -	. Increase in transnational acquisitions

EXHIBIT III.A

- Largely as a response to these growth stimuli, the late 1960's and early 1970's represented a period of peak activity in starting computer services companies. Many of those started in this period have since become major factors in the industry, for example:

UK	Atkins Baric BOC Computel Logica Systime
France	CAP CISI G-CAM GSI SG2 Telesystem
Germany	SCS Softlab Zeda
Holland	Alpha CCN Logisterion.

- The mid sixties were notable for the commencement of some secondary services to the industry. These included specialist staff recruitment agencies and publications (e.g. Computer Weekly started publication in 1966).

- In contrast to the early beginnings of services companies, the surge in company foundations in the late 1960's/early 1970's was largely supported if not created by large industrial and commercial organisations; these included organisations in banking, oil and chemicals, construction and civil engineering and communications.

- Most of this investment was within each home market although one exception was that of British Petroleum which through its UK Scicon subsidiary set up SCS in Germany. Only the French companies (CAP/Sogeti/Gemini, GSI and CISI) have since become multi national in a substantial way; others (Atkins, Systime and Datema) have since created only modest multi-national development.

B. ACQUISITION BECOMES AN IMPORTANT FACTOR

- Before the early 1970's only a few examples of acquisition had occurred, for example:

  - British Petroleum's purchase of CEIR from CDC between 1965 and 1967.
  - UCC's purchase of Computer Services (Birmingham) from private ownership.
  - UCC's purchase of AC Service.
  - Delos's acquisition of Time sharing Limited (TSL) - not completed until 1972.

- Acquisition activity became a significant factor in the development of the computer services industry in the early 1970's and has remained an important factor since. Considerable variation in the frequency of acquisitions and the type and nationality of investor/acquirer can be observed in different European countries. Exhibit III.B illustrates the effect of acquisitions on the proportion of large companies in each country.

RELATIONSHIP BETWEEN COMPANY SIZE AND ACQUISITION ACTIVITY

	NO OF COMPANIES	% 'GE BY TURNOVER CATEGORY				ACQUISITION CONTRIBUTION
		>10M	10M ≥ 1M	1M ≥ 0.1M	< 0.1	
UK/EIRE	605	4%	26%	60%	10%	**
FRANCE	520	7%	33%	50%	10%	***
GERMANY	500	5%	48%	36%	11%	*
HOLLAND	257	13%	49%	36%	1%	*
BELGIUM	203	1%	17%	48%	33%	*

KEY Acquisition contribution to size distribution:

*** Strong,
** Moderate,
* Negligable.

EXHIBIT III.B

- In FRANCE, 1973 was a year of peak activity in acquisition making spurred on and funded by considerable investment by banks and government. Invariably French organisations are exclusively involved. Entry into the market by acquisition from outside is extremely difficult, particularly for non-EEC countries such as the U.S.A. Against a background of solid financial and government support the French have been able to create the largest computer service companies outside the USA; much of this achievement is due to the use of acquisitions to:

  a) develop substantial home market dominance, and,
  b) establish a local presence in other countries.

- In the UNITED KINGDOM acquisitions have been open to all-comers, particularly American and French companies in addition to home based companies. As in France, the majority of acquisitions have been made by services companies usually with substantial financial backing from industrial, commercial or government sources; the difference in the UK has been that US owned services companies have acquired many of the key services companies, among them:

Hoskyns	(Martin Marietta)
Atkins	(On-Line)
Capital Cities	(Boeing)
Time Sharing	(ADP)
Management Dynamics	(ADP)
CSB	(UCC)
Wates	(UCC)

- The French and the Swedes have claimed some key companies also including:

CRC	(GSI)
SIA	(CISI)
Schroder	(Datema)

- Indigenous companies such as UCSL and BOC have been very active in making acquisitions, all of them within the UK. Those of BOC are more numerous by virtue of the acquisitiveness of Datasolve before it was in turn absorbed by BOC; Datasolve acquired seven bureaux before being taken over in 1974.

- Frequently, companies which were in difficulty and acquired express the view that the parent company did not understand the computer services business. Recent history also points to the fact that non computer industry investors in computer services have often been unsuccessful - particularly those from the financial sector, for example, Miles Roman - Autonomics/Rothschild, Datastream/Hoare Govett, Management Dynamics/Greyhound Leasing, Leasco Response/Leasco, Schroder Computer Services/Schroder Wagg, etc. The combination of computer and banking expertise is nevertheless a potentially powerful one. Only the correct structure for guiding and managing the co-operation needs to be identified. One example of such successful co-operation is the joint venture between ICL and Barclays in Baric; another is Centre-file which specialises in services allied with banking and is owned by the National Westminster bank.

- In GERMANY the frequency of acquisitions is much lower than in France and the UK. The most significant acquisitions and probably the highest number have been made by foreign companies buying a presence on the second largest market for computer services in Europe. Examples of this are UCC's acquisition of AC Service and GSI's acquisition of Datel. The very pronounced regionalisation of the German market combined with constant industrial stability and growth are special factors which have rendered acquisition a less attractive or less necessary business development route.

- Although there is a high degree of participation by foreign companies in BELGIUM, relatively little has been achieved through acquisition. French services companies have been the most active with, for example, the acquisitions of SMCS and Creative Micro Media by Sligos and of Interdata by GSI.

- ADP is outstanding among American companies for acquisition in both Belgium and HOLLAND. Otherwise relatively few major acquisitions have occurred in Holland by foreign companies. Within the home market though, services companies owned typically by either banks or printing and publishing companies have been more active. Suprisingly for such an international country Dutch services companies have not ventured to any noticeable extent beyond their national boundaries; acquisitions that have occurred have been more for the purpose of creating more profitable shares of a relatively small and competitive home market.

- Acquisitions of SCANDINAVIAN companies from outside are rare. Datema and A/S Teamco are the only noticeable Scandinavian companies to make acquisitions in other European countries; otherwise the Scandinavian country markets are self contained and relatively inactive in the field of international acquisition.

C. CAUSES AND EFFECTS OF ACQUISITION ACTIVITY

- Acquisitions activity reached a peak in the early 1970's for several reasons in the major country markets of Europe. Some of the more prevalent reasons were:

  - poor financial state of the subject company due to a depression in demand or poor management,

  - a means of establishing a local presence in another country market,

  - achievement of operating and market synergy through consolidation of resources, rationalisation of products and services and more substantial funding of new products,

  - increase of market share and competitiveness.

- Attempts for outright acquisition of 100% of the equity are frequently reduced to partial acquisitions of a small proportion of the equity. Some reasons for this include:

  - government restrictions placed upon foreign purchasers (e.g. France),
  - unwillingness of the original owner, or owners, to give up all of their interest,
  - preference on the part of the acquiror for continued participation by the original owner.

- Acquisitions have been made of companies which were exhibiting one or more of the following characteristics:

  - inviting proposals for takeover,
  - vulnerable to acquisition due to poor financial results,
  - possessing a desirable position in the market by virtue of the quality of products and services etc.,
  - possessing a configuration of resources, products and services which would create profitable synergy.

- It has been observed in the history of acquisition activity that acquisitions arise through either strength or weakness in either side. Weak companies have sought acquisitions (or partial acquisitions/mergers) as a remedy for their financial problems. Strong companies have sought (more commonly) both weak and strong acquisition candidates; some have thought that the acquisition of a weak (e.g. unprofitable) company was a cheap way to acquire.

- The obvious effect of acquisitions is the achievement of growth; there are no recorded examples of the reverse effect. Indeed a significant proportion of the largest companies in Europe have boosted their growth with acquisitions; the first three in the following list are also the largest services companies outside the USA:

CAP/Sogeti/Gemini
GSI
CISI
Sligos
ADP
UCC
BOC
Datema
UCSL.

- In passing, some note should be taken of how the other major companies have achieved their present size and market strength. These fall into two categories:

    1. Bureau companies which have achieved extensive market coverage due to their being owned by large computer manufacturers; for example:

        IBM
        CDC
        GEIS

    2. Bureau companies which have achieved good market penetration by virtue of effective adaption of services which originated in the US supported by successful alternatives to acquisition for setting up operations in new countries; for example:

        COMSHARE
        TYMSHARE.

- Although the impact of acquisitions on company growth and present size is clearly considerable, the impact on overall market size is marginal. Basically, prospective and existing users of services companies do not experience any expansion in their needs due to consolidations in the services industry.

- Any marginal gains in available market size are made because larger services companies usually achieve a higher credibility rating; this factor has several implications:

    1. User organisations are more prepared to let bigger contracts to services companies commensurate with their size; large scale projects may previously have been partly or mostly kept in-house.

    2. Larger services companies are more able to compete with in-house computer departments; when successful in transferring in-house workloads to an external service company the available market increases in size.

    3. Larger services companies are more able to invest meaningful resource levels in new and improved products which represent a more cost-effective route to users compared with an in-house approach. Products and facilities offered on international networks are one example of this.

    4. Also, for the foregoing reason, larger services companies can offer more comfort and less risk to new users by virtue of the inherently greater trust and reliance which people place in large organisations. The end result is to enlarge the service sector more quickly at the expense of large companies in the hardware sector.

- Any increase in the opportunity for services companies to enlarge the size and number of available geographic markets is a frequent consideration; the more product oriented the services company the more important the consideration is. Against a background of rapid growth in demand many, if not most, market strategists have found themselves making a choice between two contrasting approaches:

    - enlarge coverage of home market with additional regional offices,
    - enter additional country markets.

- Only the largest companies have been able to successfully accomplish both approaches, for example, CISI, GSI and CAP/Sogeti/Gemini. Some companies have remained within their home market and, in spite of that limitation, feature well in a ranking by size of services companies in Europe; some examples include Datev, SCS, Telsys, CCMC and BOC. Companies which have attempted to enter additional country markets before achieving a major presence in one country are less significant in a ranking by size.

- A more recent trend in acquisition by European services companies has been to establish a presence in the US market. Since the dollar has weakened against European currencies it has become relatively cheaper to make acquisitions in the USA; the pound sterling increased its buying power by 18% in the first half of 1979.

- The French have been the first to make acquisitions in the USA. GSI and CISI are both acquiring bureaux in the USA.

- Several UK services companies are active in establishing their operations in the USA. So far this has not been by acquisition (for example, Gamma and Systime) although at least one company is considering this route currently. For English speaking companies the US market offers a vast market and the advantages of one language.

IV. FUTURE POTENTIAL FOR ACQUISITIONS

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A. SUPPORTIVE FACTORS IN THE ACQUISITION SCENE

- Future potential is fundamentally dependant on quality of staff, management, products, services and clients which services companies possess. These all develop within and respond to economic and legislative environments which contain various stimuli, some of which are supportive.

- Supportive factors in the acquisition scene are those not specifically or directly generated by the participants in an acquisition. Instead they are background factors created principally by other industries or government which can, and often do, make acquisitions more desirable to buyers, sellers or both.

- The variety and number of these supportive factors vary from country to country as illustrated in Exhibit IV.A. It can be observed that there is a strong correlation between their variety and number and the strength of national services companies through acquisition.

- In the UNITED KINGDOM the government has influenced the development of the computer industry in the role of both sponsor and purchaser. Representatives of the services sector frequently argue that a disproportionately small amount of government support is received by the companies within it.

SUPPORTIVE FACTORS FOR COMPUTER SERVICES INDUSTRY

SUPPORTIVE FACTORS	U.K.	FRANCE	GERMANY	HOLLAND	BELGIUM	SCANDINAVIA
Government Dev. Finance	3	3	2	0	0	1
Government Procurement	1	3	2	0	0	1
Bank Participation	2	3	0	2	2	0
Industry Paricipation	3	3	3	3	1	2
Government Participation	1	0	0	0	0	1
Government Planning/Policy	1	2	1	0	2	1

KEY:

3	Strong
2	Moderate
1	Weak
0	Non Existent

EXHIBIT IV.A

- Sponsorship has been provided since specific government policy towards the computer industry was first made in 1963. Sponsorship is available in the form of joint funded R & D projects which have been issued by several government bodies over the years including ACTP, NCC, NRDC and the Computer Systems and Electronics Requirements Board. The end result of such R & D projects has invariably been a software production aid, a systems software product or application software product. Some of the more successful examples of these software products have undoubtedly increased the desirability and value of their owning companies in the view of potential acquirers. One example of this is the Modular Application System development with NRDC support by Hoskyns; they were subsequently acquired by the US aerospace company Martin Marietta which now markets the product successfully on the US market.

- More recently government participation in the development of a stronger UK services industry has been available through the NEB/INSAC duo.

- The government is a customer of the computer services industry although not on a large scale; purchases of consultancy, software and computing services by central government were running at the level of £7M per annum in 1976 -about 5% of its total expenditure on data processing. Government procurement is carried out by the CCA and directly by the various departments. Since UK government is typically supportive of home companies the existence of a significant proportion of government work (particularly defence projects) could be a disincentive to a foreign acquirer.

- Whereas government has contracted with the services industry with loans and revenue earning business on a project basis it has been left almost entirely to the private sector (except for NEB/INSAC) to fund the development of companies. Support has come from three types of investor:

    1. Insititutional investors such as merchant banks and other financial houses seeking a good return on capital (e.g. Rothschild, Kleinwort Benson, Hill Samuel, Barclays).

2. Financial institutions with a vested interest (e.g. ICFC).

3. Industrial and commercial companies buying in to the services industry as a diversification (e.g. BP)

4. Industrial, commercial and financial companies spinning off their in-house computer departments as a commercial operation (e.g. Unilever, Smith and Nephew, Geest, Atkins).

- The UK government has been criticised by private sector computer services representatives for encouraging the establishment of computing public sector companies. These include the NDPS (Post Office), Compower (NCB) and CADC; LUCS also benefitted in its formative (and unprofitable) years from government money channelled through Imperial College (London University). Perhaps surprisingly, government funded companies are not barred to acquirers, even from overseas; the LUCS acquisition by UCS of Kansas City is a case in point.

- In FRANCE a policy for the development of the computer industry was first formulated in 1966 - some 3 years after that had been accomplished in the UK. The French computer industry plan, know as "Plan Calcul" was basically a government programme which funded CII to develop the IRIS range of computers and encouraged CII to contract out some of the software development to service companies. "Plan Calcul" also made money available for the development of software products.

- "Plan Calcul" was designed and implemented by a government department (Delegation a l'Informatique) the head of which was responsible directly to the Prime Minister (Georges Pompidou). An important difference in the French approach was that the services industry ranked more closely with the hardware industry in importance, something the British government was slow to appreciate.

- Since 1974 the development of the computer industry has been placed under the care of the Industry Minister along with other industries. As in the UK, the French government has continued throughout to fund the development of services industry through R & D and software development grants on a project by project basis.

- Just as in the UK, government departments use there own computing resources wherever possible and use service bureaux as little as possible. Consequently computer services companies feel that they should be permitted to compete on equal terms; this would necessarily entail a proper evaluation of in-house costs.

- If the French government has made a significant contribution to the quality and cost of development of the technical side of the services industry, certain members of the private sector have also greatly assisted the commercial strength of the industry. Banks and large electronics groups are particularly responsible; among them are BNP, Societe General, Credit Lyonnais and Credit Commercial de France, and, CGE and Thomson/CSF. Their commercial and financial management skills have apparently been applied in a way which stimulated growth and profitability in what is elsewhere a largely immature industry. The result is the existence of a group of large and strong services companies which are out of reach of all but the large US services companies for acquisition; French government controls would probably prevent this occurring anyway.

- WEST GERMANY has the second largest computer services market of the 'big three' in spite of being the largest country with the largest population of computers.

- The industrial might and stability of the West German economy have ironically not encouraged the development of a commensurately strong computer services industry. Economic depressions elsewhere have stimulated the establishment of large national groups; instead the market contains a large number of small companies and relatively few large ones. Particularly heavy domination of computer users by IBM and the distinct regionalisation of the market have not encouraged the formation of large national groups either.

- A government policy for the development of the computer services industry did not emerge until 1967 (later than in both the UK and France). As in other countries the policy has been more hardware oriented; grants have been available for the development of applications and systems software.

- The government has been a significant purchaser of computer services; in 1976 government revenue to the services industry amounted to 11% of the total. By comparison the proportion was markedly higher in France at 18% and much lower in the UK at 4%.

- The involvement of the private sector in the development of the computer services industry has mainly been as a spin off from in-house computing; some of the largest services companies have an industrial origin and parentage, for example MBB, Taylorix, Matthieson, Hoesch, CISI, BOC and UCSL.

- The financial sector, expecially banks, have remained uninvolved as investors.

- In HOLLAND there is currently no direct support from the Dutch government to either the services or the hardware industry. Only the involvement of Philips in the now defunct Unidata organisation attracted government support.

- As a purchaser of computer equipment and services the Dutch Government is also non-supportive. No preference is given to Dutch national organisations.

- The desirability of Dutch services companies for acquisition is thus in no way attributable to assistance received from their Government. The main contribution to the establishment of foreign services companies by Government is the favourable tax concession and money transfer regulations provided.

- Until recently the most significant acquisitions were being made by foreign companies; for example CAP/Sogeti - Pandata and ADP - IEL. Within the last year a process of consolidation among local companies has started to take shape. The largest services companies are backed typically by banks or printing/publishing groups; in one recent takeover the two sides of industry came together when ARC (ABN Bank) acquired Infonet (Elsevier/VNU publishing houses).

- In BELGIUM no direct financial support is provided by the Government to either services or equipment companies.

- Siemens and Philips have been favoured suppliers to Government since the signing of a 'Contrats de Progress' with each of them; Siemens appear to have done much the better of the two. Unlike the hardware situation, there are Belgian services companies and these are given preference for Government contracts.

- In the private sector the banks have been the strongest force in supporting the development of services companies, among those with substantial share holdings are Societe Generale, Banque de Bruxelles and Krediet Bank. Belgian users tend to prefer internal facilities including those available from their bank.

- The environment created by government and banks has not developed services companies which are either desirable as acquisitions or intent on making them.

- In SCANDINAVIA (as in Holland) the Governments have captive services bureaux which handle a large proportion of government computer processing needs. (In Denmark this computer bureau, called Datacentralen, is privately operated).

- Only the Swedish Government is providing development funds of any magnitude, although these are largely for support of the hardware manufacturers and the provinces of education.

- As in Germany the strong stable economies of the Nordic countries have not encouraged much acquisition activity within these markets. Acquisitions by foreign companies are unheard of due to the strength of the Nordic currencies, limited market size and minority languages.

B. FURTHER SCOPE FOR ACQUISITIONS

- From time to time many acquisitive computer services companies conclude rather despairingly that few worthwhile companies remain for acquisition. Of course in a rapidly growing market previously insignificant companies are continually developing into candidates for acquisition; also companies which on previous assessments were unobtainable or unsuitable may have changed in availability or in relevance to new market plans more recently introduced by the acquirer.

- Seven out of eight "buyer" companies interviewed expect that the frequency of acquisitions in the European computer services industry will accelerate. The reasons given for this opinion included:

  "Small firms continue to grow in response to market demand"

  "Especially important for bureaux since size is more important" (2 respondents).

  "Best way to grow".

  "Necessary to follow US pattern of consolidation trend for technical and service reasons".

- Some feelings about possible constraints on acquisition making were expressed also:

  "Will accelerate - barring government interference"
  "Less good candidates around".

- The unanimous expectation by all "buyer" respondents is that international mergers will increase. The main reasoning behind this opinion is that to go multinational is a necessary growth step for companies which have already achieved a major share of their home market; economies of scale were also seen as a reason, particularly in the control of utilisation of large computer centres and networks.

- Some respondents fear possible restriction by PTT's and governments.

- American and UK respondents feel that increasing use will be made of external assistance for identification of, and negotiation with, acquisition prospects. French respondents felt otherwise, one respondent believing that bankers and trade associations are more important.

C. DIVERSITY IN ACQUISITION

- The majority of subjects of acquisitions in the computer services have been other computer services companies. Vertical integration by acquisition of non-computer services companies has been relatively infrequent. Some examples of "shallow vertical integration" include.

  - UCC's acquisition of a hardware manufacturing company.

  - UCSL's acquisition of microfilming and portable data capture businesses.

- Vertical integration has occurred through organic growth as opposed to acquisitory. Many computer services ompanies have, for example, in their evolution towards more hardware based products (e.g., on site, word processing and turnkey systems) developed hardware interfacing, assembly and maintenance functions.

- It will be fruitful for services companies to consider more seriously in the future a policy of deeper vertical integration through acquisition. This approach is relevant in view of future market trends for the following reasons:

  - the buyers of computer services are increasingly non-computer managers in user departments,

- user departments require minimum technical involvement and maximum inclusive packaging,
- users are more effectively sold by people and products from their own industry.

• Acquisitions to be made within a policy of vertical integration could conceivably include any of the following types of organisation:

- in-house computer departments,
- hardware manufacturers or assemblers,
- hardware maintenance vendors,
- non-computer service companies.

• Some examples of how these types of organisation would fit in to the context of computer services industry trends are given below. The currently used terminology for specific elements which make up these trends are printed in capitals.

- TURNKEY SYSTEMS as a method of packaging a computer system is highly attractive to user departments. To be more acceptable turnkey systems vendors need to offer them with proven assurances of software and hardware maintenance; this implies the need for more standardised software and for non sub-contracted maintenance. Appropriate acquisitions would include application software product companies and maintenance vendors.

- ON-SITE computer systems installed and supported by computer bureaux currently lack completely adequate justification for the cost of data communications and bureau services which back up the on-site machine. Appropriate acquisitions include in-house computer departments which would usually be configured to meet peak demands. Off loading to user department minis and transfer of the larger workloads to the bureau could be more cost effective.

- INDUSTRY ORIENTATED MARKETING is increasingly being found by computer services companies to be a most effective way of gaining business. The essential requirement of this approach is that products and services being offered should be derived from and offered by people from the same industry. Appropriate acquisitions include consultancies and specialist service organisations which specialise in specific industries and application areas.

- A FULL LINE SERVICE is sometimes posed by computer services companies as the development of a comprehensive service. Such an approach would entail in its ultimate form a deeper involvment and responsibility for the client's business. This would be aimed at specific functions such as design and accounting; appropriate acquisitions include engineering consultancies and firms of accountants.

D. MARKET GROWTH

- As already mentioned, market growth is a helpful factor in the development of acquisition worthy companies. Below the effect of acquisitions on market growth is considered.

- Market growth will be affected only to a marginal extent by acquisition activity. The synergy caused by the amalgamation of previously separate companies should in time produce new market opportunities. In practice the marketing and product development leverage required to achieve this advancement of market growth tend to materialise some time after the event; indeed, pressure on the market is often reduced due to the absorption of effort internally in the re-organisation.

UK COMPUTER SERVICES MARKET GROWTH

YEAR	MARKET SIZE (£M)	
	REPORTED TOTAL	COMPOUND 25%
68	35	35
69	45	44
70	55	55
71	65	68
72	78	85
73	102	107
74	120	133
75	160	167
76	202	208
77	265	261
78	332	326

EXHIBIT IV.B

- Taking the UK as an example, it is possible to discern a lag in market growth which may be partly attributable to the loss of marketing momentum caused by acquisitions. Exhibit IV.B shows the total market size reported for each year in the last decade; these are compared with a constant 25% growth series. The acquisition growth lag is discernable in the early 1970's, a period of high activity in the acquisitions field. Market size has caught up in the late 1970's as the large companies have completed the integration of their acquisitions and regained marketing momentum.

- Acquisitions are now part of the established pattern of computer services industry development. Just as in other industries acquisition activity will continue; the level of activity will fluctuate depending on the relative strengths of the vendors and the market (or economic) conditions.

- Market growth is constrained by the availability of good technical staff; acquisitions cannot make more staff available. Only when acquisitions allow the resulting larger group to invest in productivity aids is their any possibility of relief from this constraint.

- For all services in Western Europe, the average annual growth rate in real terms will be 18%. After inflation and competitive pricing are overlaid the gross growth rate will be 23% to 28% (current INPUT estimate) according to individual country economic conditions.

- Whilst the constraints on acquisition assisted market growth remain, acquisitions will have no significant effect on these growth rates.

V. DEFINING AN ACQUISITION STRATEGY

V. DEFINING AN ACQUISITION STRATEGY

A. GENERAL OBJECTIVE AND STRATEGY DEFINITION

- Before considering methods of defining acquisition strategies it is sensible to evaluate why organisations acquire others and for what purposes.

- The primary objective of most commercial organisations, whether stated or not, is to maximise (optimise) its net present value to its owners by operating in the industry(ies) selected, with the equity capital supplied and the management chosen by the owners.

- Within the above the decision making body will take into account:

  - the balance of returns required in the short term and the long term,
  - the level of risks to be taken,
  - the general environment,
  - the opportunities available in the industry,
  - the cash resources available,
  - the human resources available,
  - any other resources available,

  to define operating objectives and strategies.

- The primary operating objectives most commercial organisations tend to work towards concern growth.

- These can consist of growth in:

  - Market Capitalisation/Share Price.
  - Profits/Cash.
  - Profitibality/Margins/Yields.
  - Revenue/Market Shares/Geographical Spread.

- In practice many other operating objectives are stated by commercial organisations either in parallel with or even instead of the above. On closer examination most of these are either subordinate objectives (means to growth and therefore strategies), objectives stated for public relations purposes (external or internal), personal objectives of the chief executive, or targets (for motivational purposes).

- With the possible exception of strategy implementation, the definition of strategy can be regarded as the most important function of top management.

- A strategy will be arrived at after considering the same factors as for the definition of objectives set out above and will consist of decisions concerning:

  - what market sectors to aim for,
  - what products or services to offer,
  - how to acquire, develop, motivate and control resources to achieve the objectives by the chosen means.

- In the case studies, (which are summarised in Section VII), each of the buyers and sellers were asked what their corporate objectives and strategies were at the time of the acquisition/disposal. The terms in which their answers were expressed are summarised overleaf.

- It is interesting to note that profits were part of the objectives in exactly 50% of the buying companies and 50% of the selling companies.

- The other objectives tended to focus on quality and growth.

- Growth and specialisation tended to be very prominent in the strategies with acquisitions being mentioned as a key part of 50% of the buying companies' strategies.

Terms in which objectives and strategies were expressed - BUYERS

COMPANY	OBJECTIVES	STRATEGY/PHILOSOPHY
BOC CSD	Profits long-term	Market share Service range Customer type.
BOEING C.S.	Quality Computer services only Growth	Geographic expansion Network growth Network products.
CAP/SOGETI	Independence	Profits Market share Geographic expansion Socially attractive to staff Ethical.
CISI	Quality International Product range	Growth Organic Growth by acquisitions Profits long-term Cash flow.
UCSL	Profit Growth long-term	Specialise in market sectors Value added products and services.
ON-LINE	Profits	Market sector dominance Acquisitions.
ADP	Growth worldwide	Product standardisation Product price Product quality Acquisition.
LOWNDES AJAX	Profitable growth Limited sectors	Internal growth Acquisitions Joint ventures.

Terms in which objectives and strategies were expressed - SELLERS

COMPANY	OBJECTIVES	STRATEGY/PHILOSOPHY
CITIBANK	15% p.a. asset growth Return on capital	Aggressive international marketing.
SOFTWARE SCIENCES		
- short term	High growth International	High intake Training.
- long term	Increase profit margins Medium growth	New products Less investment.
ICFC	Finance and services to small business	Equity stakes in small companies PR & AD's wait for approach.
JOHN DIEBOLD GROUP	Quality consulting Profits Significant projects	Growth only if quality not sacrificed.
P.C.S.	Profits Revenue growth Develop proprietary systems	Strict financial control Marketing orientation Application package development.
W.R. GRACE (EUROPE) (early 1970's)	High market share of consumer products industry	Acquisitions.
SINGER (early 1970's)	Improve return to shareholders	Extend product range from sewing machines to electronics.
ROWNTREE MACKINTOSH	Best manufacturer of certain products in world	Concentration.
W.S. ATKINS & PARTNERS	Expand technical consulting skills	Concentration.
GREYHOUND CORP.	Expand into worldwide bureau market	Computer leasing acquisitions.

B. ACQUISITION STRATEGY DEFINITION

- Acquisitions will correctly form part of an organisation's strategy as a method of acquiring resources to address a chosen market sector with a chosen product or service in a way which will help achieve corporate growth objectives more effectively than by relying solely on organic growth.

- This will apply to positive or defensive strategies for growth and will be achieved in one or more of three ways:

  - FASTER — The acquisition is almost invariably a very much quicker way into new markets, new sectors, new products, new services.

  - CHEAPER — It is frequently a much more profitable or less costly way into new areas (geographic, market sector, customer type) than the organic method.

  - SAFER — The risk is frequently lower than an organic entry into a new area as very much more information is available and a track record exists.

- In most industries there will be some sectors of the market which will be suited to organic growth and others more suited to acquisition. This will vary from industry to industry, sector to sector and company to company. The problem becomes one of identifying for any particular company which areas of growth are best tackled by organic growth and which by acquisitions.

- An organisation seeking growth into new geographical areas, new product areas, new service areas or simply at higher rates than previously but in the same areas will need to consider acquisitions.

- Apart from normal management decisions on what products and services to offer and where to offer them the following must be evaluated for any particular area of expansion:

  - What are the various organic ways of achieving this particular objective and what outcome will each have?

  - What organisation (or parts thereof) are available and desirable to replace or supplement the best organic strategy for this area?

  - What does my organisation have to offer the other?

  - What synergy can be achieved by putting the two organisations together?

  - What strengths and weaknesses do each of the organisations have and how do these match each other and what is required to achieve results?

- The formal asking and answering of a structured logical set of questions such as those summarised above is likely to lead to a more rational evaluation of areas for acquisition expansion and of candidate companies in those areas.

- Many acquisitions are made opportunistically without structured planning. Some of these will succeed, but making a succession of opportunistic acquisitions can lead to organisational and human problems besides the commercial problems. Nevertheless any opportunistic acquisition prospect should always be considered both against the predetermined acquisition strategy and on its own merits. If necessary the acquisition and organic strategies can be altered to accomodate the unexpected prospect.

C. ACQUISITION STRATEGIES IN COMPUTER SERVICES

- In the computer services industry most of the major successful companies have achieved much of their growth from acquisitions, mergers and joint ventures.

- As set out in Section IV, of this report, this pattern is likely to continue into the foreseeable future. The reasons for this are primarily that the industry is:

    - highly fragmented,
    - multi-product/service sectored,
    - with significant but not overwhelming economies of scale,
    - service oriented,
    - highly dependent on very specific expertise.

- With such characteristics acquisitions have been and will continue to play a major part in the strategies of leading companies.

- Having defined which products and services are to be offered in which locations, and with what resources, and having decided which of these will be achieved organically and which by acquisition, a more detailed strategy is required.

- Decisions will need to be taken on what types of company to look for and a profile built up to assist searching. Items to be covered will include:

    - likely cost,
    - geographical location,
    - total sales and market sector shares,
    - relative size to purchaser,
    - profitability,
    - type of synergy expected,
    - hardware,
    - staff,

- management,
- products and services,
- languages, terminals, networks,
- marketing orientation,
- customer profile,
- ownership.

- In the case studies summarised in Section VII. The major reason behind the acquisitions was based on the speed and effectiveness with which a company can achieve a position in a new geographic or product area which would have taken it many years or even decades to achieve organically.

- Strategies for making acquisitions ranged from the structured planning and analysis approach of BOC, CAP/SOGETI and CISI, through the dual opportunistic/analytical approach of UCSL and Lowndes Ajax to the mainly opportunistic approach of Boeing and ADP relying on consultants searching for what might be available and then analysing.

- Typical acquisition strategies included the following:

  - "Identify product and geographical gaps which you wish to be filled and look for fillers".

  - "Prefer organic growth in our own areas and products, acquisition growth elsewhere avoiding overlaps".

  - "Decide area - decide profile - investigate market - qualify by profits, growth and expertise - select - negotiate".

  - "Overseas acquisitions are made by careful analysis of one country at a time".

  - "Strategy has ultimately to rely on opportunities as trigger points to further analysis".

- "Avoid bids contested by the subject as people are the key to on-going success and one can end up with problems without the people to solve them".

- "Define a profile and select a consultant to find it and get it".

- Strategies for acquisitions were invariably seen as part of the chief executive's function and in a large proportion of companies were subsequently implemented by the chief executive personally.

- This highlights the importance given by top management to the role of acquisitions in computer services and to the importance of handling them correctly.

- Points which buyers in the case studies felt were important in making acquisition strategies included:

  - "Dont start on something you and your parent can't finish". e.g. "Dont buy parts to a whole strategy without the guts to complete it".

  - "Small organisations are very fragile and need to be understood. They do not readily conform to large company procedures".

  - "Make sure the acquisition strategy fits the overall strategy".

  - "It is always more difficult to turnround a loss-making company and more painful than one expects".

  - "Acquisitions are successful when you know beforehand what you want to do, why and how. They should be the result of a considered strategy and not opportunistic".

  - "Acquisition prospects should fit the philosophy of the mother company".

  - "Keep acquisitions clean in organisational terms and avoid common products in common locations (i.e. direct competitors)".

D. JOINT VENTURES

- In defining strategic alternatives to organic growth joint ventures should be given similar consideration to acquisitions. Frequently an organisation insisting on a joint venture rather than a straight sale will be doing so because they have a lot of confidence in the product or service but lack some vital ingredient such as money, sales force, reputation, hardware, network, customers, technology.

- For the above reason joint ventures are a sharing of problems rather than a passing on of problems. In no way does this mean less care and investigation is required in their analysis and evaluation.

- Joint ventures have one major ongoing problem not present in acquisitions - the duality of interest, and often of management too.

  This is the area needing extensive consideration and should be pre-defined and evaluated in general before any specific joint venture arises.

- An additional problem from which joint ventures can tend to suffer is the putting together of staff and management brought up on different philosophies.

E. MERGERS

- Mergers can suffer from the same problems as joint ventures if dual ownership remains. In general the same areas of a unified management working towards a unified objective with agreed policies and strategies is the hurdle to be evaluated carefully.

- A top manager in one large acquisitions company said "psychological problems are greatest in mergers and can affect staff, management, clients and shareholders".

F. DIVESTMENT - PARTIAL

- A positive plan can be made to divest, for one of two reasons:

  - either to provide resources for a better business area,
  - or to free management from a strain or drain on resources.

- Confidentiality and motivation become major areas for consideration when such strategies are agreed or even discussed.

- The same logical analysis of the problem as for acquisitions is relevent. Bearing in mind:

  - that buyers are generally optimistic,
  - that others may have better resources to run a particular type of business,
  - or may think they have better resources,
  - can often lead to a better negotiating stance as well as give help in defining a prospective purchaser.

- In most situations it is a considerable advantage to produce more than one candidate at a particular time, although this is not always so.

- In general, companies spend very little time on consideration of divestments because it appears to conflict with the corporate growth objective and because in a way it is an admission of a past failure and can cause morale problems.

- Despite the above, the severing of a part of an organisation can have remarkable benefits. This may be that other areas of the business have been suffering from shortage of management time, or of cash, or human resources or have simply caught some of the 'diseases' of the part to be sold:

  - in the form of poor motivation or other human problems.

- Image in the market can also suffer from one division being out of tune with the others.

G. DIVESTMENT - COMPLETE

- Several companies in the computer services industry both in Europe and the USA have realised that they would be likely to fare considerably better as part of a larger concern than by remaining independent. They have decided that it is better for them to define whom they would like to persuade to buy them than to wait for an approach. With such an exercise a normal selling approach should be taken - i.e., after prior consideration of the alternatives, in exactly the same way as for acquisitions, joint ventures, and mergers.

H. DIVESTMENT - MIDDLEMEN

- For partial or complete divestment, a strategy of using a trusted middleman or consultant to anonymously sound out a few preferred buyers can achieve a number of benefits. It can:

    - lower the risk of the buyer taking advantage of the keen seller,

    - avoid the gossip and rumours which affect the morale of staff and customers and can be used by devious competitors in the market place,

    - provide a measure of the keeness of potential buyers.

    - provide an unbiased viewpoint,

    - avoid the premature passing of strategically useful information.

I. BEING APPROACHED

- One cannot prepare much of a strategy for being approached by another company to sell all or part of one's organisation. Nevertheless, it can be useful to think through how one should react to such circumstances and particularly whether one has one's information in an appropriate format to impress a prospective purchaser. You are in a selling situation and should realise it.

VI. IMPLEMENTING AN ACQUISITION STRATEGY

VI. IMPLEMENTING AN ACQUISITION STRATEGY

A. SELF ANALYSIS

- The essential preliminary to any serious strategy definition or implementation is self-analysis. For both these purposes an objective evaluation of strengths and weaknesses of the whole organisation is required including its:

  - staff,
  - management,
  - philosophies,
  - products (range and quality),
  - reputation,
  - production,
  - customers,
  - ownership,
  - finances,
  - balance sheet,
  - track record,
  - risk levels,
  - vulnerability to key staff and managers,
  - size,
  - problems,
  - forecasting accuracy,
  - information and control systems.

- To obtain the required level of objectivity it may be helpful to have a brainstorming team to include an old hand, a recently joined senior manager, a consultant/semi-outsider, as well as some of the more critical/analytical senior managers.

- A preliminary to an acquisition strategy definition should include analysis of all of the above with special emphasis on:

  - funds,
  - timing,
  - management,
  - constraints,
  - weaknesses.

B. ENVIRONMENT ANALYSIS

- It is all to easy to either miss out this stage or give it only cursory attention. A large number of investors in the computer services industry in 1969/1970/1971 lost money on the environmental changes during 1971/72 and sold out at losses between '73 and '76. These investors were mainly those from different industries, banks, financial institutions, industrial companies who had rightly seen the growth potential of computer services but had not analysed the environment and market place in sufficient depth to get the timing right.

- On the other hand some of the services companies took advantage of this situation to buy back these businesses at lower prices from the investors at depressed '73/'74 price levels.

- A comprehensive environment analysis should include the:

  - economy,
  - industry,
  - sector,
  - competitors (services and in-house),
  - resources,

- cost factors,
- pricing influences,
- technological changes,

and possibly most importantly,

- the customer.

- Objectivity is also important in this stage and formality of analysis can assist objectivity.

C. PROSPECT PROFILE DEFINITION

- Having analysed the environment and the company concerned and having developed a strategy of what type of acquisition is required the next step is profile definition.

- The profile will be largely determined on whether the plan is to fill gaps and weaknesses or to complement strengths. Objective research has indicated that acquisitions show a higher success rate when based on strengths.

- The profile should be sufficiently detailed to allow an analyst to home in on say 5-10 prospects from a general list of say 50-500 companies.

Example of an extract from a prospect profile definition

What type of organisation(s) will fit?

A. Profit Now/Future - Now immaterial, future £200K-£500K p.a.

B. Revenue Size/Type - £1m-£2m if revenue only acquisition
- £1½m-£4m if retaining some/all hardware etc.

		-	Not people-based
		-	Sustainable with growth (repeatable, not project based)
C.	Location(s)	-	Hardware control 50 miles of main data-centre if integrating. H.O. 50 miles of our H.O. Branches anywhere.
D.	Hardware	-	Same as ours, if integrating
		-	Any if not integrating
		-	Flexibility (owned or rented)
E.	Staff	-	Not 'entrepreneurial'
		-	Capable in middle
F.	Management	-	Not 'entrepreneurial'
		-	Good if not integrating, flexible if integrating
G.	Products	-	Seasoned product strategy (good products)
H.	Non-data services	-	Prefer nothing. (If something - then problem free)
I.	Terminals/Networks/ Languages	-	Large network preferred, other items open
J.	Market profile	-	High gives publicity to merger, otherwise open unless we change name.
K.	Orientation	-	Profit and market oriented, not 'departmental'

L.	Customer size/type	-	Average size £5K p.a. - £20K p.a. spend.
		-	Look at any over £50K p.a.
		-	Small OK if good reason
M.	Post-acquisition strategy	-	Prefer full integration
		-	Not too heavy impact on technical people

Is it buyable?

A.	Ownership	-	Not individuals
		-	Prefer large owner
B.	History	-	Financial - open
		-	Staff/customers - OK or good
C.	Projections solo	-	Poor or dubious good ones
D.	Case to Parent	-	No redundancies
		-	Significant synergy
		-	Simple strategy
		-	Believable forecasts.

D. SEARCHING

- Searching will frequently take place in three distinct ways.

  - The chief executive and his key managers will draw on their own knowledge to provide a few prospects.

- An outside consultant or professional searcher will be given a briefing to search for prospects against a profile. Frequently this type of searcher will take it a stage further to initial sounding out of likely prospects.

- The corporate planner will run a formal search by applying prospect profile criteria to a list of companies fitting the very broad definition required e.g., a software services company in Italy.

- There are a number of techniques and methods available for doing such a search and the simplest are frequently just as satisfactory as the more complex.

- Many acquisitions are made which do not result from a formal search. These are the opportunistic ones which can only be planned for in a passive receptive mode, but they are extremely important. The industry grapevine is another essential search channel.

- The search process is frequently, under-budgeted and under-rated in many companies perfectly keen on acquisitions but not realising the crucial importance of this phase.

- Search and selection methods used by companies in the case studies were as follows:

Search channels:	Mentioned by:
Consultant	5
Market research companies	3
Personal contacts	2
Grapevine	1
Trade meetings	1
Trade associations	1
Local subsidiaries	1
Reference books	1
Press cuttings	1

Selection criteria:	Mentioned by:
Management capability	3
Reputation	3
Financially sound	3
Expertise	2
Profitable	2
Staff capability	1
Staff and management's permanence	1
Non-competitive with us	1
Growth record	1
Growth potential	1
Business opportunity	1
Fit to corporate plan	1
Products	1
'Chemistry' right	1

E. SCREENING

- Having generated 5 or 10 prospects fitting a profile a second screening will be necessary to consider whether an approach should be made and if so whether negotiations should commence. Thus there are three stages to screening:

  - the profile definition (see C above),
  - screening prior to approach,
  - the continuous screen after approach to decide when to cease negotiations or how to modify them.

- The screen prior to approach will often require more information gathering to determine how well the prospect really fits the profile and some analysis of its ownership.

- Typically it would include assessments of:
  - revenue size,
  - revenue growth,
  - revenue type,
  - customer type,
  - geographic location,
  - profitability,
  - cash flows,
  - management quality and style,
  - staff quality,
  - reputation,
  - products and services,
  - assets and hardware,
  - corporate philosophy,
  - potential for synergy,
  - future outlook in all respects based on analysis of company past, the above items and the market place.

- Screening methods used by case study respondents included:

Buyers screening prospective subjects	Mentioned by:
Degree of fit	3
Analysis of figures	2
Understand their business economics	2
Personal knowledge of people	1
Technical evaluation	1
Discussions with management	1
Financial audit	1
Feel for purchase price	1
Each case different	1

Sellers screening prospective buyers

Degree of fit	3
Size of bid	3
Reputation	2
Level of interference	2
Professional advice from consultant	1
Quality of executives	1
Prior knowledge	1
Subject's preferences	1

F. APPROACHING

- Approaches range from:

  - dropping a hint on the grapevine, through
  - an 'accidental meeting with the chief executive', and the
  - 'we must get together for lunch', to
  - the consultant approaching anonymously and,
  - the consultant approaching openly, and
  - the formal presentation to the Board,

- There are no ground rules as to which approach is right. It is clear that each situation is a unique buyer/seller/subject combination and the best approach will relate to that combination.

- What can be said is that 'selling' is very certainly required by the hopeful buyer of a good prospect. Qualities most appreciated are:

  honesty,
  frankness,
  understanding,
  compatibility, and
  mutual confidentiality.

- A good agent/consultant can set the scene for good buyer/seller relationships; a bad agent can severely reduce the prospect of a close. The problem this poses where buyers only buy on infrequent occasions is knowing who is a good agent and who is not. Experience, lack of greed, ability to grasp the essentials and generate trust are the main essentials of a good agent.

- A seller will have to make a fundamental decision of whether to sit and wait for offers or go out and find buyers. Many sellers feel it is better to sit and wait. There are several instances though where going out and seeking a buyer have worked successfully. The taking of the initiative is not always a weak bargaining position if handled well.

- Approaches actually used in the case studies were:

BOC/CITIBANK	-	BOC phoned expressing interest, no progress. One year later the consultant to Citibank called back.
BOC/Software Sciences	-	BOC phoned chief executive for lunch. Gentle approach.
BOEING/ICFC	-	BOEING approached ICFC.
CAP/GEMINI	-	Middleman approached CAP.
CISI/PCS	-	Buyer's consultant made initial approaches to PCS.
UCSL/DDP	-	Parent asked for help, UCSL made presentation.
UCSL/SINGER	-	UCSL phoned knowing they were for sale.
USCL/ROWNTREE MACKINTOSH	-	Direct phone call by UCSL to determine saleability referred by old shareholder in subject.

ON-LINE/ATKINS	-	Subject spoke to buyer who called parent.
ADP/GREYHOUND	-	Straight phone call by ADP to Greyhound, personal contact.
GSI/SERESCO	-	GSI sounded out management then arranged introduction to parent without mentioning purpose of meeting.

G. EVALUATING

- Whilst a preliminary evaluation will have taken place before the approach a proper evaluation can only be done after the approach and with some co-operation from the seller or the subject.

- The information required to evaluate a prospect some of which the buyer may already know or be able to obtain elsewhere will include:

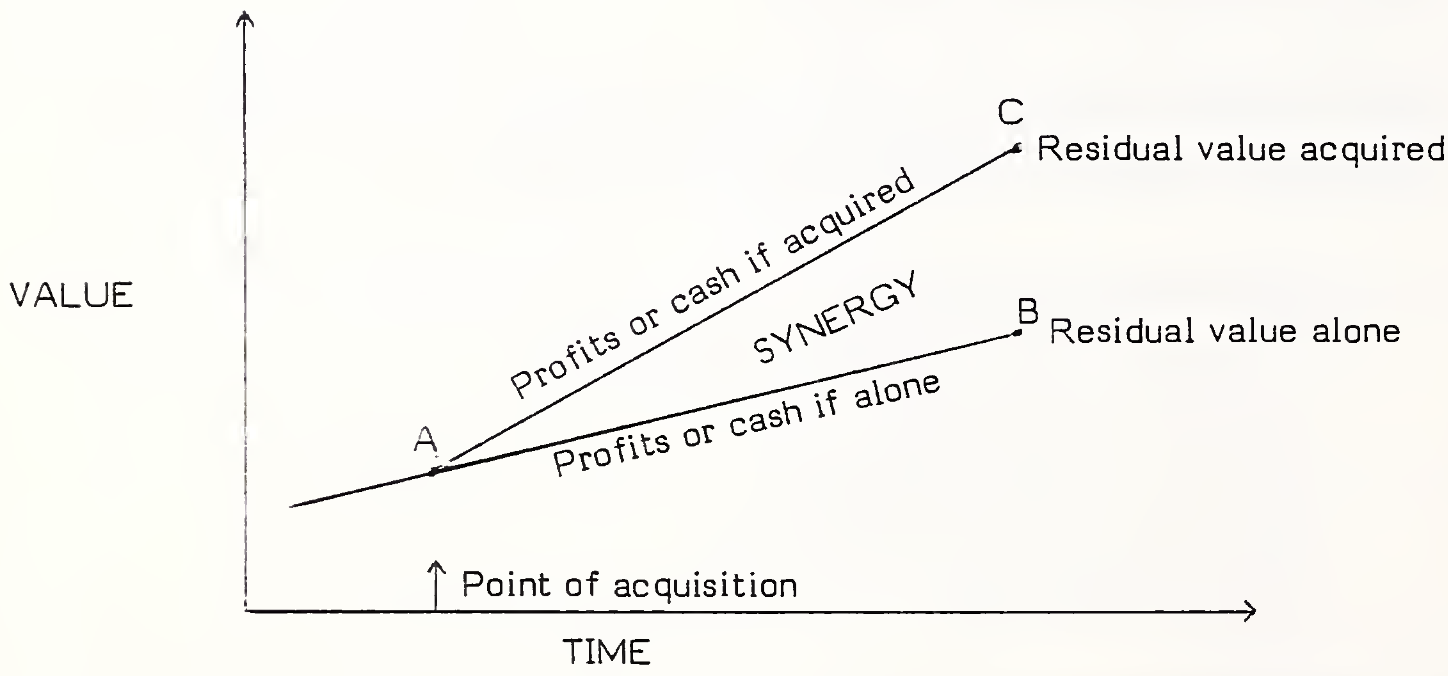
  - local economic environment,
  - local government and legislative environment,
  - local market environment,
  - customers existing and potential,
  - competitors existing and potential,
  - products and services,
  - resources,
  - management,
  - assets,
  - systems and procedures,
  - politics, style, philosophy,
  - skeletons in the cupboard,
  - weaknesses,
  - reliability of plans and forecasts,
  - cash generating ability,
  - personnel policies,
  - staff attitudes and motivations,
  - contracts - customer and supplier.

- Having obtained a view on the above, forward plans can be prepared:

  - as they would continue alone,
  - as they would continue if purchased by a competitor or investor,
  - as they would continue if purchased by you (with reasons for synergy clearly stated and quantified).

- The usual techniques can then be applied to two evaluations. The first evaluating what they are worth to the seller. The second what a competitive bidder might pay and the third what they are worth to you.

- In a pure world the area of synergy would be the area of negotiation as illustrated below.



- The discounted present value of the line AB plus the discounted residual value X would be the value of the business independently.

- The discounted present value of AC plus the discounted residual value Y would be the value of the business to the buyer.

- The present value of the forecast synergy is the difference in value between the correct minimum price at which the seller would sell and maximum price at which the buyer would buy i.e., the theoretical area of price negotiation.

- The techniques used include:

  (a) Pay back period (the time taken for the buyer to draw out in surplus net cash flow an amount equal to the purchase price).

  (b) Discounted cash flow (the present value, after applying an interest rate appropriate to cover pure interest, inflation and risk, of the net cash flows). This is theoretically the best valuation basis.

  (c) Price Earnings Ratio (the multiplication of the last, the current and the projected net profits by factors gauged from experience, projected growth rates, other acquisitions and quoted companies to provide a capital value of the business based on its profit earning potential).

  (d) Asset and Goodwill valuation (This basis will frequently give a very low valuation for computer services companies but if the goodwill is properly valued and the human assets valued then it can give a very useful perspective to compare with (a), (b) and (c) above).

- There are many important factors to bear in mind in making such calculations which should not be made mechanistically. These will include:

  - rent reviews,
  - subsidised facilities from parent company,
  - leases (expiring or commitments and inflexibility),
  - contracts with customers and suppliers,
  - reinvestment (frequently underestimated),
  - taxation,
  - imminent customer changes,
  - imminent staff changes,
  - imminent parent company relationship changes.

- Other factors to be taken into account will include the non-financial aspects of the contract such as guarantees and warranties required or possible to obtain.

- A much neglected but crucially important aspect of valuation is the comparison of the prospective acquisition with alternative courses of action as regards human and financial resources to be committed.

- In the case study interviews general comments made concerning actual synergy achieved included:

  - "More effective utilisation of scarce good management".
  - "Extra business from wider product range".
  - "A parent, who understands the technology, can help considerably to improve performance of a subsidiary".
  - "Synergy in the software industry takes time as there are no economies of scale".
  - "For each query the chance of satisfying it are increased with a larger company".
  - "Funds for investment, management control and reporting, spread of skills, risks reduced, scheduling efficiencies, specialist expertise are all achieveable".
  - "Experience and expertise of people interacting".
  - "Cross-fertilisation of technology and management".
  - "Better credibility".
  - "Market sector leverage and extra products".
  - "International sale of previously national products".

- Balanced against these positive comments one must be aware that in many acquisitions and mergers planned synergy is never realised and often disynergy occurs.

- Synergy planning and forecasting is an important subset of evaluation.

H. NEGOTIATING

- In practice, negotiation begins at the very first approach and may well carry on until long after completion. This section will cover the period from evaluation to completion.

- The first and most important behavioural aspect of negotiating is to obtain the trust of the other party by being open, frank and direct. Without this trust the negotiations can fail or take considerably longer to conduct.

- It is very well worth taking the trouble to research into the decision makers' and decision influencers' points of view. By responding to their needs it can certainly happen that an acquisition can be finalised at a 'total price' well below a differently structured 'total price' offered by someone else and rejected.

- The type of opportunities/problems where this approach can make the difference include:

  - the future roles and remuneration of key executives,
  - the fiscal aspects of the offer,
  - the apparent price of the offer (i.e., an offer which is very high but has very stringent clauses in the contract which effectively reduce the price),
  - an on-going contract for service safeguarding previous parent,
  - a forward plan showing the help you are going to be giving them and its beneficial effects,
  - a very quick conclusion,
  - simplicity.

- Flexibility combined with the above understanding is an important ability to have in negotiations. For negotiators who need to get full detailed approval of their proposals prior to negotiation this can be difficult and can severely limit the chances of closing a deal.

- One important point in both buying and selling is that it is frequently counter-productive to negotiate too hard on all points. The seeking out of the last pound, dollar, deutschmark, franc or contract detail can cause considerable reaction from the other party. There are occasions in which if you have achieved the major objectives it pays to let the other side win some minor points.

- A lesson learned by every negotiator at some time or another is that you should never underestimate your competitors nor should you assume that the person you are negotiating with will be honest in telling you how negotiations with a competitor are progressing. It is all to easy for three or four prospective buyers each to think they are ahead in the negotiations at one time.

- When several suitors are courting an interesting company at the same time the importance of trust, good communication and flexibility becomes even more apparent. That is the time to really take the trouble to ensure mutual understanding exists and to respond to their particular needs.

- This aspect of acquisition is really the human element or behavioural element. It comes into play in both the negotiating side and the integration side of acquisitions. It applies in the same way that it does at boxing, chess, football, tennis or war games in that one will do better if one understands ones opponent and responds accordingly. However, the understanding, the design of a response and the implementation of that response are all important elements.

- The illogicality and incompatibility of the human elements in an acquisition process are frequently where problems lie. The recognition of both these aspects and the development of responses to them can be very helpful in increasing chances of success.

- The terms of the contract are of course the essence of negotiation once sufficient agreement has been reached on points of principal by the parties. There are several schools of thought in this area. One school argues that if you have the main points right accept any reasonable proposals on contract detail. The opposing school treats the negotiation like a good tennis player who plays each point on its own merits independently of the others. This school advocates that each aspect down to the smallest detail should be separately negotiated as best as possible. The question to be answered here is whether the advantage of better contract terms outweighs the risks of behavioural backlash from over-negotiation. Once again different approaches for different situations will be appropriate.

- The legal/contractual detail is the most frequently underestimated aspect of negotiations taking from 2-10 months from outline agreement in principle to completion. International acquisitions take on average approximately twice as long as domestic ones in this respect.

- The good negotiator will be one who:

    - understands people,
    - relates well to people,
    - has the power to be flexible,
    - has a very rapid thought process,
    - is motivated to succeed,
    - understands fully what he is negotiating for and why.

- Negotiating tactics used in general by buyers included:

Caring/understanding parent	3
Informality	2
Openness and directness	2
Outline benefits/synergy	2
Low staff turnover record	1
National ownership	1

Gain confidence of management first	1
Gentleness	1
Sell to real decision maker	1

(those tactics used specifically in the case studies are covered in Section VII)

Negotiation Timing Analysis in the case studies

Stage	Time in Months for Acquisition Process									
	1	2	3	4	5	6	7	8	9	10
Identification to approach	12	36	3	.03	.03	.1	7	60	-	.1
Approach to offer	6	1	.5	2.5	.06	1.5	1	5	2	2
1st offer to acceptance	18	2.5	.03	2.5	.01	.5	1	1	1	4
Acceptance to completion	3.5	1.5	2	9	1	2	3	3.5	3	3
Completion to integration	12	-	-	-	-	2	24	12	12	-
Actual as % of expected (approach to completion)	470	125	50	250	No Exp.	200	166	180	100	300

- It can be seen that the timings vary enormously with identification as a prospect to the approach varying from a day to five years and with offer to acceptance varying from an hour (in a distress sale) to 18 months.

- What is clear is that very many more negotiations exceeded their expected length than fell short, one taking almost five times as long as anticipated.

Approach and Reasons for aborted negotiations from case studies

- One multiple question asked of buyers covered the following for the period 1971 - 1978.

a) The number of companies considered as possible candidates for acquisition or merger:

Source of prospect	Generated Internally	Other Company	Middleman or third party	Total
Acquisition by you	107	104	33	244
Acquisition of you	-	16	12	28
Merger with you	1	5	1	7
Total	108	125	46	279

This table indicates that almost the same number of acquisition prospects approached the buyer in the first instance as were approached by the buyer with only 15% being introduced by a third party. It is interesting to note that none of these companies had seriously thought about being acquired as all 28 approaches were from prospective buyers or middlemen and of the seven mergers considered only one was generated internally.

b) For completed acquisitions only, the analysis of first approaches showed:

	%
First approach by buyer	49
First approach by seller	28
Introduction by outsider	23

c) For acquisition negotiations which failed the reasons given were as follows:

	%
Outbid by competitor	24
Reluctance to be acquired by foreigner	20
Offer too low for seller	12
Miscellaneous incompatibility	12
Not as attractive as originally thought	8
Personality conflicts	6
Unable to offer equity participation	6
Blocked by French Government	4
Parent company delays/problems	2
Too slow	2
Unknown	4

- It should be stressed that these are the reasons as perceived by the frustrated buyer, and the seller may well have given different reasons for the aborted negotiations.

- It is interesting to note that price was only given as the reason in 36% of the cases which gives an indication of the delicacy of acquisition negotiations as a host of other factors can affect the chances of success.

- Points which buyers in the case studies felt were important in making acquisitions included:

  - "Do the people (especially the management) want to work for you and are they competent".
  - "It is very easy to underestimate the turnround time required".
  - "Will the company fit the objective for making the acquisition".
  - "Acquisitions take longer to find and longer to complete than one expects".

- "Human problems can be avoided by a gentle considerate approach".
- "Buying on accounts is dangerous. Know the management".
- "Caveat Emptor" or "Let the buyer beware".
- "People need careful analysis".
- "Beware of optimistic forecasts".
- "The human touch is vital to success in acquisition".
- "Buy companies with good dependable strong management".
- "Don't waste time where parties are unsuited".
- "Don't negotiate with someone who lacks the authority".
- "Don't take the last pound, dollar or franc".
- "Where a surprise benefit is obtainable, splitting it can be beneficial".
- "Restore confidence and stability to a new group as soon as possible. Which can only be done with investment of management time".
- "Small outfits are fragile - understand what is vital - early loss of one senior man can cause failure".
- "Avoid earn-out deals unless you are prepared to let the acquired company remain highly autonomous".
- "Acquisition is not a panacea and often may not be the least costly route".
- "For a large company to match the motivation which can be achieved from a small entrepreneurial business is almost impossible and disynergy needs to be allowed for in this respect".
- "Choose your negotiating team with great care and do not be afraid of using a specialised consultant to advise, search, approach".

I. APPROVAL

- Approval is always required for an acquisition whether from shareholders, parent companies, senior executives, colleagues, bankers, staff or even simply self approval for the sole trader.

- The same process is required for each of these to a different depth and with different emphases.

- Objective analysis of the proposed course of action, its outcome and its implications compared with its costs in all senses (including: lost opportunity cost and cost of the alternatives) is required with a clear presentation.

- There are many different ways of evaluating, setting out and selling such a proposal but objectivity, honesty, comprehensiveness and clarity will normally be what is required.

- The larger proportion of acquisitions proposed for approval are agreed eventually. In practice the major problem of approval is the delay caused to what can be an urgent process. Frequently when competition are involved there is a need to move quickly and flexibly. This can be frustrated especially where a slow standardised formal approval process is required.

- The other problem caused by approval is the sequence or "chicken and egg" situation. For example, frequently a reasonable proposal cannot be prepared without an approach to obtain information but an approach is not allowed without approval.

J. POST ACQUISITION STRATEGY

- An essential part of the precommitment analysis in an acquisition negotiation is a clearly set out implementation and operation plan for the post-acquisition period. Too frequently it is assumed that one can be developed after the acquisition.

- This plan should spell out very clearly the revenue, cost and cash flow expectations with synergy and its timing separately explained; together with the strategies to be followed and assumptions made to achieve the result.

- Preferably in a separate and more restricted document, the human aspects of integration at all levels should be covered with alternative outcomes and responses evaluated.

- It is surprising how few companies conduct a formal post-acquisition elvaluation to measure the actual results against those forecast in the acquisition proposal. The excuse given is that the subject is integrated into the normal reporting and control system with budgets and actuals being compared. However good the ordinary management control system the vital feed-back to the acquisition team will not be fully effective unless an objective formal analysis of the outcome takes place by a non-acquisition team member.

- Immediate implementation of fast response financial control systems are important following an acquisition expecially if it is a turn-round situation.

- Many acquisitions are made with the original intention of minimal integration. These consist of a proportion of 'investment type' acquisitions where no synergy is planned and no changes other than ownership. What one is backing here is the buyer's belief that the business will perform better than the seller believes. Basically it is backing a market sector or a team of people.

- Those which are not 'investment type' acquisitions but are still not really integrated might be completed for reasons of geographical expansion or product range expansion. In these cases through changes in technology and in customer requirements integration will eventually become sensible.

- Where integration is planned for in the immediate post-acquisition phase the technology and production is usually relatively straightforward, the marketing integration is usually straightforward and it is really only the people where problems arise. Typically these will include the following situations:

  - the general manager and other top managers of the acquired business losing autonomy and status,

  - departmental or functional managers who may lose status and responsibility e.g. moving from sales manager to senior salesman,

  - general feelings that promotion will tend to be given to people well known to top management giving a disadvantage to the staff in the new company,

  - insecurity from the change of ownership, management and style of company; also insecurity carried forward from the negotiation phase,

  - changes to working conditions, rules regulations and procedures.

- Integration styles used in general by the buyers in the case studies were varied. Three companies always used a slow gradual integration process. Two companies always imposed immediate adoption of their financial control and planning systems. Other items mentioned included cross-presentations, social meetings, creating an environment which they understand and installing a parent company man somewhere in the new subsidiary. Two companies believed in giving as much autonomy as possible.

- A top manager in a buyer company said:

  - "There is a great sense of fulfillment in being involved in a successful merger or acquisition although it can be a difficult period as people are very sensitive during acquisition and integration".

- Some of the respondent buyers gave the success levels for all of their previous acquisitions. The table below indicates the spread.

Success Levels	Co.	A	B	C	D	E	F	G	H	TOTAL
10	Perfect	1			1	1	2	1	1	7
9		1	1		1	1		2	1	7
8		3			1	2	1	1		8
7	Good	2		3	2				1	8
6					2	3		1		6
5	O.K.	1	1	1	1		1		1	5
4		1			1	1				3
3	Not too good	2			2	1				5
2					1	1				2
1	Disaster			2						2
										53

- This chart indicates that in all companies there is a spread of the post-acquisition success ratings. However it does indicate that only 9 or 12 at most out of 53 were actually regretted by the buyer (3 or 4 and below) whereas some 30 or 36 were better than O.K. This rough indication of three successes to one failure in acquisitions is higher than expected and higher than shown in a large cross industry acquisition study in the U.S.A. conducted several years ago. It is extremely encouraging.

K. DISPOSAL STRATEGY IMPLEMENTATION

- Virtually all of the above applies to the planning and implementation of a disposal either directly or reciprocally.

- The qualities required in a good sales negotiator are almost precisely the same as for a good purchase negotiator in the acquisitions field.

- The approach area may well require a greater degree of subtlety for a disposal than for an acquisition. For example the grapevine and other indirect ways of indicating either to several or one particular prospective buyer that there might be a willing subject may often be better than a direct approach.

- The use of an agent or consultant for the disposal can be just as effective as for the buyer especially for the willing or active seller as opposed to the passive one. Here confidentiality and integrity are crucial as the seller has a greater need of secrecy than the buyer.

- The decision of whether to negotiate in parallel or in series is an important but very difficult one. At first sight it might appear that parallel negotiations with several prospective buyers can bring about a high price from the auction - like effect. However in some cases trust will be reduced and each prospective purchaser may put in less effort knowing that there are competitors and his chances are therefore less than in a one-to-one situation.

- Another possible disadvantage of this approach is that if the final negotiations with the favoured candidate break down it is not easy and can be face-losing to resurrect negotiations broken off with the others.

- The obvious advantages are that offers can be compared as one goes along and one bid can be used to jack up another. As with many situations it will depend on the individuals involved at the time which is best for a particular occasion.

- Negotiation tactics used by sellers in the case studies included the following:

Make buyers aware of competition	3
Reluctant seller approach	3
State the price and terms wanted and negotiate from there	2
Whittle away at offer and clauses therein	2
Open and logical	2
Insist on speed	2
Committee decision type process	1
Circulate prospects and await offers	1
Use a professional consultant	1
Sell the bad with the good	1
Select good buyer and have open one-to-one discussion	1
Concentrate buyer's mind on future	1

L. JOINT VENTURES

- If more objective self-analysis was completed by companies there would be considerably more joint ventures than currently exist.

- The reason for this is that it is likely to be better to enter an excellent market sector with a partner who complements one weaknesses than either to enter that sector with weaknesses unremedied or to enter a less attractive market sector.

- Thus the strengths and weakness analysis with throw up possibilities for joint ventures and the strengths required in the partner.

- Joint ventures suffer from one major problem area; the ability of the two parties to work cohesively together in a co-ordinated fashion. Too often disynergy occurs from the continuous bickering of the two parties with their different outlooks, abilities and motivations.

- Joint ventures work when both parties are:

    - unselfish,
    - have a sense of fair play,
    - have mutual respect,
    - have mutual trust,
    - the venture is profitable,
    - the balance of significance to the respective parties is not dramatically out-of-line.

- The negotiation of a joint venture requires more care than for an acquisition in that once the die is cast it is difficult to change since you have influence rather than control after commitment. In acquisitions you have control after commitment and the rules can therefore easily be changed.

- The same qualities are required as for acquisitions and disposals with possibly a greater emphasis on understanding of behavioural aspects and a greater ability to ensure the contract adequately covers a wide variety of possible outcomes.

M. MERGERS

- Mergers are a rarity in the computer services industry but have occurred among software houses.

- The same comments as for joint ventures apply with the additional caution that a merger is much more final and total than most joint ventures.

- In mergers human problems really come to the fore as neither party has any special rights to leadership. Unless the problems have been foreseen and contingency plans to forestall them drawn up, energy will be wasted on in-fighting and internal politics.

- Of the few mergers that do take place many are acquisitions in disguise where a weak and a strong company merge, possibly even reverse takeovers. The few real mergers which take place where they are opportunity-oriented rather than problem-oriented tend to be opportunistic rather than strategic. Thus they rarely feature in planning processes.

- The use of a referee or independent consultant can be extremely helpful in the early stages of a real merger provided mutual respect for and trust in the referee do exist. Sometimes an independent chairman with joint managing directors is the best structure at the top.

N. QUOTATIONS ON JOINT VENTURES AND MERGERS

- In general comments made about joint ventures and mergers by the buyers interviewed for the case studies expressed a cautious approach to this type of solution to a business problem or opportunity. Typical comments included:

  - "J.V.s can work where clearly defined and different roles for the respective parents are set out".
  - "Keep J.V.'s separate from the rest of the business and recognise there will be little synergy".
  - "We have had very good experience with mergers finding that people cease to identify with their origins after a reasonable period"
  - "Merged benefits can be very expensive".
  - "Contracts, other than clean, well-defined ones, can set up conflicts which go on and on especially where continuing contractual relationships are concerned".
  - "Ask yourselves whether the planned relationship will be able to endure the changes being brought about".

O. COMMENTS MADE BY SUBJECTS OF ACQUISITIONS

- The comments made by the chief executives of subject companies who had been sold by their previous owners and bought by a new parent, have been categorised into two sections:

(I) Feelings about being sold at the time, and on reflection

- "I tried to resist the acquisition as long as possible because stability is important to customers and staff; because the devil you know is better than the devil you don't know; and because I expected to suffer both in status and remuneration after the acquisition".

- "I was not a shareholder but a professional manager and was therefore concerned with the development of the business. I thought the new partner would be likely to significantly help the company to grow providing opportunity for the company and for me personally".

- "I was personally delighted with the acquisition but the old parent was disappointed in the new owner's interest in the business rather than the technology or the service".

- "I was very disappointed having worked for very many years with the old parent and having developed the business to serve and benefit the parent. Looking back I believe it was a good thing we were acquired".

- "I personally approved of the buyer as it was likely to make a more understanding and capable parent than the old one. My fears that the old parent's workload would drop proved well-founded. Less synergy than expected materialised and it was very hard work co-operating with middle executives in the parent despite good links at the top. We would probably have been no worse off had we remained with the old parent".

- "I supressed my feelings and got on with the work of selling the company I had been running despite the enormous problems of holding it together. I felt remorse after completion of the sale when the new parent told me I had no job after handling the disposal well. I very much regret the sale".

- "I was responsible for the selling of the company and saw it as another job which I fulfilled. Another time I would consider more carefully whether to fulfill my responsibility to a company who wanted to dispose of me and my operation".

- "I had no respect for the old parent but was frustrated by the lost chance to buy the business myself from them".

- "I was annoyed especially by the lack of consultation. Looking back I am slightly disillusioned as I have less say in policy and strategy than previously although there are some positive aspects. The problems are partly because we are a very small part of our new parent".

- "I had the normal reaction of selling one's child and was in fear of the new owners ability to get along with us. So far everything is fine though".

- "We were reluctant to sacrifice our autonomy at the time but looking back the company has prospered from the acquisition and my initial concern was not justified".

- "I was favourable but apprehensive towards the acquisition. Looking back, at first we had mixed feeling but after a change in parent company management things improved".

- "It was inevitable but I did no like the thought of giving up our autonomy and freedom in decision making. I have been pleasantly surprised since the acquisition although the bureacracy, administration and timescales for decisions have increased".

(II) Problems perceived by subject management

- "Long negotiations caused insecurity".

- "Communication in post-acquisition phase is crucial".

- "It is hard work for people trying to manage a business and get to know the new management and their philosophy. Problems arise when the new parent think they understand the subject's business better than the old management".

- "Parent company made the erroneous assumption that we did not wish to integrate".

- "The chief difficulty, if self determination is decided upon, is that whilst top management may understand the differences in market conditions between this subsidiary and the rest of the company, separate development may be viewed with suspicion and in a competitive way by middle management".

- Maintaining commitment from staff who have to help pass over the company but are not being transferred themselves is extremely difficult".

- "Our marketing effort stagnated for a year because of the acquisition negotiations".

- "The transfer of ownership from remote non-participative to close participative works very well in a service company".

- "We heard about our acquisition on a golf course".

- "The attitude of the buyer is the clue to future problems".

- "A three year bedding-in period is a good method of integration".

- "Until the transfer of a business is effective the subject management's allegiance is to the seller and not the buyer despite pressures to help your future boss".

VII. ACQUISITION CASE STUDIES

VII.A. BOC CSD/Computer Projects Ltd.

ACQUISITION CASE STUDY

BUYER	-	BOC COMPUTER SERVICES DIVISION (BOS CSD)
SELLER	-	CITIBANK
SUBJECT	-	COMPUTER PROJECTS LIMITED (CPL)
DATE	-	November 1975

1A. BUYER'S ACQUISITION HISTORY

- BOC Computer Services evolved from the internal computer operations of the British Oxygen Company. The division started with an IBM 360/50 at Oxford Circus in 1970 as the centre of an RJE network selling to both BOC users and external users.

- Encouraged by the success of the Oxford Circus venture, BOC invested in a 40% share of Triad Computing Systems Ltd., in early 1973 to develop its systems and programming function.

- Datasolve, a bureau offering financial computer processing services on ICL equipment and some IBM 360's, was purchased from Rothschilds in late 1973 and had a turnover in the region of £1.6m largely based in the London area. It had been put together by Rothschild Investment Trust from six or more bureau acquisitions.

- 1974 saw the acquisition of Sanaco, a Birmingham based timesharing business running a Honeywell 615, with the old parent company continuing to be a major customer.

- Also in 1974 a small commercially oriented bureau called Electra was added to the Group.

- By this time the BOC Oxford Circus installation had upgraded through a 370/155 to a dual processor 370/158. Revenues had reached £4m.

- Early in 1975 BOC acquired Knight Computer Services, a large contract staff business, and 26% of Knight Programming Support (since divested), followed by a 20% share of a small bureau called Lincoln House making the seventh acquisition.

1B. BUYER'S STRATEGY

- In 1975 BOC was still actively seeking further growth of their IBM based computer processing business by acquisition and were holding preliminary discussions with several prospects.

- They had emerged as a market leader and a prime candidate to be the largest computer services company in the U.K., with an aggressive expansionist forward plan.

- BOC's top management had recognised that organic growth alone would not be sufficient to develop into the type and size of company they planned for. They wanted a 15-20% market share and a comprehensive range of services appealing particularly to large organisations in the U.K.

1C. IMPLEMENTATION OF BUYER'S STRATEGY

- The implementation of this strategy was primarily handled by the chief executive of the division supported by his deputy and one staff man. The search for prospects was conducted:

  - by obtaining a high profile in the industry causing sellers to be aware of BOC's acquisition intentions,

- by extensive use of the industry grapevine

- by an active presence at trade meetings

- by the use of a market research consultancy with knowledge of the industry.

• Having decided to develop the IBM processing business, the screening process was relatively simple. BOC was looking for bureaux with management which was permanent and capable, with a track record of growth.

2. SELLER BACKGROUND, STRATEGY AND IMPLEMENTATION

• In 1971 Citibank was seeking expansion into non-banking service activities worldwide, partly in response to anti-trust legislation. The bank had purchased computer bureaux in the U.S., in Japan and on the Continent.

• An approach was made to Associated Newspapers with a view to purchasing Computer Projects Ltd. (CPL) for their U.K. branch, as it was profitable, IBM based and in London.

• Associated Newspapers sensed that the acquisition team were keen and did not have a large selection of bureaux to choose from. Consequently the group held out for a very high price and ultimately obtained it (Just short of £1m).

• Within a year or so a recession in the industry was largely instrumental in causing CPL to lose money along with the other bureaux owned by Citibank. A decision was made to divest the computer service businesses, in line with Citibank's strategy of getting rid of loss-making business quickly.

• The chairman of CPL left, the new 370/145 on order was cancelled and the business was prepared for sale with no cash injection but instructions to the chief executive to make profits.

3. SUBJECT

- The morale at CPL was low because of the hardware cancellation, the prospect of another transfer of ownership and the industry recession.

- CPL management was also upset by the lack of control over sensitive information which had been circulated to many of their competitors. Rumours had also reached customers causing problems.

- The recession in the industry was a major factor in bringing about the second transfer of ownership in two senses. First the disillusioned Citibank was anxious to sell feeling it had entered the wrong industry at the wrong time with a poor strategy. Secondly the far-sighted BOC saw the recession as a chance to purchase bureaux cheaply whilst profits were down. This would help to achieve the growth objectives at minimum cost.

4. MOTIVES FOR SALE & INITIATION

- Citibank hired a consultant to write a glossy sale brochure on CPL and to find buyers. About 20 prospective purchasers were circulated with the glossy including some organisations who took it purely for information having no funds to purchase CPL.

- BOC was on the circulation list having had tentative talks a year earlier with CPL/Citibank at its own instigation.

- The 20 companies were narrowed down to four who were seriously interested and outline negotiations took place with those four.

- Information obtained from usual published sources was supplemented substantially by the consultant's glossy brochure.

5. NEGOTIATIONS

- Negotiations were prolonged in that BOC had first approached Citibank (by talking to the general manager at CPL) a year earlier with a view to a purchase of CPL. This assured BOC a place on the list of prospective purchasers when Citibank decided to sell. The final set of negotiations was conducted by BOC CSD's chief executive assisted by his project accountant, the manager of the division with which CPL would be merged and a head office lawyer. The role of Citibank's chief negotiator alternated between the consultant and an executive in the U.S. who left and was replaced by another.

- The seller had decided to sell, was open about this and hired a professional consultant to put the policy into action. He wanted a professional deal, a fair price, a clean severance and cash immediately.

- The buyer approached the subject informally in an attempt to persuade the seller of the benefits of being part of the BOC CSD and remaining British. He made a thorough investigation of customers and was persistent.

- The subject sat on the fence neither helping nor hindering the process. He was naturally very much concerned with self interest.

- The final deal emerged as a straight cash payment for the business at very considerably less than Citibank had paid for CPL with a rebate of some of this sum if revenue fell below certain levels. The price was equivalent to about three months turnover.

- The interest expressed by much of the competition turned out to be mere wishful thinking or competitive information gathering. With the exception of BOC it was felt that the other serious competition was 'amateurish' in its approach and this critism included some U.S. companies.

6. POST ACQUISITION ANALYSIS

6A. SYNERGY

- The synergies were expected to produce: lower processing costs from:

  - hardware rationalisation,
  - spreading application expertise over a wider base of customers,
  - faster revenue growth.

- This result was obtained more slowly than expected and additional benefits not expected but obtained were:

  - cheap premises,
  - some good contract staff.

6B. HUMAN PROBLEMS

- Apart from the problem of maintaining morale, the most interesting human problem arising in this acquisition was an ethical one.

- The chief executive of the subject business, although not a shareholder, has a moral/legal obligation to help his parent company get the best possible price for his business. At the same time he is being courted by the man who is likely to be his boss for the future asking for help and information, in some instances possibly to the disadvantage of his parent, who has in many cases of course turned his back on the subject by seeking its disposal.

- The extent to which such a person behaves neutrally, pro his actual parent or pro his prospective boss is a delicate balance. In this instance the chief executive took the view that he had a legal and moral obligation to help his old parent until completion and he explained this stance to the buyer who accepted it.

6C. OTHER PROBLEMS

- There was a considerable number of problems, difficulties and delays. These included the fact that both the consultant and parent company manager were frequently out of the country causing changing negotiators, lease complications, a dollar loan on the parent books, pension fund problems, minor union problems, and an unwilling subject in CPL.

6D. INTEGRATION

- Because the two businesses were selling the same bureau services in the same geographical area, a middle management power struggle followed the acquisition, with the newly acquired company's staff tending to lose the battle for seniority being a much smaller business as well as new. Below the managerial level there were no integration problems of any significance. The company fitted well apart from the DOS to OS operating system conversion required.

- CPL's contract staff business, not originally seen by BOC as an important part of the acquisition, was later successfully integrated with Knight Computer Services to the considerable benefits of both.

6E. TIMING ANALYSIS

(a) Identification as a prospect to approach

-	internal analysis and decision	6 months
-	parent approval	3 months
-	total	9 months

(b)	Approach to offer	6 months
(c)	First offer to acceptance	18 months +
(d)	Acceptance to completion	3-4 months
(e)	Completion to integration	12 months

- It was felt by BOC that the timing was late and a purchase two years earlier would have been better. In retrospect the seller also felt an earlier date would have been better by yielding a higher price. However the seller Citibank was of course unwilling to sell at the earlier approach.

7. CONCLUSIONS

- The seller got in cleanly and out cleanly despite the loss. The sale went well with no comeback.

- The buyer would in retrospect have bought a different bureau because of a down-turn in batch business coming on top of the integration problems.

- The buyer obtained experience and skill in the contract staff business which he had not really realised he was acquiring.

- The subject would rather have remained with the old parent or been independent.

- This case study shows an interesting array of insights into computer services acquisitions.

    - Acquisitions must be a top management level activity.

    - Even the best companies use all possible search channels from grape vines and trade meetings through analysis to outside consultants.

- Professional assistance with selling had both advantages to the seller in bringing about a quick clean disposal, and disadvantages to the subject and buyer from lack of sensitivity to confidentiality requirements and discontinuity of negotiations stemming from poor knowledge of local industry and international negotiations.

- Merging businesses in the same geographical and product areas will result in non-productive power struggles.

- Subjects of acquisitions have ethical problems to which buyers and sellers should be sensitive.

- Acquisitions are vital to rapid growth in computer services in Europe.

- Strangers investing in the industry should treat it with care and respect, for it is not an easy industry.

- Persistence and patience in an acquisition even after an abortive first attempt can pay off.

- However what may have been a good acquisition last year may not be so good this year.

- Never assume you are the only party the seller is talking with but do not be disheartened if he is talking to many others.

- Buying a company is as much a selling process as a buying process.

- Synergy planned is frequently later and more modest than expected. Unforseen things both good and bad will happen.

- Acquisitions take considerable time and effort and cannot be rushed.

VII.B. BOC CSD/Software Sciences.

ACQUISITION CASE STUDY

BUYER	-	BOC COMPUTER SERVICES DIVISION (BOC CSD)
SELLER	-	SENIOR EMPLOYEES OF SOFTWARE SCIENCES 65% (+ ICFC 35%)
SUBJECT	-	SOFTWARE SCIENCES
DATE	-	December 1978.

1A. BUYER'S ACQUISITION HISTORY

- Computer Projects Ltd. (CPL) in Nov. 1975 was the eighth acquisition made by BOC and is discussed together with a note on prior acquisitions in the previous case study.

- 1976 saw the additions of a 40% share of Systemsolve, a systems oriented bureau, and a 35% share of Datastream, a City-oriented financial services bureau.

- In 1977 A.M.S., a small bureau, was added.

- In 1978 Datastream purchased Interbond, another financial services bureau.

- So by 1978 BOC with revenues of £21m, was established as one of the two large acquisitive service companies in the UK market place and had achieved the profile it sought which was to be the company one thought of first as a possible acquirer.

1B. BUYER'S ACQUISITION STRATEGY

- BOC CSD was still seeking a 15% - 20% share of its total market. It was aiming to develop a diversity of services directed at the largest customers and contracts, primarily in the U.K.

- Acquisitions were still a crucial part of this growth strategy as organic growth to the required market share was impossible within the planning horizon.

- The acquisitions being sought were to fill product and geographical gaps with companies already having good management. There was a distinct desire to avoid overlap of product and locality in any one acquisition (i.e. to purchase a true competitor).

2. SELLER

- The sellers were primarily the twelve or so senior management of Software Sciences but also included a further ninety key individuals who had performed well, or were long serving or important to the business. Loans were given to some of these shareholders to buy their shares.

- ICFC was an investor who very much took a back seat and was simply content to watch Software Sciences grow and to wait for its sale.

3. SUBJECT - BACKGROUND, STRATEGY AND IMPLEMENTATION

- Software Sciences was formed in December 1969 by Miles Roman (75%) and the current management (25%) with the objective of growing into a major systems company for ultimate sale whether outright or by public share flotation to realise a large capital gain for its founders.

- When Miles Roman went into liquidation the management bought the other 75% shareholding from the liquidator with the help of ICFC who received a 35% equity stake in the process.

- A few acquisitions were made en route; with a preference for small software houses in trouble; until the late 70's, when the acquisition strategy was changed to buy only companies performing well.

- The type of company sought was one which added either new markets or new technical experience.

- Total divestment was a key part of the strategy but partial divestment had only recently been thought about.

- By the end of 1978 Software Sciences was employing 400 staff and operating in the Netherlands, USA, Germany, Sweden and Belgium besides the U.K.

- The expertise lay in providing high level consultancy and systems implementation assistance in areas such as air traffic control, defence, turnkey systems, mini-and micro-computer applications.

- Revenue had reached £6M and was continuing to grow at 50% p.a. with a steady profit margin, necessarily modest because of continued reinvestment in growth via new trainees, new systems and expansion of facilities.

4. MOTIVES FOR SALE AND INITIATION

- The motive for sale was in this instance the realisation of the original planned objective of the shareholders - a large capital gain.

- Software Sciences had expected its disposal to take place in the early 1980's and was beginning to embark on a phase of slightly lower revenue growth (from 50% p.a. down to 35% p.a.) with an increase in margins to around double their previous level ready for a high priced sale.

- There had been one or two previous approaches which had not gone ahead but the company was ready to talk to any serious buyer.

- BOC had been seeking a large well run systems house and after some analysis and discussion from a general trawl, Software Sciences emerged as fitting the profile in that it was the right size, was available, had high technology especially micro and mini, had good bases in Europe and very importantly had capable compatible management with big company practices. In short, it was being run as a business.

5. NEGOTIATIONS

- The chief executive of BOC CSD simply telephoned his counterpart in Software Sciences suggesting a chat. The Software Sciences director realised that this was a probable acquisition approach and began working out the conditions of an offer likely to be acceptable to him and his co-shareholders so as to be well prepared.

- Software Sciences took the approach that they were in no hurry to sell, that they had two other prospective buyers holding discussions with them, that they fully realised the value of all their previous investment for future growth and that if they sold it would have to be very much on their terms.

- They took the unusual step of actually setting out the terms under which they would sell instead of awaiting an offer. These paid particular attention to a price relating to growth of both revenue and profit in the future and to aftercare where a high degree of freedom of action was to be maintained for a period.

- BOC approached the situation hoping that by being British, open, understanding but not interfering, willing to invest and providing a capital gains tax postponement incentive they would be successful.

- Software Sciences perceived BOC's obvious commitment to the computer services industry and the chief executive's ambition to develop BOC into the largest computer services company in Europe together with his willingness to accept their formula as crucial to the success of the negotiations.

- The competition included a U.S. Electronics company, a large French Systems house, a large US management consultancy business and the N.E.B. These organisations tried each to sell their own particular advantages but were kept a little at arms length by Software Sciences, other that is than the first who had had fairly detailed discussions some time earlier.

6. POST ACQUISITION ANALYSIS

6A. SYNERGY

- There was little synergy planned at all in the first three years although sharing of European premises, the ability to quote large design-and-run contracts, and possible mutual customer exchange were possibilities.

- The synergy which is really the justification is that by building BOC CSD into a huge international computer services supplier all its constituent parts should gain from the high profile and high reputation of the whole.

6B. HUMAN PROBLEMS

- Despite the chief executive of Software Sciences having formed the company and developed it especially for sale he still didn't like the prospect of yielding his autonomy and decision-making freedom even to the fairly modest extent that he managed to negotiate. This was handled by BOC meeting Software Sciences' fears by formally granting them three years of autonomy.

- Within Software Sciences there were very few problems with staff since a quarter of them had shares. A few felt they joined to work for a small independent business and were concerned at becoming part of a large group.

- One of the problems faced by BOC was that it was dealing with a large number of sellers and warranties became a little difficult.

6C. OTHER PROBLEMS

- Apart from the usual legal/contractual wrangles there were few problems not readily solved. This was surprising at first sight but less so when one appreciates how keen BOC were to buy and how much scope it is given by its parent together with Software Sciences being a willing seller but not a distress seller.

- One current problem faced by the chief executive of Software Sciences is the balancing of old shareholders interests against current shareholders interests - a complex problem.

6D. INTEGRATION

- Integration has not taken place and may never fully take place. BOC will probably allow Software Sciences to continue its own style of management changing formal authorities, planning and financial control only.

6E. TIMING ANALYSIS

(a)	Identification as prospect to approach		
		- internal analysis and decision	6 months
		- parent approval	$2\frac{1}{2}$ years (some conceptual)
		- total	3 years
(b)	Approach to offer		1 month
(c)	First offer to acceptance		10 weeks
(d)	Acceptance to completion		6 weeks
(e)	Completion to integration		No integration
(f)	Approach to completion	- actual	20 wks
		- expected	16 wks
		- actual as % of expected	125%.

(g) Software Sciences' shareholders sold earlier than they had planned but had a price formula linked to the following three years' results to compensate for the timing problem. It is too early to judge whether the timing was good.

7. CONCLUSIONS

- Once again the understanding of (and the meeting in the contract of) the seller's needs had been the key to the acquirer's success in this acquisition. BOC recognised the key elements:

  - a price which recognised the investments made for high future profit growth,

  - a formula which allowed extra money for such profit growth thus motivating the sellers to sell and to continue working well having sold, and

  - a high degree of autonomy.

- The reluctant seller had been in a good negotiating stance and achieved the deal he wanted.

- Independent companies who like their autonomy can be purchased with the right formula.

- A co-operative style of ownership can, in the case of a manpower based business like a systems house, be a very effective form of motivation and self control.

- Sound preparation by the seller followed by his stating in writing his terms leaves the buyer all the hard work of amending the deal to fit his requirement. This may be an improvement for the seller over the normal method of waiting for the offer and trying to work it up.

VII.C. Boeing Computer Services/Capital Cities Computer Centre

ACQUISITION CASE STUDY

BUYER	-	BOENG COMPUTER SERVICES (BCS)
SELLER	-	ICFC
SUBJECT	-	CAPITAL CITIES COMPUTER CENTRES (NOW BOEING COMPUTER CENTRES LTD.)
DATE	-	February 1975.

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1. BUYER

1A. ACQUISITION HISTORY

- Boeing Computer Services developed from the internal computing facilities of its famous giant parent in the aerospace industry. The computer services company was formally incorporated as a separate trading entity in 1971; in 1973 BCS became active in the acquisition making field.

- The acquisition by BCS of Capital Cities is so far its only acquisition made in Europe; the other four were all made in the North American continent.

- The five acquisitions made to date were all concluded in the years 1973 to 1976 - a rate of more than one acquisition per year.

- The first acquisition was made in 1973; this was the Leader Corporation, a bureau handling commercial banking applications, now known as the bank services division of BCS.

- The next two acquisitions were made in 1974. SCS Data Processing in Anchorage, Alaska was trading as a batch commercial applications bureau; since acquisition its range of services has been expanded to include remote computing services, and engineering and scientific applications. It is now known as the Alaska Branch of BCS. In Canada, Tennant Song Ltd. was acquired; their business included software development, turnkey systems and consultancy, and since acquisition the products have been expanded to include remote computing services in Western Canada. It is now known as BCS Canada Ltd.

- In 1975 the troubled Capital Cities Computer Centres Ltd. in England was acquired from the industrial investment organisation, ICFC. Their operations were batch oriented and producing revenue at the rate of about £1M per year. Since the takeover BCS's brand of remote computing serivces has been added.

- The last acquisition was made in 1976 of Androcor, a small point of sale processing bureau. The company was acquired for its product and has now been closed.

- BCS has made no acquisitions for the last three years although several have been seriously considered. Bureaux with an industry specialisation are the most likely future targets, for example, banking and building society (S & L) companies.

- The first three acquisitions made by BCS were satisfactory although two are not in the "super successful" category. The next, Boeing Computer Centres, was very unhealthy when acquired but has since fully recovered unlike Androcor, the most recent acquisition, which has been liquidated.

- During the last six years a total of more than 50 companies were viewed as acquisition possibilities, 17 of which were seriously considered.

- Acquisition offers have been made for 8 companies and 5 achieved. Of the five companies acquired one approached BCS, two were approached and the rest were introduced by an outsider. One of the failures to acquire resulted from the subject becoming unattractive during negotiations and the others from miscellaneous compatibility problems.

- The benefits received from acquisition are the additional outlets for BCS products, local marketing strengths, and the availability of specialized industry products and expertise. In return, acquired companies receive the benefit of Boeing management and financial strength plus the BCS network facilities, products and technical support.

- The main objective of BCS is to provide high quality computer services with emphasis on teleprocessing; as a secondary objective they aim to grow quickly.

- In order to achieve these objectives, key city coverage has been expanding rapidly to build an extensive and worldwide teleprocessing network; additionally, BCS's range of teleprocessing application products is being widened in their selected financial, engineering and scientific market sectors.

- Many acquisition possibilities are given outline consideration but few are proceeded with. Acquisition is considered to be essentially opportunistic.

- BCS does not have highly defined acquisition objectives, only a broad intent in line with corporate objectives. Long range business plans do not contain acquisition assumptions and are based on internal growth only. Indeed they are not convinced that acquisition is necessarily the best way to grow since they have experienced varying degrees of success in this area. Consequently, internal growth is the main pursuit, to be augmented by acquisition opportunities that appear to fit well.

- Since BCS was re-absorbed into the Boeing Company as an operating division (in 1978) mergers will not be considered. Outright acquisitions (i.e. 100% ownership) normally are preferred. However, BCS will consider partial ownership of a seperate entity, as well as joint ventures and other forms of participation. BCS's work load is still heavily concentrated on the Boeing Company requirements which continue to grow rapidly; in 1979 revenue from the parent will be about $300M compared with about $85M for external clients.

1B. IMPLEMENTATION OF THE STRATEGY

- No staff at any level are permanantly allocated to acquisition related tasks; only when opportunities become known is a team set up. A team is assembled from senior executives according to the specific product and market opportunities offered by the prospect. In an average year no more than the equivalent of one man year is allocated; this has peaked at the height of acquisition activity (1973-1975) at about 4 man years (plus outside legal and other consultation).

- Searching for acquisition prospects, when undertaken, is largely conducted by outside consultants; in fact the present Managing Director of BCC first worked with BCS in this role in the U.K.

- Normally, negotiations are started only with acquisition prospects whose business profile fits within the BCS long range business plan. A check list of requirements is produced from the business plan to aid the screening process. As a general rule, the subject should be clearly profitable; this criteria was reinforced by the experience of the Capital Cities takeover.

- An important principle used in evaluation is "as a going concern can it survive and prosper, and, what is the most likely earnings projection?". To establish an idea of price, discounted cash flow and net present value calculations are made using conservative assumptions; cross checking is done by application of ratios (price/earnings ratio etc).

- All BCS acquisitions require Boeing Corporate Headquarters approval.

- Negotiations are conducted at an informal level; significant effort is made initially to establish an understanding of objectives on both sides such that any "disappointments from doing a bad deal" can be avoided.

- Integration of acquired companies is an approach which BCS initially shunned in favour of autonomy for subsidiaries. In retrospect this is considered to have been a mistake and the process of integration will in future be started earlier. Operationally this is desirable in a timesharing network-based company, but BCS notes that this approach has obvious limitations outside the US. For European subsidiaries "integration" is accomplished mainly through frequent trips to and from the subsidiary (as opposed to secondment) to establish good personal communications, provide job bridging and exchange ideas. Rapidfax facilities and frequent teleconferences augment the face-to-face exchanges.

- No formal post-acquisition appraisals are conducted; instead acquired subsidiaries are monitored through the medium of monthly "telecon" performance reviews. Monthly reports are produced to the BCS content, structure and format standards, comparing monthly performance against both budgets and specific objectives set forth in annual operating plans.

2. SELLER

- The Industrial and Commercial Finance Corporation (widely known as ICFC) is a subsidiary of Finance for Industry Ltd which is owned by a consortium of English and Scottish clearing banks.

- Since its formation in 1945, ICFC has established itself as the chief source of long-term finance for small and medium size British companies. ICFC's purpose is to provide funds for such businesses to help them expand and develop. Up to the end of the 1977/78 fiscal year, since ICFC's formation over £480 million has been supplied to some 4,500 companies. The amounts supplied have ranged from £5,000 to £2M.

- ICFC's main function of providing funds through long-term loans and/or share capital is supplemented by a range of additional financial and management services. Among these are Stock Exchange flotations, pension fund management, financial and management consultancy, training and property services.

- ICFC has in recent years provided funds to both computer hardware and computer services companies; in the latter category are included CRC and Capital Cities. Interests in both were sold to large foreign computer services companies between 1975 and 1977.

- CRC and Capital Cities were majority owned by ICFC (76% and 100% respectively at the time of sale). This was a departure from normal ICFC practice in which a minority stake is taken only. The reason was that a batch and a timesharing bureau controlled by ICFC might be an important aid to small and medium sized businesses, supplementing their consultancy and other services.

- ICFC's participation in these two bureaux started in the late 60's. The CRC involvement was a venture capital proposition to start a timesharing bureau and was proposed by its founder Alex Hendrickson.

3. SUBJECT

- The original objective after ICFC became the parent company of Capital Cities was to develop and offer a range of services to suit the needs of small and medium sized companies.

- Capital Cities did not prosper under its new ownership. The financial results deteriorated to a nadir before sale during which a loss of £20,000 was being made per month on a £70,000 turnover.

- To have had such a rich parent which saw them as a key to providing its services to small and medium sized businesses was a golden opportunity for Capital Cities. ICFC required them first to trade profitably and secondly made ample funds available for development of new services; it would appear that the two financial aspects became reversed in priority. One development was particularly expensive. This was a remote computing service for stock control which included a purpose made terminal.

- The decision to sell was explained by ICFC to the Capital Cities board. This met with considerable disagreement between members of the board and subsequently three directors departed. Of the two remaining, one was the managing director who then worked closely with ICFC to preserve the value of the business and prepare for sale. The departing directors sold their shareholdings to ICFC for nominal amounts.

- Management and staff were informed of the decision to sell; although naturally apprehensive, they were inclined to be hopeful that a parent from the same industry could provide better future prospects.

4. INITIATION AND MOTIVES FOR SALE

- After several years, ICFC had come to the view that their original purpose in the venture was not being met. It had become apparent that computer bureaux concentrated more on large companies where contracts were longer and more profitable; their services were less attuned to the needs and pocket of the small business. Thus it was decided to divest; again unusual for ICFC, since they would normally only sell a stock-holding if first requested by the company's board.

- The initiative to sell Capital Cities was taken entirely by ICFC. The reason for selling was related to the failure of the venture to provide a computer service of significant value to the development and profitability of small businesses. The disastrous financial performance of the company was of secondary importance; this merely made the sell decision harder to implement.

- The caretaker managing director was not involved in the search for and selection of potential buyers. Instead, the chairman (a senior ICFC executive) performed the primary selling role.

- As a part of ICFC's Corporate Finance Department's function a file is maintained of companies seeking acquisitions. Five potential buyers were identified from this and other ICFC sources; among these were BOC, Data Sciences, UCSL, Tymshare and Boeing.

- Boeing was interested in geographic expansion outside the US particularly in key European cities. The approach from ICFC was therefore an opportunity to be investigated.

- A consultant was hired in the UK (he was the ex-managing director of a large bureau in the UK which had been acquired by a French computer services company) to represent Boeing. He had heard of the intention to sell from someone on the Capital Cities staff.

- It had been established before the decision to sell, that Capital Cities could not stagnate in the batch services market. Instead the business needed to develop towards remote computing services. Potential buyers with substantial achievement in the area were favoured.

5. PERIOD OF NEGOTIATIONS

- Boeing's consultant representative in the UK conducted the fact finding and analysis. Following management reviews within BCS, an offer was submitted three weeks after the original approach. The offer was accepted in principle very shortly thereafter.

- ICFC wanted to complete an agreement before the end of fiscal year 1975; this then left a further two months for completion.

- The main objective to be achieved in the sale by ICFC was to ensure that the new owner would be committed to constructive development of the company. A continuation and turn-round of the business was required as opposed to an asset-stripping approach. This included giving existing management and staff a fair chance to contribute in the new organisation.

- Boeing's objective was to buy cheap only if a turn-round was possible thus eventually providing a profitable entry-point for expansion in the U.K.

- The two negotiating objectives were compatible; added to this Boeing matched better than most of the other contenders the need for an injection of RCS capability.

- Negotiations proceeded in the following two months without any major difficulties or delays. Both sides worked quickly and openly.

- Boeing used the services of an outside law firm and an outside accounting firm in the UK, in addition to their consultant. ICFC was self sufficient in all respects.

- The method of valuation used was the asset value offset by the cost of a turn-round and accumulated losses in that period. The offer which was finally accepted was of a nominal sum; ICFC wrote off some very large loans and took responsibility for subsequent losses on one particularly difficult contract. The net result of the deal left a debit on the ICFC side in seven figures.

6. POST ACQUISITION APPRAISAL

- Both sides are still content with the deal. It transpired though that Boeing had been optimistic about the length and cost of the turn-round period. ICFC recognise that a higher price could have been obtained from an asset stripper - but that was expressly not their intention.

- Boeing kept to the agreement and gave all management and staff a fair chance. The caretaker managing director stayed on and several promotions resulted from the departures at board level. The management team was strengthened by the addition to the board of the consultant retained by Boeing for the negotiations.

- After ten months however, it became painfully clear that old loss-making habits die hard. The managing director was replaced by the consultant/director.

- The largest problems originated from the loss-making inclinations inherent in the policies and practices of staff. Such was the inertia in this respect that substantial management effort was required to re-orientate staff. The management team was weakest in the accounting area - so much so, that the precise size of the loss at the time of acquisition was unknown. Generally, "acquisition of loss making companies is traumatic". "Staff did not know how bad things were. When they realised, shock set in and they were difficult to motivate on a new constructive course".

- These problems have been gradually overcome. The staff has been trained in new ways of operating. The original business, batch applications for small-medium firms, is thriving in the hands of a management team drawn largely from the ranks of those on-board when the company was acquired by BCS. Previously unhappy customers are now used as satisfied references. BCS attributes the turn-round largely to the installation of effective methods of internal management visibility and control, and the training and motivation of the management team.

- The desired injection of timesharing/remote computing products and facilities has also materialised in the form of two new RCS product lines, one based on the Prime 400 and the other based on the IBM 3033.

- Initially, Boeing Computer Centres found it difficult to relate their skills to those of their US parent. This was partly due to the enormous contrast in relative size, and partly due to the distance between the US and the UK. Patience was required. The two new RCS product lines, plus a third new venture into on-line airline systems installation and consultancy, have given BCC much more in common with its parent company.

7. CONCLUSIONS AND OBSERVATIONS

- The latter four years of ICFC's ownership coincided with a period of good growth in the computer bureau sector. The fact that Capital Cities did not perform well in that period is therefore most likely a function of the ineffectiveness of its management team.

- Neither the effectiveness of management nor the owners' policies were the subject of this case study. It would appear from the information available, however, that a conflict between the two sets of objectives was never satisfactorily resolved.

- Frequently, companies which were in difficulty and have been acquired, express the view that the parent company did not understand the computer services business.

- The purchase of a loss making company generates a tough management task which is often more expensive to turn round than originally estimated. Indeed a profitable company of similar size to Capital Cities in 1975 could conceivably have cost less, if one takes into account the lost profit opportunity of the turn-round period.

- Unprofitable companies are, perhaps, the last resort for acquisition unless the situation is marginal or the business contains something uniquely valuable.

- A change of fortunes in a company which has been on a long down-hill slide usually can only be accomplished by changing some key member of the management team. In retrospect it was probably a mistake to allow the original managing director to continue beyond a handover stage.

- In this case, a key factor in turning round the operation was Boeing's choice of a U.K. consultant who was a seasoned bureau managing director. Clearly the original management team could not have succeeded, without the insertion of a proven executive at the top, and personnel seconded from the US would have been at a disadvantage in many respects.

VII.D. Cap Sogeti/Gemini Inc.

ACQUISITION CASE STUDY

BUYER	-	CAP SOGETI
SELLER	-	JOHN DIEBOLD (⅓) AND VARIOUS INVESTORS (⅔)
SUBJECT	-	GEMINI COMPUTER SYSTEMS INC.
DATE	-	1974

1A. BUYER'S ACQUISITION HISTORY

- Sogeti was formed in 1967 by Serge Kampf in Grenoble to help companies design and implement software applications which the hardware companies were not coping with this to customers' satisfaction.

- Growth was rapid as further branches were opened in Switzerland and France, all based on tight control, high quality work and a modular team based structure.

- In the early 1970's Sogeti expanded its activities to include consulting, data processing management, basic software, program products and training. It also set up some joint computer service bureaux with Solame, Infor and Eurinfor, and some joint data collection and transmission companies with Sorgas and SESI.

- In 1973 Sogeti sold 34% of its equity to CISI to provide funds for the next phase of expansion although by then it already had 600 staff and $12M revenue. CISI purchased the shareholding because it expected some synergy in the sales and commercial areas. This was a common fallacy in France at that time. Consultants and bureaux work very differently and little synergy emerged but CISI did make an excellent financial investment.

- Cap France was formed in 1962 in Paris offering consulting in software and data processing. It became known for having highly specialised teams organised to cope with highly technical projects.

- In the late 1960's Cap France established in association with CAP UK (a completely independent company) subsidiaries in neighbouring Belgium and Switzerland and in Holland, and organised these under a holding company called Cap Europe, adding Germany in 1970.

- Cap's third phase of development was its range of program products following IBM's unbundling announcement.

- Serge Kampf was offered by a bank a 15% stake in Cap. He took this without any investigation and with no inside knowledge of Cap's business. Subsequently he met Cap's management. At this meeting the harmonious nature of the objectives of the two organisations were recognised and a degree of potential synergy was established.

- The full acquisition in 1974 of Cap by Sogeti was seen internally as a merger. At that time Cap had more senior staff than Sogeti and there was considerable concern among these people over their future role in the joint organisation.

- As it turned out many of the senior Cap managers took key roles in the new group and within a few years separate identification of Cap men and Sogeti men ceased to be relevant.

- One lesson learned in this acquisition/merger was that the merging of staff benefits can be very expensive. Some privileges had to be given up but overall costs of employment rose.

- The merging of Cap and Sogeti created the largest systems house in Europe with $33M turnover and $1.2M net profit in 1974.

- In addition to the above about 25 minor acquisitions were completed, a few before 1974 but most afterwards.

1B. BUYER'S STRATEGY

- Cap Sogeti's objective is to remain independent from government, banking, financial or industrial groups, - to preserve control over its own destiny. In order to achieve this it sees the necessity of being profitable.

- The strategy to maintain profitability is:

  - to concentrate on areas of expertise,

  - to be socially attractive to staff, allowing them to satisfy their own personal requirements, - hence the need for corporate growth,

  - to maintain a high level of ethics (which therefore precludes trading in certain countries where bribery is rampant),

  - to develop a 10% penetration of the software services market on a country by country basis in Europe and a strong presence outside Europe initially in the U.S. but eventually in Japan also.

- Acquisitions are a very important part of this strategy especially because outside France it is difficult to grow organically to the threshold size from which profitable organic growth can be achieved. This is especially so in the countries with a greater geographical spread of industry than France. Acquisitions achieve immediate growth and bring new resources and new management to the group.

1C. IMPLEMENTATION OF BUYER'S STRATEGY

- In the past acquisitions by Sogeti had been opportunistic such as the Cap one.

- Following the increase of size and complexity which resulted from the Cap acquisition, an executive committee of top managers was developed, one of whose functions was strategy definition including acquisition strategy.

- The current acquisition policy is to investigate a market, define a profile, qualify by other criteria such as profit, growth, expertise and then search and acquire.

- Some areas have a higher priority than others, - for example outside France, especially Germany and the U.K.

- There are four executives virtually fully concerned with each serious acquisition prospect. These are the director of corporate development, the director of international operations, the finance director and a legal advisor. Others are concerned with the search process.

- Primary searching comes from knowledge of competitors and through software associations.

- Important criteria for selection include good management, profitability, a good technical reputation, sound finances and similar expertise to the other parts of the group.

- Screening will include discussions with management, especially important if ownership is separated from management.

- Evaluation methods include earnings multiples, current asset value, discounted future earnings and payback.

- Cap Sogeti's negotiating tactics are to be open and direct.

- Its integration style is to have an extremely quick imposition of financial reporting, project control and quotation procedures. Other than that, apart from integration of personnel policies, great autonomy is given in technical, marketing and recruitment areas.

2. SELLER - BACKGROUND, STRATEGY AND IMPLEMENTATION

- John Diebold's main objective was to build and maintain excellence in the consulting field by significant and profitable projects allied with a quality orientation rather than growth in size per se.

- In addition to the above the Diebold Group felt it should capitalise on some of the intellectual capital in the consulting group by considering investments in related fields. These were opportunistic rather than as a result of strategic planning.

- Non-consulting activities are seen as a sideline and as financially oriented opportunities to make additional profits. A good current example is their investment in computer leasing.

- This leasing activity falls in the same category as Gemini where the original intention was to invest, use their expertise in the field to help develop the business always maintaining it separately from the consulting side, then sell at the appropriate time.

3. SUBJECT

- It was on the initiative of John Diebold that Gemini Computer Systems Inc. was formed in 1969 as an American company by a group of American and European investors.

- They set out to establish a group of software houses by forming a new company or by acquiring one with an existing operation, in each of the major European countries.

- The group would then offer its local customers American know-how and techniques coupled with the advantages of dealing with a national company.

- Initial operations were in Great Britain, France and Germany. Holland, Switzerland and Iran followed. In 1971 Gemini U.K. had acquired ISIS.

- Gemini's growth to $8M revenue in 1974 was rapid and was based on three types of business:

  - large projects for public administrations,
  - turnkey management control systems,
  - marketing and maintenance of program products.

- Gemini was run as a highly decentralised loose federation of associated companies.

4. MOTIVES FOR SALE AND INITIATION

- The John Diebold Group stated that it had established Gemini with the intention of keeping it separate and selling it off at a profit.

- It is interesting to note that Cap Sogeti's understanding of the motives for sale differ significantly from this. Cap Sogeti thought that the Diebold Group had hoped to integrate its management consulting business with their computer services business.

- Cash had become very short in the Diebold Group and the prospect of raising cash for equity was poor as P.E. ratios were very low. The need for cash and the realisation that its ambition to obtain synergy from the two businesses was not to be achieved, were believed by Cap Sogeti to be the reasons for sale.

- Cap Sogeti knew Gemini fairly well as at one time it had tried to buy Sogeti; so the respective managements had maintained the contact established then.

- Gemini partially fitted Cap Sogeti's strategy but only partial. Gemini were strong in Germany whereas Cap Sogeti were weak, but in the U.K. and Holland both groups had strong operations and a clash seemed probable. The U.S. corporate presence was very much something Cap Sogeti were interested in.

- The key managers in the subject Gemini were not keen on the sale by their owners as they felt their independence would be sacrificed. They saw some pros such as being European owned and being associated with a larger group.

- A French bank made the initial approach on behalf of John Diebold who already saw Cap Sogeti as the logical buyer, being very large and in the same business.

5. NEGOTIATIONS

- Negotiations were fairly straightforward partly because a willing seller had approached a willing buyer and partly because the subject was well known to the buyer.

- The approach by the bank on behalf of John Diebold was a straightforward one of stating that the shares in Gemini were for sale for a specified price and offering to supply any information required.

- Cap Sogeti confirmed their interest and conducted a thorough investigation to understand and value the subject.

- One condition applied to the deal by Cap Sogeti was that Gemini management were committed to the acquisition.

- The price asked for was agreed and discussion following the investigation focussed more on integration than on value and terms.

6. POST ACQUISITION ANALYSIS

6A. SYNERGY

- Synergy is usually less dramatic in a people-based business than a machine-based business where capacity utilisation can be significantly changed. Nevertheless apart from the U.K. a good European fit meant that customers could be satisfied with a comprehensive service in all the major European countries.

- On reason why synergy was delayed was because the initial acquisition was a 51% majority controlling interest. In the five years following the acquisition this grew to just over 90% and is still at that level.

- Cap Sogeti sees synergy in the software industry as a process which takes time. There are no obvious economies of scale but overall marketing efficiency is improved, since for each query or prospect the chances of being able to satisfy it are increased the larger the organisation specialists being available in a wider range of activities.

- Cap Sogeti also see reduced risks, greater funds for investment and better utilisation of management control and reporting skills as realisable synergies.

6B. HUMAN PROBLEMS

- The change of nationality of the owner was cause of concern to some of the management but was not greatly significant.

- The proposed merger of ISIS and Gemini U.K. with Cap U.K. was a major problem area as the U.K. Gemini management were against it feeling Cap U.K. was more conservative than Gemini.

- Gemini had been run as a loose federation with great local autonomy. Because management were particularly concerned about the prospect of losing their autonomy the acquisition made many of the subsidiaries extra nationalistic in their attitudes.

- One outcome of the above was that the manager of the German Gemini operation left although the acquisition and reduced autonomy were only contributory factors in his leaving, along with personal reasons.

- Two or three other senior managers left in the years following the acquisition but not especially because of the acquisition. Some subsidiaries did lose pockets of staff following the acquisition.

- One action taken by Cap Sogeti which minimised adverse management reaction to the French takeover was the appointment of a Gemini manager who was an American national to head up all the non French Cap Sogeti and Gemini operations. Had a Frenchman been given this post more staff problems would probably have existed.

6C. OTHER PROBLEMS

- The only problems other than human and integration ones mentioned by either seller, buyer or subject were the organisational ones of integrating the Gemini operations into Cap Sogeti while only holding 51% of the equity.

6D. INTEGRATION

- Integration of the French Gemini operation took place immediately.

- The other continental operations have not yet integrated fully into the Cap Sogeti Group. They retain their own identities and like it that way.

- The U.K. proved the biggest problem but this was resolved when Cap U.K. split up from Cap Sogeti selling their stake in Europe to the French. This meant Gemini's U.K. operation could continue independently and compete with Cap U.K. instead of having to merge with what they regarded as a more conservative company.

- Both organisations have advanced management tools. If anything some Gemini operations (e.g. Holland) were stronger on project and cash control and Cap Sogeti was stronger on marketing, sales and financial control.

- Their philosophies and strategies were similar.

- One senior Gemini manager felt the French did a superb job on taking over the company and allayed all the initial concern as well as accelerating the profit and revenue growth rates.

6E. TIMING ANALYSIS

- The elapsed time from Diebold's approach to Cap Sogeti's acceptance of the price was six months. Much of this was investigation rather than negotiation.

- This period of time was about what the parties had expected.

- The buyer and subject felt the timing was about right. John Diebold felt "there was nothing magic about the timing".

7. CONCLUSIONS

- Gemini's management were very concerned at first about the acquisition by a French company liking their existing autonomy from a remote parent in a different business. To their surprise in retrospect the transfer from remote non-participative management to close participative management was a welcome one. They now believe this sort of ownership works better in a personal service-based company.

- Initial resistance by management to a takeover in a people-based business is a serious matter requiring concern and great care. It can be overcome, if necessary after the acquisition, by the right approach.

- The Diebold Group regard it as a successful conclusion to an exercise well worth doing.

- The Cap Sogeti management feel that Gemini has maintained its value post acquisition whereas had they remained in the Diebold Group it was likely to have decreased in value owing to some of the problems they were having.

- The Diebold Group feel that speculation about the timing of any change of ownership is theoretical as it is only guesswork about what would have happened without the takeover.

- Opportunistic acquisitions can turn out to have a major strategic effect on a company. The chance purchase by Serge Kampf of a small shareholding in Cap resulted in the subsequent purchase of Cap and Gemini (Gemini was offered to Cap rather than to Sogeti). Thus a small lightly considered minority share purchase resulted in the formation of the largest software services company outside America.

- Synergy between different types of business e.g. management consulting and software services is not easy to achieve if it exists at all.

- Some foreknowledge of a subject can lead to a simpler acquisition than that of a stranger company.

- A direct approach by a seller to a prospective buyer with a clearly stated price can be a very effective method of disposal and should not be regarded as a weak method compared with waiting for an offer or seeking an offer.

- One anomaly in the acquisition is that one condition of the offer was commitment of the Gemini management; yet they didn't seem committed across the board prior to completion. Looking back, they either became committed or left.

- If handled objectively in a merger cross-fertilisation of control systems can improve both parties' management.

- New ownership always causes apprehension and insecurity in senior and middle management levels especially when the nationality of the owner is changing. This always merits close attention. The immediate appointment of a new parent company national to a top role may exacerbate this problem.

- Similarity of philosophy and strategy is a great help in acquisition.

VII.E. CISI/Proprietary Computer Systems Inc.

ACQUISITION CASE STUDY

BUYER	-	COMPAGNIE INTERNATIONALE DE SERVICES EN INFORMATIQUE (CISI)
SELLERS	-	PRESIDENT OF PCS 41% RELATIONS FRIENDS AND EMPLOYEES 29% C.C.I. (LARGE US CO.) 30%
SUBJECT	-	PROPRIETARY COMPUTER SYSTEMS INC. (PCS)
DATE	-	March 1979

1A. BUYER'S ACQUISITION HISTORY

- CISI emerged in 1972 from the data processing department of the French Atomic Energy Commission (AEC) having a sales revenue of 100M francs almost all from work for its parent. There were just under 400 staff at that time.

- The objective decided upon by its president was to develop CISI into a high quality service data processing company with strong international emphasis having a broad base of products and services and a majority of its revenue from third party sources.

- This objective was only realisable within a modest timeframe by embarking on a program of investment in other computer services companies.

- In 1973 CISI acquired a 34% shareholding in CERG a DP and consultancy house specialising in real estate and civil engineering. This was as a result of an approach by CERG. The revenue of CERG has risen from 5M Fr. in 1973 to 19M Fr. currently.

- Also in 1973 a 34% share in the large Sogeti systems house was purchased. Sogeti's revenue was 50M Fr. then and has now risen to 500M Fr. From a financial viewpoint this has been an excellent investment. The acquisition resulted from an introduction.

- The third investment in this year was a 34% share in EURINFOR a batch processing bureau using Honeywell equipment with 18M Fr. revenue. In 1975 CISI's shareholding was increased to 51% and in 1977 to 94%. Revenue growth has been very modest to 25M Fr. This was an internally generated prospect.

- In 1974 an 80% share in Infor was acquired. Infor was a small IBM-based batch bureau with a revenue of 5M Fr. which has doubled to 10M Fr. This acquisition was also internally generated.

- Also in 1974 CISI was approached and acquired Informatique Internationale and its subsidiary Informatique Medicale a small Paris-based systems house offering scientific, technical and systems engineering services. Revenue from this business is currently around 6M Fr. from Informatique Internationale and 20M Fr. from Information Medicale.

- In the same year following an approach from the Banque de Paris et Pays Bas, CISI acquired its two CDC-based data processing operations SIA Ltd. in England and SIA France. SIA Ltd.'s revenue was £2M and has risen to £6M. SIA France's revenue was 35M Fr. and was consolidated into the CISINET operations already in existence in France.

- In 1976 part of Informatique Internationale was merged with CISI's own systems engineering department to form GIXI which has since grown rapidly.

- In 1977 Paul Marthouret a systems engineering and transportation company was acquired following an approach by them. This was acquired by GIXI.

- Also in 1977 an 85% share of LKS in West Germany was acquired. LKS was a service bureau offering Honeywell-based batch and remote batch services especially to banks and for municipalities. Revenue has been static at 5.5M DM. but margins have been increased.

- In 1978 on CISI's initiative Transtec was formed in France with Brandon Applied Systems Inc. having a 40% share and CISI 60% (Brand is now called Rand Information systems and is based in California). This operation is a specialist in conversion to alternative mainframes providing professional services on a turnkey basis. This joint venture has proved very successful during its first year of trading.

- In order to expand its network services in the U.S., CISI searched for and found Proprietary Computing Systems Inc. (PCS) a medium-sized timesharing computer services operation in California with $7.6M revenue, 40% in APL, a 4% net trading margin and with a network covering ten major cities in the U.S.

- These ten acquisitions resulted from serious consideration of around fifty candidates of which approximately 15 were internally generated, 15 introduced by an intermediary and 20 approaches by a prospective seller.

1B. BUYER'S STRATEGY

- CISI was able to take a long term view of its business stemming from the nature of their financial ownership. Its strategy was to supplement organic growth by acquisition but not for growth's sake alone. Management recognised that expertise in a field could be developed internally but more quickly so if a team of people already working in the field was acquired. Whilst they did not have the constraint of having to produce high short-term profits they did require profitability to generate further cash for expansion.

- From 1972 - 1977 CISI needed to acquire especially in France to broaden its customer base and to gain experience in the commercial field to complement scientific and technical expertise. During this period the share of captive revenue from its parent dropped from 98% to 41% (in 1978).

- One advantage of growth by acquisition rather than aggressive organic growth was that it avoided the possible criticism of dumping which could have been levelled at a state-owned operation which undercut competitors on price.

- From 1978 CISI became very much more choosy about acquisitions in France having developed a wide geographical and product base.

- Overseas became the focus for acquisitions to develop the international aspects of the corporate objective.

1C. IMPLEMENTATION OF BUYER'S STRATEGY

- The president of CISI handles acquisitions. He is helped by a few staff and senior line managers where relevent. The overseas market is tackled on a country by country basis.

- Searching is initially handled by local managers if CISI have an operation in the country concerned e.g. Germany, U.K. and U.S. In other areas the president hires an acquisition consultant to assist with the search.

- Selection criteria vary depending on proximity to France. For an acquisition a long way from head office it is of primary importance that good quality management and a healthy business exist. These two criteria are less important for prospects closer to France where a greater degree of central influence and control can be exercised.

- Screening methods consist of getting to understand the economics of the market sector in which a prospect trades and getting to know the prospect itself, combined with a financial audit before completion.

2. SELLER - BACKGROUND STRATEGY AND IMPLEMENTATION

- Proprietary Computer Systems Inc. was formed in 1970 by Bill Barancik with financial backing from his family and various friends. A 30% stake was taken by CCI a large quoted company in return for funding and some employees had small shareholdings.

- The original intention was to build the business up to a healthy size and then arrange its sale to realise a capital gain.

- Helped by the policy of not paying dividends growth had been good.

- Bill Barancik, the chief executive of PCS and his employees would have been quite happy to hold onto their shares and carry on trading independently. They had turned down several previous approaches from U.S. Companies. However after nine years he felt it was fair to his shareholders to realise the intended gain and in CISI's approach saw an opportunity to do this whilst continuing to run the company with a minimum of interference and with a parent who had the funds to assist and even to accelerate growth.

- The strategy of PCS's shareholders and management was to produce an excellent track record of consistent quarterly growth of revenue with a sound profit margin.

- Having developed PCS to a highly attractive acquisition candidate, PCS's shareholders were expecting to sell out to an organisation which would not swallow them. Possible candidates would certainly have included financial institutions and industrial companies not in computer services but possibly also hardware manufacturers.

- It was felt that if they developed PCS into a highly desirable business, potential buyers from whom they could select would approach them. This was a much preferred basis for selling as it was felt a better price could be achieved than from active selling.

3. SUBJECT

- PCS was an entrepreneurially operated business. It had strict financial control systems based on budgetary control and a strong marketing orientation with emphasis on application package development.

- PCS had made one small acquisition themselves which was essentially a purchase of customers. They did not see themselves as expanding by acquisition.

- Growth over its nine year history had been consistent to the $7.6M revenue for 1978. Specialities of PCS were timesharing, text editing, photo composition, real estate/subdivision trust accounting and business applications in the banking area.

- PCS had reached a stage in its development in relation to its competitors where further investment was required.

4. MOTIVES FOR SALE AND INITIATION

- PCS had originally been formed with the idea of selling out at an appropriate time. It had reached the size where its shareholders could expect a very substantial profit on their investment.

- Several approaches had been made from U.S. companies in the industry but CISI's approach was the first from outside the U.S. and gave PCS the opportunity to gain a parent who would understand their needs and their business, who had a compatible philosophy on the running of a computer services operation and on management style and yet were too far away to interfere with the day to day management.

- From CISI's viewpoint PCS fitted their strategy for a U.S. acquisition being the right size, having a speciality in the timesharing market and having a good local management.

- CISI had retained a consultant to search and make a recommendation on which company to acquire in the U.S.A.

- The consultant found PCS to be an excellent fit and made an initial approach to PCS at CISI's request. CISI had already known of PCS by reputation but had no detailed knowledge.

5. NEGOTIATIONS

- Initially PCS indicated to CISI's agent that they were not interested in a disposal. CISI took this at face value and made a sales-oriented presentation to persuade PCS that CISI would be an ideal parent. PCS were actually playing the reluctant seller indeed with some validity in that one part of Bill Barancik wanted to retain control, yet the other part recognised that a sale was necessary eventually and that the right time was not far off.

- After getting over the possible unwillingness to sell CISI pointed out that they had the technical and financial resources to develop the PCS network, were keen to leave PCS relatively independent and were paying cash as compared with some of the competitive offers of stock.

- Bill Barancik's comment on price negotiation was that the buyer always provides plenty of reasons for a low earnings multiple and the seller always gives reasons for a high one, but in the end he believes the majority of computer service acquisitions end up in the middle at around 10 or 11.

- One important aspect of the negotiations was that the chief executive was acting for both the shareholders (including himself) and for the employees (including himself). In the latter role he was concerned with ensuring fair pay and conditions and indeed a major advantage CISI offered over the U.S. bidders was a much more flexible employee bonus structure.

- The negotiation tactics of competitors were roughly similar, saying: "We're a big company, have lots of resources at our disposal, come and join us and we will help you grow".

- One interesting aspect of the negotiations was that CCI on the basis of its own responsibilities to its shareholders used its 30% stake to make several improvements in the small print concerning warranties required by CISI.

- The initial negotiations were conducted by a professional middleman Gil Mintz for whom Bill Barancik had a great deal of respect. After the first few meetings though, the president of CISI took over negotiations but this early ground work had had an important beneficial effect.

6. POST ACQUISITION ANALYSIS

6A. SYNERGY

- With the Atlantic ocean between parent and subsidiary the scope for synergy was limited. CISI's network expertise and financial expertise will undoubtedly help PCS grow at a faster rate than would have been the case if they remained independent provided the incentives and motivations offered by CISI match the motivation from entrepreneurial involvement.

- Eventually a merged network could provide very considerable synergy as production capacity can be optimised from peak loading at opposite halves of the day.

- Other synergies envisaged will be from an exchange of product lines and timesharing expertise. A little sales synergy may also be obtained; for example being able via PCS to supply the U.S. office of a French company that is already a CISI customer.

6B. HUMAN PROBLEMS

- Since the seller and the subject chief executive were essentially the same and since a very considerable degree of autonomy in the post-acquisition period was provided for this was one acquisition with very few human problems.

- The president of PCS had a personal dichotomy in balancing his negotiations to be fair to both outside shareholders, himself and his staff.

- Some of the senior staff were especially concerned about whether the president would be staying, and what degree of independence he would be allowed and what sort of changes would result from the acquisition.

- The president of CISI made a speech to the staff of PCS which created a good impression and allayed the above concern.

- One problem perceived by PCS occurred when the French ego was bruised when a governmental guarantee of the balance of the purchase price was not acceptable to the PCS shareholders.

- There was a period of instability for a longer period than is acceptable resulting from the length of time from acceptance of the offer to completion.

6C. OTHER PROBLEMS

- The normal problems caused by the distance involved and the international aspect of the acquisition were present.

- The legal aspect (imagine the French amazement at the cost and complexity of U.S. law and a three-inch thick contract) caused problems and a nine months delay. The PCS shareholders also felt the delay was too long.

- Minor problems included those arising from both the small and the main shareholders wanting Bill Barancik to remain president, while he wished to cover himself beyond reproach in the eyes of his fellow shareholders.

6D. INTEGRATION

- The synergies outlined above are beginning to take place and some have already been realised within six months although the networks are not yet linked.

- Both parties feel good about the acquisition and that it is going well.

- PCS sees success as the key to continued independence which is an excellent motivator.

- PCS envisage problems on network integration especially financial, egotistical (e.g. whose protocol?) and technical. They don't see any of these as insurmountable in any way, merely as problems to be overcome.

6E. TIMING ANALYSIS

(a)	Identification as prospect to approach	
	- internal analysis and decision	Immediate
	- parent approval	Immediate
	- total	Immediate
(b)	Approach to offer	2-3 months
(c)	First offer to acceptance	2-3 months
(d)	Acceptance to completion	9 months
(e)	Completion to integration	No integration planned.

- The process from approach to completion took 15 months compared with an expectation of 6 months.

- PCS felt they sold at about the right price and at about the right time although in some respects Barancik would have liked to have followed the On-line and National CSS acquisitions where very high earnings multiples were paid.

7. CONCLUSIONS

- Whilst many acquisitive companies feel confident enough and sufficiently well-informed to handle acquisitions in their own country even the largest find a professional searcher or middleman very useful for the search, introduction and preliminary negotiation abroad.

- The ability to take a long term view of investment in computer services can lead to successful acquisitions which might have been replaced by others with shorter paybacks and higher initial yields but of less strategic importance and less long term value.

- Acquisitions may be the only safe way for a state owned service company starting with virtually all its revenue from its parent to grow rapidly as aggressive marketing may engender fierce criticism of dumping.

- Most computer services companies tend to make the expansion domestically to a certain size before embarking on international acquisitions. This shows a preference for covering new market sectors in the same country rather than the same market sectors abroad.

- Many entrepreneurial companies are originally formed for the ultimate purpose of realising a large capital gain. This objective can get buried in the live organisation's desire for continuing as it has in the past. A skillful would-be purchaser may be able to resurrect and take advantage of this original objective by using the right tactics.

- Companies who say they are not for sale may or may not mean it.

- Continuation of a high degree of autonomy may be a major factor in the willingness of an entrepreneur to sell his business. An overseas company or a company in a different business may have a very significant edge over colleagues in the same business.

- The policy of waiting to be approached for fear of reducing one's bargaining position is open to question. If one has very specific ideas about the type of parent one would like should not one go out and seek an ideal parent? Possibly a middleman employed by the seller who does not let the prospective buyer know the seller is for sale is the right strategy in such a situation.

- Small companies who have reached a stage in their growth where heavy imvestment is required can make willing subjects.

- A man who is both a shareholder and a manager likely to continue working in the company will undoubtedly have a difficult time to balance the objectives if he is handling negotiations. Care and sensitivity is required by the buyer in such a situtation.

- Many buyers have the same tactics or 'line of sales patter' as each other. A little ingenuity and understanding of the seller's sensitivities and needs can give a decisive edge.

- A first class middleman can be a very positive influence on negotiations as well as a finder.

- When purchasing an entrepreneurially managed company and wishing to retain its management, incentives are an area requiring considerable attention and creativity.

- Insecurity increases with the length of time of the negotiations and the unfamiliarity of the buyer.

- International acquisitions generally take longer and cost more than domestic ones.

- The U.S. law is complex.

- Several shareholders may be able to negotiate a better deal than one shareholder by "incremental negotiation".

VII.F. UCSL/Dublin Data Processing

ACQUISITION CASE STUDY

BUYER	-	UNILEVER COMPUTER SERVICES LTD. (UCSL)
SELLERS	-	W.R. GRACE 50%
	-	PREMIER DAIRIES 50%
SUBJECT	-	DUBLIN DATA PROCESSING LTD. (NOW TRADING AS UCSI)
DATE	-	March 1973

1. BUYER'S HISTORY

- Unilever Computer Services (UCSL) was established in late 1969 by the amalgamation of three data processing departments within the Unilever group. The head office accounting D.P. department in central London, the SPD distribution organisation's D.P. section in Watford, and the research department's computer section in Merseyside.

- The newly formed UCSL thus started with some £1.5m of expenses, no revenue and three customers. Expansion of the customer base in the parent group together with consolidation of hardware, methods and people were early targets to achieve a profitable trading position.

- From its beginning UCSL was a leader in remote entry commercial computer processing and used this as its main marketing thrust both into Unilever and outside the group.

- Hardware was consolidated onto an IBM 360/65 and a 360/50 at Watford with powerful Data 100 terminals at three key sites.

- The negotiations with the three computer departments in the early stages were not unlike an acquisition in many respects and negotiating experience was obtained.

- After the recession in 1971/72 UCSL was rapidly developing its third party customer base and decided timesharing would be an excellent product to supplement remote entry data processing. Rather than develop it from scratch UCSL formed a joint company with Tymshare Inc. to market the latter's range of products under UCSL's management.

- UCSL's strategy in those days was to concentrate on its technical strengths and expand the business outside Unilever faster than inside to give greater independence.

- Objectives were strongly profit oriented seeing that as the key to further investment and continued independence from the parent group.

2. SELLERS

- D.D.P. based in Dublin was owned by its two largest customers. Hughes Brothers Chocolates & Ices (H.B.) a wholly owned subsidiary of W.R. Grace an American food company owned 50%, and Premier Dairies accounting for about 60% of revenue owned the other 50%.

- W.R. Grace had expanded into Europe by purchasing a dozen or so food or consumer product companies during the period 1965-70 (mostly from families controlling them). Performance had been poor and a severe cash shortage ocurred causing Grace to agree to the recommendation of its corporate planning team to sell off all the unprofitable European businesses and some of the profitable ones. H.B. was therefore for sale.

- Premier Dairies, a family controlled dairy with a large milk distribution business, used computerised invoicing being run with D.D.P. Premier Dairies had established D.D.P. with H.B. to gain economies of scale in their computer processing. The milk billing system had been problematical and a decision was made to return to a manual system.

3. SUBJECT

- D.D.P. was a small Burroughs B2500-based bureau with over 90% of its workload coming from its two parents and the largest one seriously considering cancelling what amounted to well over 50% of D.D.P's turnover.

- Success in selling outside its two parents had been limited partly because prospective customers believed they would be 'second class customers'.

4. MOTIVES FOR SALE & INITIATION

- Cash shortage was the reason Grace were selling H.B. and at that point in time Premier Daries was still undecided about its workload and so was not considering selling.

- Unilever Limited had on several occasions approached W.R. Grace in the early 1970's with a view to buying H.B. So when Grace finally did decide to sell it approached Unilever Ltd. directly. In other disposals it was selling either back to the original owners or to competitors. Unilever purchased H.B. hardly knowing or caring about its 50% stake in D.D.P.

- Unilever regarded D.D.P. in a similar way to a D.P. department until it learned Premier was considering cancelling all its business. With strong unions it would be totally impossible to trim the operation down to an appropriate size for H.B. and the non-Premier work, so a large trading loss looked imminent.

- UCSL was requested by Unilever to look at the problem. The chairman of UCSL, who was interested in expansion and saw a possible opportunity, went to Dublin to see what could be done armed solely with a brief verbal description of the situation.

5. NEGOTIATIONS

- A visit was made to the two main customers/parents and to the offices of D.D.P. itself. With few assets, an imminent crisis in financial and morale terms and a mediocre track record, D.D.P. was a risky business to acquire.

- Within two days of the first approach UCSL had made an offer to keep the business going for a nominal payment of £1 for Premier's share after a restructuring of accounts and with a guarantee of future business having agreed with H.B. to take over the management of its 50% share at the same time.

- A likely alternative for both parents was a breakdown of their data processing service.

- Within one hour of the offer acceptance was obtained and immediately a talk was given to staff to appraise them of the new situation and dissuade them from leaving because of the poor business outlook. Negotiations were this brief and tactics limited because the seller 'had no hand to play!'

6. POST ACQUISITION ANALYSIS

- At that stage UCSL did not have a formal acquistion strategy. If they had D.D.P would certainly not have fitted into it. It had Burroughs hardware, was in Ireland and had a very poor outlook with some two thirds of its revenue about to disappear.

- It fell into what is best described as the opportunistic category of acquisitions where an unplanned situation arises and a quick decision is required.

- The only synergy likely was from the business experience of UCSL combined with the confidence which a professional parentage rather than a customer parentage gives to customers and staff. This in fact turned out to be an effective and valid form of synergy.

- The general manager of D.D.P. was not aware of the acquisition until the day after it happened. This together with the business worries did not make for smooth human relations in the early stages. The main human problem was to hold staff and this was achieved by boosting confidence from UCSL's involvement.

- Being physically remote from UCSL and small in relation to it the businesses haven't yet been integrated some six years later, despite talk of wideband links. D.D.P. felt it had lost a measure of control over policy but this was balanced by positive factors.

- Following the acquisition and with the help of UCSL's influence, D.D.P. were able to dissuade Premier from reverting its milk billing to a manual system and were able to obtain extra work by taking over Lever Brothers work in Dublin. Thus what looked like inevitable losses for some years were turned into a steady profit from day one for the price of £1!

- <u>Timing Analysis</u>

			<u>Days</u>
(a)	Identification as prospect to approach	- internal	1
		- parent	0
		- total	1
(b)	Approach to offer		2
(c)	First offer to acceptance		1 hour
(d)	Acceptance to completion		28
(e)	Completion to integration		No integration.

This timing was exceptionally fast especially for a complex and risky situation. The speed stemmed from the urgency to act in a way to prevent loss of staff and possible subsequent loss of processing for the two parents. There was innate pressure for speed and all three parties were prepared to respond.

7. CONCLUSIONS

- Premier decided to cancel its business with D.D.P., saw that this would plunge D.D.P. into massive losses, and was therefore very happy to sell its share for a nominal £1. Yet within a short period of time having sold its share Premier's management were persuaded to change their minds and retain their business with UCSL. Is it possible that businesses have a greater respect for a service from a third party than for an internal one, even though it is the same service?

- As Len Rawle, chairman of UCSL, observed "There is nothing that concentrates the mind as well as an imminent crisis". He felt that had D.D.P. looked successful its acquisition would have been non-existent or very slow as there would have been no pressure to analyse it seriously and make quick decisions at senior levels. It was the intense pressure that resulted in a quick solution with no minor problems being allowed to delay things. Similarly the post-acquisition strategy was given greater emphasis because of the crisis.

- Customers' decisions can be changed right up to and possibly even after implementation. Whilst this should not be counted on, it is frequently worth considerable effort despite appearances.

- A bureau with a heavy dependence on parent work is vulnerable both to parent workload changes and to potential customer hesitancy from the 'second class client' fear.

- Acquisitions can be made quickly especially when the sale is a 'distress' one.

- Strategies, however useful they may be, should not preclude the careful examination of opportunities presented which do not fit the strategy, just because they might possibly lead to a change of strategy.

- Synergy can arise simply from a change of parent but this should not be counted on simply on an egotistical basis.

VII.G. UCSL/Sisco and Datacom

ACQUISITION CASE STUDY

BUYER: UNILEVER COMPUTER SERVICES LIMITED (UCSL)
SELLER: SINGER CORPORATION INC.
SUBJECTS: SINGER INFORMATION SYSTEMS CO. (SISCO) AND DATACOM
DATE: February 1976.

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1. BUYER

- Following the joint venture with Tymshare Inc. and the acquisition of D.D.P. in 1973, UCSL concentrated on rapid organic growth of its business outside the Unilever group of companies. This growth phase was significantly helped by picking up several of the larger remote job entry type clients of the Texas Instruments bureau which closed down in 1974.

- Annualised revenue at this time was around £5m, some two thirds of which was commercial processing for large manufacturing, retailing and distribution companies over an RJE network to 3 IBM 360/65s with internally developed operating software giving a high performance.

- UCSL's financial success had given its parent company Unilever sufficient confidence to approve a long term strategy of supplementing its considerable organic growth with acquisitions of four major types:-

  - Straight geographic expansion by the purchase of IBM-based bureaux in the regions where UCSL was not represented.

  - Acquisitions of businesses having unique or special products to complement UCSL's.

- Acquisitions of the type which provide an immediate and significant improvement to trading results from a large amount of synergy readily realisable.
- Acquisitions of a strategic nature which have a significant long term advantage although not necessarily showing immediate high returns.

• Two senior executives who had worked with the chief executive defining the new corporate strategy were charged with its implementation. One of these had a technical background and the other a commercial one.

2. SELLER

• The Singer Sewing Machine Corporation had reached a plateau in its traditional markets yet still wished to improve its return to shareholders. A growth strategy was developed to expand from dominance in sewing machines into a range of electronics industries to provide a broader revenue base, greater strength and faster growth.

• The entire entry into electronics was to be by acquisition with synergy to be achieved by multiple acquisition and mergers between acquired businesses.

• Many acquisitions were made in the very late 1960's and the early 1970's including the formation of a mini-computer and terminal division and a service bureau division.

• In 1973/74 a recession hit most of Singer's divisions at the same time as all divisions were requiring money for investment. The resultant cash shortage was so severe that in early 1975 new top management came into the Group and a decision was made to sell off all loss-making businesses - a change of policy in mid-stream.

- This policy and its implementation were generated by the chief executive advised by a department of the brightest business graduates. A new senior post was created of vice president for divestment with full-time responsibility for divesting the unwanted Singer businesses to generate cash for the other Singer businesses.

- The implementation of this divestment strategy was an extremely sensitive task. It was important not to jeopardise the businesses being retained and the ones to be sold in the near future by frightening customers, potential customers and staff with rumours of a massive sell-out by Singer.

- It was for this reason that the sale of Sisco and Datacom had to be handled very discretely.

3. SUBJECTS

- SISCO was a small commercial processing bureau based at Guildford with London branches in Ealing and Blackfriars Road having Singer terminals connected to Guildford's IBM 360 computer.

- During the previous year the workload from its parent business had been transferred to a central U.S. processor causing Sisco's revenue from Singer to drop to nil which more than cancelled out the effects of third party sales growth over the previous few years from under £100,000 to £400,000. Thus at the end of 1975 Sisco was losing over £5,000 per month. Its marketing thrust had been directed at retail business systems processing but had been relatively unsuccessful in that sector.

- DATACOM division in contrast to Sisco was earning good profits and cash flow, - in the region of 10% pretax on a turnover of £500,000. It was one of the top three computer output to microfilm (COM) bureaux in the U.K.

- Based at Blackfriars Road, London it had a list of blue-chip customers, good management and a good record.

4. MOTIVES FOR SALE AND INITIATION

- The motives for sale stemming from the corporate decision to divest all computer services businesses were strengthened by Sisco's losses.

- Superficially Singer would have made more money by selling Datacom alone and closing down Sisco but the loss of goodwill from upset customers and staff would not have warranted the modest extra amount of money.

- A good offer to Singer was made by the staff and management of Datacom to buy their business from Singer. Tempting though this was Singer had to turn it down because it was felt that Datacom sold in conjunction with Sicso might be the only way to persuade someone reputable to buy Sisco and fulfill their obligations to staff and customers.

- It was for these reasons that Singer was looking for a reputable business to take the two divisions lock, stock and barrel.

- Initially the management of Sisco who also had overall responsibility for Datacom were charged with selling and negotiating a buyer for the two businesses. Because of their personal offer to buy Datacom they felt duty bound to call in a parent company man to make the decision and implement it as they had a bias.

- Initially an approach was made to the Department of Trade and Industry who introduced Sisco to Plessey and to a merchant bank to raise venture capital without success.

- Singer was less discrete about Sisco and Datacom in the U.S. than in the U.K., because it was felt this would not reach staff and customers in the U.K. Approaches were made to Sisco by Boeing and ADP from the U.S. following rumours there and very shortly afterwards by BOC, Teemco and Excalibur. Bids were put into Singer by all of these companies and these were considered.

- UCSL heard of Singer's desire to sell Sisco and Datacom from its associate company in the U.S., Tymshare Inc. By this time however UCSL's competitors had already been negotiating for some two months with Singer.

5. NEGOTIATIONS

- A brochure was available describing the business for sale. After seeking detailed breakdowns of revenues, expenses, customers, hardware assets, contracts, accounts, personnel and plans and after three or four meetings with the Singer team, UCSL made outline offers to Singer for both Datacom and Sisco.

- There was a considerable need for urgency as UCSL was a very late entry to the negotiation process and pressure on Singer to make a quick decision was strong because of the losses and the deterioration of morale.

- UCSL had told Singer it could not take over the main Ealing computer centre but could take all the customers (possibly bar one) and would interview the staff and offer jobs to as many as possible in the Sisco side and would take Datacom as it stood. UCSL had insisted that the DOS and DUO conversion to OS had to be done by Sisco before the takeover. It also insisted on a right to sell back to Singer the two Singer terminals if they did not prove their worth.

- This formula was presented to the Singer vice-president for divestments who accepted it with a handshake and a deal was struck.

6. POST ACQUISITION ANALYSIS

- When asked why UCSL, the last to enter the bidding, had managed to succeed the then chief executive of Sisco (and Datacom) stated that "UCSL came in very late, made a very quick professional bid having got under all the snares and snags and accounts much better than the other bidders".

- This comment serves as a clear indication that taking the trouble to understand the real needs of the seller and the subject and the background problems which exist, can lead to a better relationship with the seller: It can also lead to an offer structured to suit both buyer and seller which may be no higher than others but simply matches the situation better.

- The synergy expected by UCSL was primarily in the Sisco area. It was felt that after conversion the whole of the Sisco revenue could be taken on with no increase in costs other than personnel. The reason for this was that UCSL had just installed a large computer at Burgess Hill, Sussex, which was very lightly loaded and would not be fully loaded for a further 18-24 months.

- This synergy alone was enough to pay for the whole acquisition of Sisco within 11 months net of tax although a considerable amount of support work was required by UCSL technical staff over the first three months.

- As far as the Datacom business was concerned a little synergy was expected from sales to the Unilever Group and existing UCSL customers. It is doubtful whether any real synergy was actually achieved in this acquisition as the Datacom business continues to run much as it would have done under Singer.

- There were a number of human problems arising during the acquisition and during integration.

- The dilemma of the chief executive of Sisco who had been charged with selling the business he had built up, cared for and managed was bad enough on its own but impossible when he has an active interest in acquiring a major part of it personally with some of the other managers. In this instance he solved the problem in an ethically correct way by calling on a more senior colleague to make the final decision.

- The classic morale problem arose prior to the acquisition from the rumours of the Singer sell-out and this was compounded in the immediate pre-completion period when management had to hold together a team, many of whom had not been offered a job with the new company, in order to complete the conversion work and hence the sale.

- A further human problem arose in the acquiror UCSL when the accounting and the technical support staff were told with no warning whatsoever 'we have just purchased these two businesses and the following effort will be necessary to ensure its success starting tomorrow morning'. A lot of hard work was required from staff who for reasons of confidentiality had not been informed of the acquisition. They felt they should have been given warning of the exceptionally heavy workload suddenly required.

- Finally the fourth area of human problems lay in the integration process for the 25% or so of Sisco staff who joined UCSL. These people found a very different management style and found this hard to adapt to. Over the two years following the acquisition many ex-Sisco people left UCSL, some to other parts of Unilever, mostly from a feeling of non-identity with a different way of life.

- Negotiations were fast but delayed in terms of elapsed time by UCSL's parent company approval and by the frequent disappearance overseas of the vendor's principal negotiator.

6A. TIMING ANALYSIS

(a)	Identification as prospect to approach	
	- internal analysis and decision	3 days
	- parent approval	0
	- total	3 days
(b)	Approach to offer	6 wks.
(c)	First offer to acceptance	2 wks.
(d)	Acceptance to completion	8 wks.
(e)	Completion to integration	8 wks.
(f)	Actual as % of expected (approach to completion)	200%.

All three subjects interviewed and the buyer and seller felt that the timing was right and that the seller had no choice over timing and practice.

7. CONCLUSIONS

- Being late into a multiple negotiation can sometimes be an advantage.

- Understanding all aspects of a situation and responding to these can be a vital ingredient to a successful offer.

- Structuring an offer to meet the seller's needs as well as the buyer's needs can pay dividends.

- Human problems are frequently the most important ones in acquisitions. Without making them of paramount importance they certainly merit very careful attention.

- Cost savings synergies may be more easily achieved than revenue increasing synergies.

- It is possible to transform a business losing heavily each month to one making large profits every month from the day of acquisition provided the structure is right and provided the buyer has genuine medium term spare capacity.

- A professional approach to an acquisition can frequently give the seller greater confidence in the acquiror which particularly helps in many distress sales where seller will feel a little guilty about having decided to sell out.

- Information and rumours can and do cross the Atlantic Ocean a great deal faster than might be supposed.

- Selling a good business together with an ailing business can result in better terms for the seller but may result in worse terms in some respects. It is worth evaluating in a distress sale.

- Staff will not always recognise a vendor's attempts to look after the staff's interests.

VII.H. UCSL/Wilford Computer Services

ACQUISITION CASE STUDY

BUYER: UNILEVER COMPUTER SERVICES LTD. (UCSL)

SELLER: ROWNTREE MACKINTOSH LTD. (RM)

SUBJECT: WILFORD COMPUTER SERVICES LTD.
(NOW ANGLIA DATA SERVICES LTD.)

DATE: 1st September 1976.

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1. BUYER

- UCSL had already demonstrated the Sisco/Datacom acquisition to be a considerable success which with another year of good organic growth of profits and revenue placed them in a sound position to approach Unilever for funds for other acquisitions/new ventures.

- Although the return on investment was over 100% for Sisco it was felt that coming so closely the next major computer services acquisition should be more akin to Datacom which could run autonomously without heavy involvement of UCSL's middle and senior technical staff.

- The type of company was identified in profile as having a large share of a very localised geographic market with limited competition preferably IBM-based and with a good reputation.

- The three areas selected as most likely were the Black country, Wales and East Anglia.

- In the course of 1976 apart from Sisco, Datacom and Wilford, UCSL has acquired some of the management and a right to market the products of a small financial planning company trading as Consort.

- Towards the end of 1976 UCSL started up the business of 'computacar' in the London area and commenced discussions for the Micronics portable data capture business established in early 1977. These last three operations were part of a deliberate policy to become a broad-based computer services company not wholly dependent on selling large machine cycles.

- So 1976 was the year of acquisitions and new ventures for UCSL with six completed within the year and an additional one in progress.

2. SELLER

- Rowntree Mackintosh describe their main objectives as:

    - to profitably manufacture chocolates, sugar, confectionary and other foods by being the best in the world at this process,

    - resulting from concentration without diversification.

- Wilford Computer Services was formed as a 50 : 50 venture between Alan Wilford's computer business in Manchester and Rowntree Mackintosh, based on in-house 360/40 and 360/30 in RM's Norwich factory, previously running as a D.P. department. Wilford was involved, since RM had no experience of selling computer services outside the group.

- For a variety of reasons RM purchased Wilford's half share in the summer of 1976 although this had not been announced.

- Rowntree Mackintosh had decided that any cash they had for investment should go into the confectionery side of the business especially in Europe; so the Wilford bureau, therefore, could not look forward to expansion from further investment by its parent.

- RM/Wilford had been approached in 1975 by Hoskyns with a view to purchasing Wilford Computer Services and negotiations reached an advanced stage before falling through. RM had been disturbed at the effect this had had on staff and so were not especially keen to enter any further negotiations to sell.

3. SUBJECT

- Wilford Computer Services had developed some external processing business in Norfolk on the 360/40 and 360/30 configurations and had opened a branch in Yorkshire selling spare time on 370s (155 and 145) RM owned there. Turnover had reached £$\frac{3}{4}$m with about 25% captive revenue from the parent group.

- Long-term plans showed further growth potential but investment in new equipment was required within the medium term.

- An interesting piece of software had been developed to run a parts control application in the toy industry, for one of their large clients, and plans had been made to market this.

4. MOTIVES FOR SALE AND INITIATION

- Rowntree Mackintosh were not the initiators and had not been thinking actively about selling Wilford Computer Services indeed it had only just purchased the second 50% share.

- UCSL having also talked to a company in each of the other two areas, Wales and the Black Country, found Wilford Computer Services accurately fitted the current acquisition profile.

- UCSL approached Alan Wilford to discuss a possible acquisition only to find he had sold his share that same week to RM. UCSL was then introduced to RM by Wilford and a meeting was arranged.

5. NEGOTIATIONS

- Having heard that Rowntree Mackintosh had just bought out Wilford, UCSL felt it was unlikely that RM would now sell. However during the first meeting UCSL made it clear why it felt the future for Wilford Computer Services staff and customers would be better tied to a progressive computer services group with promotion prospects, technological know-how and money for investment than as a part of the RM group.

- To UCSL's surprise RM accepted these arguments but made it clear that although it would be willing to sell to Unilever it would want a fair price. Not especially keen to sell, it was extremely important to them that the rights and prospects of staff should be preserved.

- RM was anxious to ascertain that UCSL's intentions were really serious at an early stage and insisted on outline agreement of terms before any Wilford staff were to be made aware of the possible disposal.

- The negotiations were fairly complex because RM would continue to be a major customer and a landlord in two locations and possibly also a lessor and a supplier of spare 370/145 time.

- The reputations of the two parent companies played a key part in assisting in the early rapport reached in negotiations.

- UCSL said that the RM negotiators had been firm but extremely gentlemanly. Accordingy to RM UCSL had been very hard negotiators and highly professional.

- RM tactics were seen by the buyer as feigning disinterest in selling, mentioning past failures by previous acquisition seekers and concentrating the buyer's mind on future plans and growth forecasts. RM regarded the subject's influence in the negotiations as irrelevant and the subject was only informed at a late stage.

- The contract which finally emerged was based on a cash payment for the business including some assets previously leased by the parent to the subject. It also allowed for a gentleman's agreement concerning future business and had two landlord/tenant agrements. The price was based on profits for the previous, current and projected years and had a considerable good-will element.

6. POST ACQUISITION ANALYSIS

- UCSL purchased Wilford Computer Services on the basis that it had a good track record, good growth forecasts and would continue growing for at least a year or 18 months without much interference by which time plans could have been developed for integration synergy from hardware rationalisation by wideband links and UCSL's full range of products could then be offered in East Anglia.

- Some synergy has been achieved. For example a customer who had grown too large and advanced for WCS facilities was already looking for alternative suppliers at the time of the acquisition and chose to go to UCSL. This might not otherwise have happened.

- A modest amount of synergy was expected out of the transition from a customer parent to a professional parent. As it transpired it is possible the old parent felt more able to run down its workload on the WCS bureau having sold WCS than if it were still a subsidiary. A dissynergy may have occurred in this instance.

- One problem as seen by UCSL was that RM, having almost sold the bureau before but failed at the last minute and having just bought out their old partner, might judge the prospect of another acquisition as harmful to staff motivation. This meant that UCSL had to agree terms very early on and to make a gentleman's agreement not to vary them on closer inspection, - a difficult thing to agree to prior to an investigation.

- The vague promise of synergy a year after acquisition ('when we get to doing something about it') is a dangerous ingredient in any justification. Synergy should be positively quantified and thought through prior to acquisition.

- Integration is now taking place in the third year although it was originally planned for the second.

6A. TIMING ANALYSIS

(a)	Identification as prospect to approach		
		- internal analysis and decision	6 months
		- parent approval	1 month
		- total	7 months
(b)	Approach to offer		3-4 weeks
(c)	First offer to acceptance		4 weeks
(d)	Acceptance to completion		10-12 weeks
(e)	Completion to integration		2 yrs (as planned)
(f)	Approach to completion	- actual	20 wks
		- expected	12 wks
		- actual % of expected	166%.

- UCSL felt it had bought at the right time and RM felt it had sold at the right time. The subject pointed out with justification that it was excellent timing for RM but possibly a little early for UCSL.

7. CONCLUSIONS

- It is clear from this case study that a reluctant seller can achieve a better price from a stronger negotiating stance than a willing or active seller.

- Very few parent companies sell a subsidiary simply because a good price is offered. Anyone acquiring such a subsidiary should at least search for possible negative reasons underlying a willingness to divest. In this instance a reluctance to sell combined with an altruistic motive of its being in the staff and customers' interests was partly responsible for the buyer not concentrating sufficiently on other possible reasons for selling which may have included the imminent loss of a large customer and a steady forecast decline in parent company business.

- Establishing a good rapport at an early stage is important and even crucial in some acquisition situations.

- Analysis and conjecture may indicate that a business is not for sale but such conjecture should not be relied upon and a well argued approach is necessary to determine the truth.

- Although in many situations one can allow a gentle bedding in for profit if difficult decisions have to be made it can be much easier to take them immediately following the acquisition than a year later when relationships have developed and calm has settled in.

- Treat forward plans and forecasts with considerable care as they are hard enough for people who know the business intimately to get right let alone a stranger.

- Never underestimate the influence of the old parent on a business especially when a close relationship existed.

- Cultural gaps between 'provincial' bureaux and 'large city' bureaux exist and are not easily assimilated.

VII.I. On-Line/Atkins Computer Services

ACQUISITION CASE STUDY

BUYER - ON-LINE SYSTEMS INC.
SELLER - WS ATKINS GROUP LIMITED
SUBJECT - ATKINS COMPUTING SERVICES LIMITED.
DATE - December 1977.

1. BUYER

1A. ACQUISITION HISTORY

- Since 1972, On-Line has made four acquisitions, two in the U.S. and two in Europe. Those in Europe have been the largest acquisitions (in terms of revenue) and On-Line's presence in the European market is entirely due to these.

- The Telcomp Division of BBN of Boston was acquired in 1972. This was a bureau operation supplying interactive services and generating \$50K to \$60K per month.

- The first European acquisition was of Leasco Response Ltd. in October 1975. This was an interactive bureau supplying services based on Hewlett Packard mini-computers; revenue at the time was \$400K per year. This company was later re-named OLS UK.

- In December 1977 On-Line made its biggest and best acquisition to date. Atkins Computing Services Ltd (ACSL) was owned by the largest firm of engineering consultants in the UK and had developed an excellent reputation in the fields of engineering and scientific computing. At the time turnover was £3.6M (1977/78) and the company made a profit of £100K.

- Through the Atkins acquisition a subsidiary in The Hague was acquired in addition to the extensive UK branch network.

- Subsequently the operations of OLS UK (previously, Leasco Response Ltd) were integrated into the Atkins On-Line organisation.

- The most recent acquisition was of Dynabank (a former customer) in the US in March 1979. This represents a variation in acquisition policy since the company is not a bureau and develops and markets banking software.

- At the time of writing On-Line itself is the subject of acquisition by United Telecommunications Inc., the parent company of United Computer Services (UCS). The acquisition is considered almost complete excepting for government approvals, a signed definitive agreement and formal approval by the On-Line shareholders.

- Acquisition of On-Line by another company is a recent development; approaches were received from several potential bidders.

- Acquisitions by On-Line have been a more active consideration. Since 1976, more than 60 potential acquisitions have been considered as possible candidates. Negotiations were commenced with 25 prospects, 8 of which received a formal offer to be acquired.

- Three of the companies acquired by On-Line were approached by them; the other company made the first approach itself. The total of four acquired companies out of eight formal acquisition offers gives On-Line a 50% hit rate.

- The synergies realised in On-Line's acquisitions are:

    - additional products and combined overlaps making 'super products',
    - enhanced management depth and calibre,
    - additional market sector leverage.

1B. BUYER'S STRATEGY

- On-Line's main objective is to generate profit from its computer bureau operations.

- To achieve this objective, market areas are sought in which dominance can be established. A project management product called 'OSCAR' is cited as an example; this product is considered to be a 'super product' since it is a synergistic development from pre-acquisition project management products offered by On-Line and Atkins.

- An acquisition programme is thus an important part of achieving specific market dominance. It is also seen as a means to accelerate growth and to establish On-Line in new geographic markets and types of service.

- Acquisition is also seen as an important competitive strategy. A 20% annual internal growth rate can be achieved; but, external boosts through acquisition are necessary to avoid losing ground to the other major computer services companies.

- Europe is seen as a good growth market for computer services and the long term intention is to develop a "full range/one call service".

- On-Line is now very well established in the UK; as a next step in Europe they will be developing growth in The Netherlands using the subsidiary in The Hague as a base. Acquisition will be the primary means used to achieve this.

- On-Line's acquisition strategy originated in 1974 from concepts discussed at President and Vice President level. Towards the end of that year a Vice President for Business Planning and Development was appointed; an early task accomplished was the production of a detailed plan containing acquisition assumptions. Individual acquisitions are not identified in the plan and the frequency is limited to avoid 'indigestion'. The plan does specify selection criteria and targets for revenue and profit in the acquired companies.

1C. IMPLEMENTATION OF THE STRATEGY

- The guiding principle behind the implementation of On-Line's acquisition strategy is "Make love to potential partners until they say 'I do' - but love must be made once per day thereafter".

- Above all else in the selection criteria the "chemistry must be right" between the two management teams. Among the companies interviewed, On-Line were one of the most insistent about the value of finding and maintaining good personal relationships with subject management teams.

- In selecting acquisition prospects On-Line is not restricted to bureaux. They sense that software is increasingly vital to success in the bureau business; software companies are therefore seen as prime acquisition candidates. Also, companies which sell computing power "as a necessary evil", for example, market research companies. Where possible labour-intensive businesses are avoided (for example, non-product-orientated software companies) and emphasis is placed on acquiring management talent.

- The equivalent of 1 man year of President and Vice President time is allocated to acquisition annually. Outside assistance is used from accountants, lawyers and research consultancies such as INPUT.

- Initial screening is conducted with available operational and financial information. The subject company's products, services and market plans are also compared with those of On-Line to test for compatibility and potential synergies. An approximate estimate of a reasonable purchase price will also be made at this initial stage.

- As negotiations proceed and more detailed data becomes available, computer-based financial modelling is conducted to establish growth and profit projections, net present values and DCF factors. The model is run for each of a range of assumptions including various levels of resource pooling.

- The key word which typifies On-Line's negotiating style is "sell". It is recognised that to a desirable prospect, the prospect of being acquired is not necessarily attractive; "they're also smart too".

- Tactically, and consistent with the selling approach, the real decision maker must be identified early on; he may not necessarily be the owner. The open objective practised by On-Line is to aim for a fair price; in so doing, support and co-operation will be established all round and no grudges will be harboured.

- Post-acquisition integration is conducted "strictly on a human respect, but 'let them get on with it' basis.

2. SELLER

- Since the beginning, the Atkins Group has concentrated the bulk of its resources on the development of its engineering and management consultancy business. The group has an outstanding reputation among its clients in the engineering and construction industries. The founder, Sir William Atkins still controls the group by both ownership and executive authority.

- Atkins Computing developed first in response to a need within the group to use computing facilities in their consultancy work. As has frequently occured in organisations throughout Europe and the US, it was soon realised that additional profits could be made by offering the service to clients outside the Group. The additional work load so generated subsequently provided the additional bonus to its owner of greater computing facilities than could otherwise have been supported.

- The same high standards and reputation of the Atkins Group were achieved and maintained by its computing subsidiary. Growth was rapid (in line with other comparable competitors in the 1970's) and the rate of growth achieved was somewhat higher that that achieved by the parent company. High growth does frequently precipitate the need for cash, however, and this factor became significant in the formulation of the corporate plans for the Atkins Group.

- During the period 1975/1976 the group board view evolved that all resources should be concentrated on the traditional mainstream consultancy. As a consequence of this change of policy, Atkins Computing ceased to fit the corporate objective.

- The Atkins Group is not accustomed to divestment and Atkins Computing was the first experience. Another non-mainstream subsidiary, Woodcote Publications Limited is yet to be sold.

- Group growth has been almost entirely created from internal development; three or four minor consultancy companies have been acquired to supplement the growth of mainstream business.

3. SUBJECT

- The executive directors of Atkins Computing were not involved in the decision to sell. They feel that the policy to concentrate on mainstream consultancy was implemented as an expedient to fund these activities.

- The decision to sell became known to the Managing Director of Atkins Computing 15 months before the sale was concluded. From the word "sell" the subject assisted with the search for a suitable new parent.

- The decision to sell was a great disappointment to the senior staff, some of whom had been with the Atkins Group for up to 20 years, particularly since they had created a very tangible group benefit. The catch phrase for the group during the development of the bureau operation had been "undreamt of computer power cheaply with a bureau". From a company point of view it was seen as beneficial to have an understanding parent which considered years of computing experience to be of higher importance than an M.I.Mech.E.

4. INITIATION AND MOTIVES FOR SALE

- Shortly after the decision to sell, three contenders for the acquisition were commencing their negotiations. Each entered the arena during the first quarter of 1977. On-Line was a late entrant and joined negotiations in March; the parent company was prompted by their OLS UK subsidiary to make an approach.

- For On-Line the acquisition of Atkins Computing made sense as seen against the background of its European strategy. There was an opportunity to increase UK market presence and gain a foothold in mainland Europe as well; however it was not specifically the kind of opportunity being sought at that time. On-Line felt that Atkins Computing was at the time the last available opportunity for a major UK bureau acquisition.

- Having made the decision to sell, the Atkins group wanted a new owner who would:

    - develop Atkins Computing properly in its market sector and provide continuity for all staff,

    - continue to support the computing needs of the Atkins group,

    - pay a good price.

- Once the initial shock of being put on the market had been absorbed, the directors of Atkins Computing became promptly engaged in the business of searching for and screening contenders for the acquisition. Their interest was then to obtain a new parent company which understood their business and would provide the best support for future growth and prosperity.

- The decision to sell was finally precipitated by the effect on general UK bureau results of the temporary dip in market demand for bureau services, which was experienced at the end of 1976.

5. PERIOD OF NEGOTIATIONS

- There were three major contenders for the acquisition, namely: Scicon, Tymshare/UCSL, and the successful bidder On-Line Systems. Others including GSI, had shown interest, but were never seriously in contention.

- Although On-Line was a late entrant, their warm and constructive approach made a favourable impact on the directors and senior staff of Atkins Computing. They felt that "On-Line were truly people people and not just interested in the assets". On-Line felt that the feeling was reciprocated; they recall that "it was the epitomy of good chemistry".

- The three contenders had to impress the board of Atkins Computing first before being seriously considered by the owners. They had to provide real and credible assurances of support and motivation; an important aspect of the motivation was that Atkins Computing would become On-Line's vehicle for expansion in Europe. On-Line also made a slightly better financial offer and was ready and able to move its terms to suit the needs of the Atkins Group.

- During the period June to August 1977 outline agreement was reached in considerable detail for a three way ownership between Tymshare and Unilever with the Atkins Group retaining a minority stake. This was agreed first at one price and later at a higher price, as bidding hotted up in what appeared to Tymshare, UCSL and Scicon to be an auction.

- In September 1977 the directors of Atkins Computing recommended that an agreement should be concluded with On-Line.

- Scicon was too keen to re-organise the company in both managerial and operational terms. It was planned to move the computers to their under utilised facility in Milton Keynes, a new town some 70 miles North of Epsom. This was not attractive to Atkins Computing staff living in the very attractive residential environment of Surrey. The financial function was going to have a direct reporting line to Scicon Holding, and, this too was unattractive. The impression received by Atkins was that Scicon were "Too keen to carve up the team".

- Tymshare/UCSL was the second most serious contender and was under consideration until some months after Scicon had been dropped. In the early days they had been in the lead, but had not been prepared to continually improve their bid to match all the continued counter bids from On-Line.

- One of the unsuccessful contenders did not improve their chances by resorting to a tactic perceived by Atkins to be rather underhand. On-Line was receiving some bad press in the US in mid-1977 concerning alleged malpractices in obtaining government contracts; the allegations were subsequently unproven. Copies of these press reports were sent to the Atkins group who were not previously aware of them.

- It took On-Line two months to make an offer after the first approach and a further four months for the final offer to be accepted.

- The terms of the final agreement took a further 3 months to agree. On-Line felt this to be an unreasonably long time since it had responded promptly to all decisions requiring its participation. The President of On-Line travelled from the US for a three hour meeting in an attempt to move forward to a conclusion; it was suggested that any further delay might be damaging to the subject. The delay appears to have resulted from some differences of opinion about the post-acquisition rights of the two parties to compete in each other's market. Atkins were reluctant to be restricted from re-entering the computer services market whereas On-Line did not wish to be excluded from relevant parts of the consultancy market. Additionally, On-Line felt frustrated by several requests by Atkins Group to present a "picture of how it will be".

- On-Line had expected to complete the deal in three months, as opposed to the nine months actually taken.

- The On-Line negotiating team was led by the President and included two Vice Presidents and several outside lawyers.

- The subject was valued on the basis of return on investment; the anticipated maximum pay back period for On-Line is five years.

- The effort required to achieve completion required a total of two man years by board level personnel in the buyer and seller companies. Supporting services from internal and external accountants, lawyers and auditors were additional.

- The final deal was done for £1.2M including £300K of OLS shares. The Atkins Group could realise a much increased value for their shareholding (double the value has been suggested) if the UTI takeover is completed. The price was boosted by a provision in the agreement for a continuation of the Atkins workload; this accounted for 23% of revenue at the time.

6. POST ACQUISITION APPRAISAL

- All three parties to this acquisition (buyer, seller and subject) are content that it was satisfactory. In particular the buyer and subject are highly enthusiastic. The buyer rates the acquisition as the best he has made; the subject declares it to be a "very happy takeover" in which they "found foster parents who love us and want us to succeed".

- Strong regard for human relationships which were a major factor in On-Line's success in acquisition have continued in the post-acquisition period (now 18 months). There is considerable mutual respect between Atkins Computing and its new parent; morale and motivation in Epsom have never been stronger. All the promises made by On-Line during the negotiations have been fulfilled.

- On-Line have every reason to be pleased; Atkins Computing has exceeded the most optimistic estimates made of their projected performance at the time of the negotiations.

- Both the seller and the subject believe in retrospect that the price paid was fair. The buyer believes this also, but is prepared to concede that on the basis of improved performance it would still have been a good buy even at a higher price. With hindsight, the seller also realises that a later sale would have yielded a higher price.

- Both the subject and the buyer feel that in less competitive circumstances the seller would have accepted half the price finally agreed. Indeed both of the other serious bidders had at different stages in the negotiations been led by the Atkins Group to believe their offers were acceptable and both other bidders felt "gazumped" by the Atkins Group who kept getting offers higher than ones they had previously agreed to in outline.

- Few problems were encountered with staff in the Atkins organisation. Some problems were experienced, however, with the integration of On-Line's first UK subsidiary, On-Line Systems UK; they apparently had a different perception of their importance in the new UK organisation and caused some friction during the integration process.

7. CONCLUSIONS AND OBSERVATIONS

- The opportunistic nature of making acquisitions is illustrated well in this case. On-Line was not looking for a company like Atkins at that time but the opportunity came to them.

- Making the best of an opportunity is usually the key to success and this On-Line was able to do. Although they entered the competition later than the other contenders they were still able to make their offer acceptable within six months of the first approach.

- The other contenders were strong reputable companies with much to offer. Tymshare as one of the largest services companies in the world already had established a significant presence in all the main Western European countries and UCSL was a leading UK bureau owned by Unilever; Scicon, owned by British Petroleum, was the only wholly British contender and one of very substantial reputation for technical excellence.

- So why did On-Line win? It may well be that the management of Atkins Computer Services felt less vulnerable by being merged with the much smaller On-Line Systems UK and reporting to a remote US boss giving them considerable autonomy and no loss of status compared with a merger into the much larger Scicon or UCSL/Tymshare companies with a local reporting structure. Pressure from ACSL management might have helped persuade the WS Atkins parent to change horses so late. The integration problems with OLS UK indicate that the ACSL management had insisted on and obtained more power in the merged operation than was expected.

- Even when agreement in detail has been reached with a company which one would expect to have high ethical business standards such as W.S. Atkins, one can find that powerful influence from the subject can persuade the parent to change its mind late in the negotiations.

VII.J. ADP/Management Dynamics

ACQUISITION CASE STUDY

BUYER	-	AUTOMATIC DATA PROCESSING (ADP) INC.
SELLER	-	GREYHOUND COMPUTING INC.
SUBJECT	-	MANAGEMENT DYNAMICS LTD.
DATE	-	June 1977

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1. BUYER

1A. ACQUISITION HISTORY

- Compared with its US competitors, ADP has been the most active in acquiring European computing services companies. Indeed, the now substantial presence of ADP in Europe has been achieved almost entirely through acquisition.

- Batch and timesharing services have been established and operated separately; acquisitions which have been made have been of companies which predominantly offered one service or the other. The two divisions of ADP's European operations have become known as Commercial Services and Network Services International.

- The first foothold in the European market was established in 1973 with a small office in The Hague. This contained a concentration node connected to the US network.

- ADP soon realised that starting from square one in a foreign country, even one so international as Holland, is slow and expensive. Its preference for the acquisition route became evident in the year following the setting up of the first ADP European office in the Hague.

- The first acquisition was made in Holland in December 1974. The company, Instituut voor Electronische Administratie (IEA), was a batch processing bureau concentrating on general accounting applications, including payroll.

- ADP's acquisition activities in Europe then moved to the timesharing sector. Two acquisitions were made within the space of one year, both of which were American companies which had significant European operations.

- In June 1975 the US and European operations of Cyphernetics were acquired. This provided branch locations in Munich, Frankfurt and Milan.

- In April 1976 Delos was acquired, a company which, itself had made one of the earliest acquisitive approaches to the European market in 1967. At that time they had acquired a partial share in Timesharing Ltd. (TSL) and subsequently in 1972 acquired a 100% holding. Through this acquisition ADP had then created a foothold in the UK; this was also to be the first of two London locations.

- After becoming established in the timesharing market in the UK, Belgium, Germany and Holland, ADP turned its attention once again to the batch services sector. A batch bureau located on the perimeter of London Airport called Management Dynamics Ltd was acquired in June 1977.

- In May 1979 ADP established its batch operations in France with the acquisition of a 70% share in SERIG Informatique SA of Paris.

- During the last 8 years ADP has considered as possible candidates for acquisition (worldwide) over 100 companies.

1B. BUYER'S STRATEGY

- ADP's objective is to provide data processing services to small and medium sized companies on a worldwide basis. It also aims to continue achieving a rate of growth which exceeds market growth, or, at least equals it.

- As the largest computer services company in the world, ADP has succeeded well with its strategy; they intend to continue supplementing internal growth with timely acquisitions.

- The benefits of the acquisition growth route are seen by ADP as the provision of:

  a) an easier start up in a new location,
  b) relevant products,
  c) a good customer base,
  d) strong local management.

- In the European context, ADP is in the process of positioning its operations in all the major cities in Western Europe. Some key areas are yet to be filled and progress will be made opportunistically.

- ADP's acquisition strategy is a bi-product of their strategic planning process. This involves the Chairman of the Board, the President and the Staff and Finance Vice Presidents. Plans relating to ADP's intentions in any country specify primarily their market intention with acquisition specified as a means to achievement of the set goals.

1C. IMPLEMENTATION OF THE STRATEGY

- ADP commits substantial resources in seniority and quantity to the task of acquisition making. One Vice President works full time and he is assisted part time on an as required basis by:

  a) European subsidiary Managing Directors,
  b) Senior executives in the US organisation.

In total their joint efforts amount to at least three full-time senior executives each year.

- Acquisition opportunities are identified through the M.D.'s in Europe, local contacts and specialist consultants, (for example INPUT).

- The main criteria used for selection of suitable candidates are:

  a) similarity of services with those already provided or planned by ADP,

  b) good relationship between the two management teams,

  c) good reputation for quality, excellence, etc.,

  d) good growth potential.

- Screening of acquisition prospects before any approach is made is found by ADP to be difficult. This is due to the shortage of readily available company information.

- After an approach has been made, ADP adopts an informal and personalised style of negotiation. No specific tactics are employed in negotiation and in any case no pre-conceived tactical plans exist as a standard approach.

- Evaluation of the prospect is done by determining how the two sets of objectives line up. Value judgements are based on a comparison of the cost of acquisition with the cost of starting a new operation in the same market from square one.

- Integration occurs at the top level of management only. Operational integration extends to the technical facilities and products of the Network Services side.

- Continuous appraisals are made of ADP's acquisitions but not at any fixed time intervals.

2. SELLER

- The Greyhound Corporation is perhaps better known for its network of bus services across the U.S.A. Their involvement in leasing resulted from a financial characteristic of the passenger transport industry; that is, all the customers pay in advance. This creates a strong cash position of the kind which provides any business opportunity in financial services.

- Computer leasing operations led Greyhound into computer services on the basis that equipment returned by lessees could be put to profitable use on Greyhound bureaux.

- When Greyhound's leasing operations spread to Europe these were also supplemented with investment in computer services. As a part of this policy Management Dynamics was acquired from the founders Brooke Bond.

- The original intention of Greyhound was to create worldwide coverage of the bureau services market. The acquisition of Management Dynamics represented their spearhead into Europe.

- Unfortunately for Greyhound, the computer services industry in the UK experienced a depression in late 1970 and in 1971; this experience together with a lack of profitability proved to be sufficiently discouraging for Greyhound to re-consider their computer services strategy. Consequently buyers were sought for Management Dynamics.

- The problems associated with a depressed economy and an unprofitable company were compounded by the distance separating corporate management in Phoenix Arizona and their UK subsidiary. The management effort became grossly disproportionate considering the lack of current or future prospects for acceptable financial return.

- At about the same time Greyhound made a policy decision to get out of the computer services industry in the US. Discussions were being held with ADP relating to acquisition of their US data centres. A deal was concluded with ADP for the Seattle data centre a month before the sale of Management Dynamics.

3. SUBJECT

- Before acquisition Management Dynamics was a subsidiary of Greyhound's leasing subsidiary, Greyhound Computer Services Ltd (GCSL). Another subsidiary was the major data preparation operation employing around 900 staff; coincidentally the name of this subsidiary was ADP Ltd.

- Management Dynamics included a bureau operation (with an ICL 1905 and a 1903T) and a software house operation. The operation had been profitable every year since the Greyhound takeover except 1971.

- The board of Management Dynamics was partly involved in defining the divestment strategy of its then parent. They became aware of the planned disposal 2 years ahead of the formal sale agreement.

- The board of Management Dynamics was aware of ADP as a potential buyer six to nine months before the sale occured.

- At the time the Company had divided feelings about the sale. On the one had management and staff were delighted with the prospect of being owned by a new parent which had a successful management experience in the computer services industry and a real interest in their progress. On the other they were apprehensive about ADP's lack of interest in their software house activities. Also ADP would not entertain any continued involvement with the data preparation centers at Bristol, Manchester, St. Helens, Bathgate and Derby; they naturally wished to continue with the data preparation activities supporting the bureau.

- The data preparation company had made a profit in only two years; in 1971 however, the profits were extremely good.

4. INITIATION AND MOTIVES FOR SALE

- Acquisition discussion was originally precipitated through ADP's contact with Greyhound concerning their US data centres. These were based in Phoenix and Seattle and a deal whereby ADP acquired these centres was being negotiated.

- Greyhound was becoming disillusioned with its European subsidiary. The Management Dynamics company was originally purchased as a spring board for Europe. Shortly after the purchase by Greyhound the European economies, particularly that of the UK went into recession (1970/1971). Management Dynamics was rarely profitable during the entire period of Greyhound's ownership; their minimum requirement was 10 - 12% on capital invested.

- Meanwhile Greyhound was planning for expansion on the US market and the cash raised in the sale of Management Dynamics would make a contribution.

- On the other hand ADP was looking for a batch services facility in a major European market; Management Dynamics suited the strategic intention to supplement internal growth with timely acquisitions and to provide an easier start up in a new location.

- ADP was a natural buyer since relationships with Greyhound were good and had been so for some years previously. Consequently full and detailed operational and financial data were made available to ADP.

5. PERIOD OF NEGOTIATIONS

- The negotiations between the two US companies proceeded in a regular fashion and in the informal personalised style of ADP. The main negotiator on ADP's behalf was the Vice President for Corporate Development.

- Other potential acquirers were interested, among them Itel, BOC, and Boeing; the last named company actually made an offer. However, on the basis of a relationship already established with Greyhound, ADP was the preferred bidder from the outset.

- None of the alternative bidders were seriously in contention for acquisition of Management Dynamics.

- The only outside assistance employed by ADP was from a firm of lawyers. This was appropriate since the only major difficulties encountered in negotiation were legal technicalities concerning pensions and real estate leases. Similarly, Greyhound used outside assistance from their lawyers and auditors.

- The subject company was valued in terms of the commercial benefits which were expected by being present in the UK batch services market. The value was expected to be boosted by synergies in the areas of sales, operations and product support from the new US parent.

- Approval was granted by ADP's board, a meeting of which is required to approve any purchase exceeding $1M.

- The senior managers of Management Dynamics had known of their parents intention to sell at least a year before ADP's first formal approach. After this event negotiations proceeded quickly and an offer was made two months after the approach. The deal was completed three months later.

- From ADP's viewpoint the time taken between approach and completion was exactly as expected.

6. POST ACQUISITION APPRAISAL

- The loss-making data preparation company was closed down as a consequence of its exclusion from the Management Dynamics deal. This action did draw particularly bad press.

- Shortly after the takeover, the manager of software division resigned. Two options were offered - hire a new manager or close the operation down. The latter course was taken, the decision being made in the UK with US approval. The fifteen staff were dispersed without any problem.

- In retrospect the buyer feels that the price paid was too high. This is thought to have been largely due to an insufficiently thorough audit of the accounts; the fact that two US companies were negotiating the sale of a company in Europe probably made a sufficient number of visits impractical. Greyhound was and still is pleased with the deal.

- The high price paid together with the cost of the acquisition still reflect in the accounts of Management Dynamics; this represents a drag on profitability which has only recently been achieved. Without these charges the company is now producing a gross profit of 15% in turnover.

- Although ADP's new subsidiary was, and is, allowed to operate fairly autonomously integration at top management level was still necessary. A country manager was appointed by ADP to whom the existing managing director of Management Dynamics would then report; he declined and resigned as a consequence.

- It is now felt by the buyer that the sale would have been better two years earlier at the time the owner at that time started losing interest.

7. CONCLUSIONS AND OBSERVATIONS

- The bridge between computer leasing and computer bureau services operation seems hard to cross for at least two leasing companies, namely Greyhound and Leasco.

- The business potential for such a diversification in the US must undoubtedly have been attractive at the outset for the following reasons:

    - Equipment returned by lessees which was paid for reduced substantially the capital investment required for a computer bureau; potential profits and price competitiveness were therefore potentially strong.

    - Greyhound Computing had a large customer base already from its leasing business; the initial sales prospect list was therefore much larger than any other computer bureau would normally have at the outset.

- Almost by definition equipment returned by lessees was usually replaced by a newer generation thereby rendering returned equipment somewhat obsolete. A bureau so equipped would probably suffer considerable market resistance resulting from comparison with internal departments and competitive bureaux which were better equipped.

- In 1969 when Greyhound acquired Management Dynamics the bureau/software side was profitable (£97K on £301K turnover), well equipped (ICL 1905) and had the largest punch bureau in Europe (900 staff). During the previous year the computer interests of the Egg Marketing Board were integrated; this development together with the start of the 1970/1971 depression created a loss in 1970; in spite of big profits on data preparation the loss increased to £¼M in 1971. Management Dynamics after separation from the data preparation and software activities has been profitable every year since excepting 1978.

- Greyhound was unlucky in that the 1970/1971 depression could not have been foreseen; but, it should have been possible to regain regular profitability within the period of 9 years actually taken. It would appear that a siege rather than an expansive strategy was chosen to regain profitibality; on the one hand every opportunity was taken to cut costs and avoid expenditure on better equipment, whilst on the other, there was a lack of an effective sales team.

- In spite of the depressed track record of Management Dynamics, the price paid by ADP is thought by the subject to have been too high. Consequently an already weak company contracted an additional burden on its accounts.

- In retrospect the seller did a good job. The buyer was somewhat at a disadvantage by remoteness from the day-to-day detail of the companies operations; since the acquisition, ADP is now making headway and has a profitable company with renewed growth prospects.

VII.K. GSI/Seresco

ACQUISITION CASE STUDY

BUYER	-	GENERAL DE SERVICE INFORMATIQUE (GSI)
SELLER	-	BANCO INDUSTRIAL DE CATALUNYA (BANCO)
SUBJECT	-	SERESCO
DATE	-	1st February 1979

1A. BUYER

- GSI was formed in 1971 from two companies CSI in Paris and I.I.I. (Institut International d'Informatique) in Grenoble.

- It is owned 52% by the French electrical giant C.G.E. and 24% each by the banks: Societe Generale and Credit Commerciale de France.

- Between 1971 and 1979 almost 30 subsidiaries were acquired or formed including the following subsidiaries and branches in Paris:

  - Cati - Paris
  - Stad - Paris
  - GSI - E/Cfro - Paris
  - Fidutec - Paris
  - Tecsi - Paris

- In the rest of France branches and subsidiaries exist in Lille, Caen, Nantes, Chartres in the north west; Annecy, Dijon, Grenoble, Lyon, Marseille, Bordeaux, Strasbourg and Toulouse in the south and east. Many of these, for example Gecsi in Grenoble, were acquisitions.

- Overseas subsidiaries include:

  - Belgium - Interdata - (general bureau with payroll and accounts)
  - Italy - Elaborazione Automatica Dati - (general bureau with payroll and accounts)
  - Germany - Datel GmbH with 5 regional branches Berlin, Darmstadt, Essen, Hamburg and Stuttgart (bought from the Bundesbank and Siemens for one deutschmark) - (specialised packages services to operators)
    - Natel - (900 staff)
  - UK - CRC with regional branches in Birmingham, Bury St. Edmunds, Fareham, Farnborough and Warrington - (scientific timesharing)
  - Switzerland - GSI Suise
  - U.S.A. - GSI - USA Inc. - (Turnkey systems especially Dec 11)
    - Transcomm Pittsburgh
    - Transcomm Denver
    - IDS (California)

  and this case study deals with

  - Spain - Seresco.

- By 1979 GSI with 2900 staff and 600 MF budgeted revenue had become the largest computer services company in Europe and is truly European with operations in seven European countries.

- Hardware consists of some 40 mainframes, 20 of which are in France, including IBM 370s, Itel AS6, Univac 1108, XDS Sigma 9's and Siemens 4000 series.

- There is a strong emphasis on the developing time-sharing network linking 40 European cities.

- Key products include vehicle dealers, turnkey systems, classic accounting and payroll services, scientific applications, banking, text processing and information retrieval.

- GSI's strategy is geared towards product sales with package solutions with a little customising of standard packages as required.

2. SELLER

- The seller was the Banco Industrial de Catalunya who are one of the leading commercial banks in Spain and held an 80% share in Seresco.

- The Bank had not particularly wanted to sell but were not especially keen to hold on either.

3. SUBJECT

- Seresco was the largest computer services company in Spain holding 20% of the market and about double the size of the next largest. It had been trading since the 1960's.

- It was a general bureau using IBM hardware and offering a range of commercial services.

4. MOTIVES FOR SALE AND INITIATION

- The Banco had never offered Seresco for sale but in late 1977 and early 1978 it had approaches from two American companies and two French companies asking to buy Seresco.

- The main reasons for this were:

  - that the Spanish political and economic scenes had improved substantially,

  - that a major international computer services conference was being held in Spain,

  - that Seresco was the largest bureau in Spain.

- The Banco was willing to talk because it had no special need to retain its holding and with four prospects, had an excellent chance to obtain a good price.

5. NEGOTIATIONS

- With four approaches the Banco felt they had a useful background to serious negotiations with at least one of the four.

- Because of more compatible styles the Banco decided that, first choice would be for a European company rather than an American one.

- Of the two French ones GSI had two advantages:

  - firstly the introduction came through Serecco's previous general manager who had known GSI's corporate development manager for many years,

  - secondly they were perceived to have an organisation, a mentality, a philosophy and future plans closer to those of Seresco.

- Having started discussions in January 1978 the decision to pursue contractual negotiations specifically with GSI was made in May.

- GSI held one or two meetings with the management of Seresco first, to sound out the prospects before arranging the introduction to the Banco.

- GSI used five tactics to persuade the Banco to sell out to them.

    - GSI conducted a review and then proposed to the Banco that the real situation at Seresco was not what the Banco believed and pointed out some of the problems that would have to be faced up to if it did not sell out. GSI had discovered some inadequecies in the information, planning, and control systems at Seresco.

    - GSI explained and sold the benefits to Seresco, the staff and the customer of teaming up together by outlining the synergy and rationale behind the acquisition.

    - GSI outlined some of the pitfalls of the bids from the other three prospective purchasers especially ADP. This has been regarded as a dangerous tactic by many negotiators if not handled with great subtlety but seems to have worked here.

    - GSI invested considerable time in getting Seresco management on its side. This would no doubt have had benefits in communications post-acquisition but it is not clear whether it had much significance in the decision of the Banco who said the subject was not involved in the negotiations. It can certainly have done no harm though and may well have helped.

    - GSI also pushed the concept of keeping Seresco European and this the Banco did seem to be in agreement with.

- The Banco perceived GSI's tactics fairly similarly, saying GSI came over as "very strong, largest in Europe, active all over the World, strong support, good marketing easily extendable to Spain and strong in negotiations".

- The Banco say that they proposed a price and stuck to it but GSI found holes in Seresco to reduce the price. The Banco refused to reduce the price saying they had alternative bidders but although the Banco said they were the stronger negotiator, it is clear that they did concede substantial favours in the contract details especially relating to loans.

- The most interesting competitive ploy came from ADP who sent a telex offering to top whatever GSI offered by 15%. The Banco were not impressed by this approach especially as they were near completion. They felt that it was not a question of 10% or 15% on the price and that ADP should have known better.

6. POST ACQUISITION ANALYSIS

6A. SYNERGY

- For Seresco to be able to market a selection of GSI's products is bound give Seresco an increased competitive edge over its local competitors. This will especially apply to local servicing of some of GSI's international customers with the international product range. Some of these international products are already selling in Spain.

- Seresco is in a stronger negotiating position with suppliers since central buying in the GSI group achieves discounts.

- GSI has obtained some good products from Seresco and is marketing them elsewhere.

- GSI's network will eventually extend to Spain providing further synergies.

6B. HUMAN PROBLEMS

- Both GSI and the Banco felt there were no human problems in this acquisition. The Banco felt that the Seresco management were very happy about the disposal as GSI would be much better to report to than the Banco.

- Seresco's management did feel the new parent would be more likely to help them grow than the Banco and saw it as an opportunity for them and the company.

- The management at Seresco did feel the excessive length of the negotiations caused difficulties of two types. First, some of the staff left because they lost interest due to the length of negotiations and the consequent disruption of the operation. Secondly, the postponement of important decisions to await the outcome of negotiations caused difficulties.

6C. OTHER PROBLEMS

- The major problem in the negotiations was that the audit by Arthur Anderson showed some problems existed of which the Banco were unaware. It also indicated that the net book value of Seresco was much less than the Banco had thought and had therefore indicated to GSI at the early negotiating stages. This was used by GSI to obtain much better terms, loans and guarantees than it might otherwise have obtained.

- A minor contributory factor to the delay was that the Banco's negotiator was limited in his flexibility to agree deviations from the first draft contract. Many aspects had to be referred to a different department or officer.

6D. INTEGRATION

- GSI put one of their financial controllers into Seresco from the date of acceptance of the offer and some six months before completion. In this way financial integration, which because Arthur Anderson's report was important to GSI, was achieved within two months of completion.

- The major post-integration difficulty on Seresco's part was the long time it seems to take to get to know the right people in GSI and the difficulty in communicating or obtaining help in the meantime. This was exacerbated by the language problem and could have been reduced considerably if GSI had provided a list of whom to contact for what type of situation from the outset. Sometimes a large company can forget how strange and difficult it might seem to a new small subsidiary especially one with language problems and with different technology.

6E. TIMING ANALYSIS

(a)	Identification as prospect to approach		
		- internal analysis and decision	5 yrs.
		- parent approval	1 month
		- total	5 yrs. 1 month
(b)	Approach to offer		5 months
(c)	First offer to acceptance		1 month
(d)	Acceptance to completion		4 months
(e)	Completion to integration		2 months financial
			12-18 months products
			2-3 yrs. network
(f)	Approach to completion	- actual	10 months
		- expected	5 months
		- actual % of expected	200%

- It should be noted that the timing for the whole negotiation process from the Banco and Seresco's viewpoint was longer, possibly because of the other bidders and possibly this simply reflects different recollections of points in the negotiation process.

- GSI believed the timing was excellent. Although it had wanted Seresco earlier it knew it was not for sale. They therefore waited for a problem to appear which it did and took their opportunity. Had they waited longer they might have lost it to competitors or there might have been more competitors pushing the price up even higher.

- The Banco felt they would have got more money by waiting another two or three years but were on balance happy with the timing.

- From Seresco's point of view apart from the length of the process the timing was excellent. This was because major new strategies and organisational changes were being discussed at the time and the association with GSI was a useful one to assist with the definition of these.

7. CONCLUSIONS

- It can pay to be very patient about certain acquisitions. GSI had waited five years and having laid the groundwork seized the opportunity when it came.

- A problem in a subsidiary can be used to persuade an otherwise unwilling parent to part with its subsidiary expecially if the parent was not really aware of the problem. It can create doubts about whether there are others around it may not know of.

- A seller with other bidders waiting in the sidelines no doubt has a stronger position and this was used in this case to stick to a high original asking price.

- However, GSI recognising this committment at the Banco to the asking price was immovable, rightly concentrated in knocking 80M pesetas (one third of the asking price) off the price in the contract terms by guarantees and loans.

- A personal introduction of the buyer to the seller can be of considerable use where competitors are involved.

- All advantages (e.g., close philosophies and both being European) should be used to the full against competitors.

- Price is not the only factor in disposal negotiations and is frequently not the major factor. ADP's offer of 15% more than whatever GSI bid was irresponsible and not suited to a Bank. To an individual or group of individual shareholders it might have worked, more so in the U.S.A. than in Europe.

- Criticising your opponent is a ploy not favoured by salesmen or buyers but it can work in some situations, especially where trust exists between the prospective buyer and the seller.

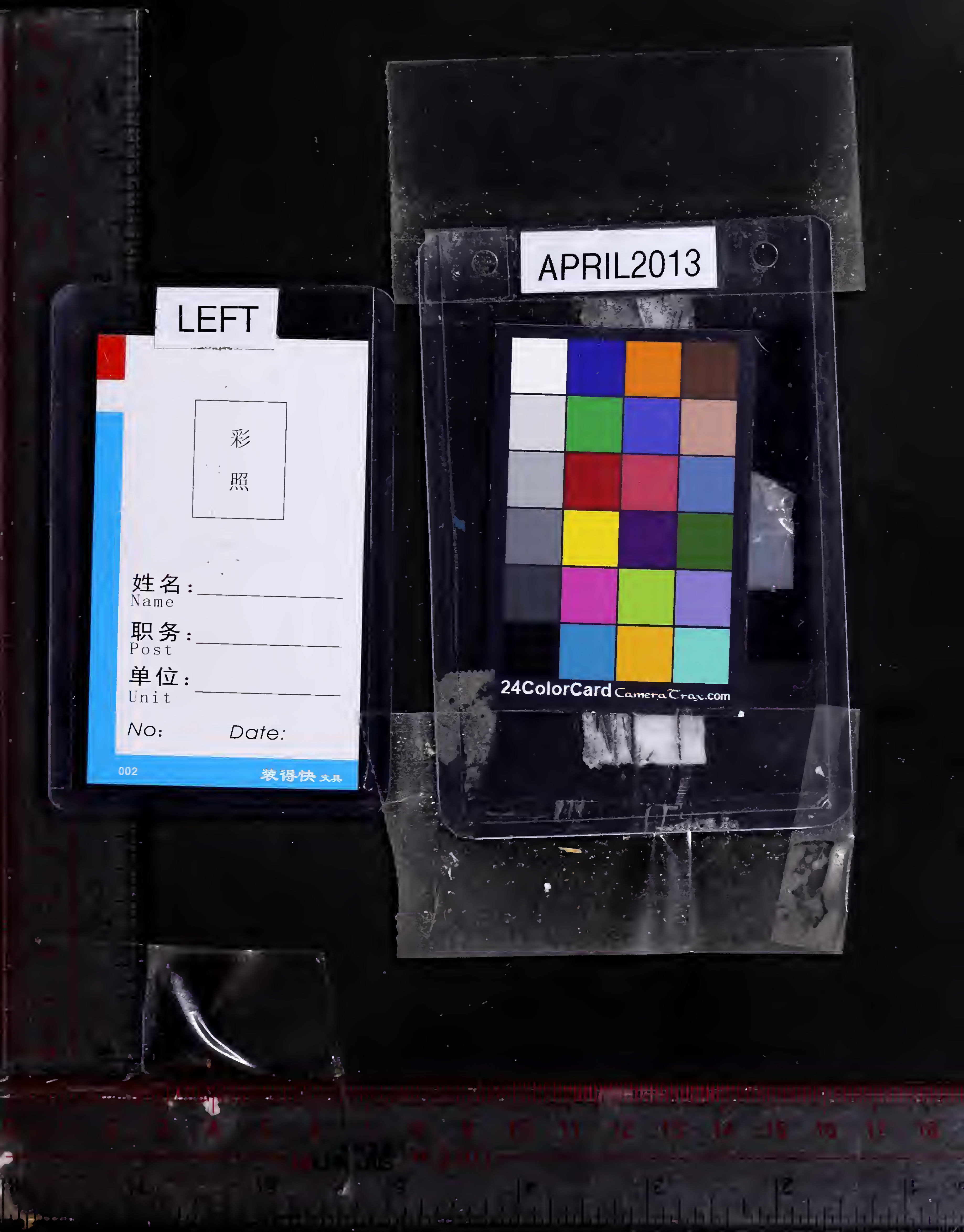
- Hard work on getting the subject in a frame of mind to support your bid can rarely do any harm and frequently has been seen to be advantageous.

- Long negotiations always cause problems to the subject and should be speeded up wherever possible for this reason alone.

- A good pre-acquisition and it can pay for itself many times over and should not be skimped.

- Immediate grasp of the reins of financial control is important especially where weakness in this area has caused the willingness to sell.

- More attention should be given by a large parent as to who should be contacted for what purpose in the early post-completion phase.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