Acquisition model for small privately held manufacturing businesses in the United Kingdom

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Expanding into new markets by means of acquisition is a common strategy practiced by companies all over the world. Today, most models and theories for M&A have been developed mainly for big take overs. In a majority of cases there is full transparency between buyer and seller allowing for thorough due diligence to be performed, therefore avoiding any unexpected issues to arise post-sale. Can the existing models be improved to better facilitate the needs of smaller entities and acquisitions?

Emikron Group is a world-class producer and service provider of plastic injection tools and served as a case company for this study. With the automotive industry being the prime market segment, Emikron Group has a vast majority of its customers based within the European region. With facilities in China, Sweden and Germany, Emikron Group have decided to expand into the United Kingdom to better facilitate the needs of their existing customers in the region.

The acquisition process flow diagram by DePamphilis served as the general process that larger companies follow when performing an acquisition. DePamphilis encompasses the entire acquisition process from an initial business plan to evaluating the deal after the acquisition has been integrated to the buying company. DePamphilis model was adjusted to better suite smaller privately held businesses by emphasizing the screening process heavily, as well as ending the process after first contact has been established. The result of the new model gives Emikron Group three ideal candidates for acquisition should they choose to engage in a first contact with the intent of an acquisition.

Improved acquisition process

The acquisition plan serves to identify what factors a potential acquisition needs to have in order to become a viable candidate for acquisition. By visiting Emikron Group’s Swedish subsidiary Verktysmekano i Motala, the business model canvas by A. Osterwalder was used as a framework to identify what made it such a successful company. Financial capabilities, equipment requirement and workforce were assessed and served as a future blueprint by which new candidates would be assessed by.
With the critical success factors identified, the initial search began with the intent to gather as many companies as possible and form a first candidate group that adheres to high-level search criteria:

- Correct industry
- Correct geographical region

The result of this step was a time-consuming inefficient process as there were limited to no complete lists of companies that fell into these high-level search criteria. Individual assessment of countless companies resulted in 114 companies being added to the candidate acquisition pool over the span of 10 weeks. This process can be greatly improved given sufficient funds to acquire lists already compiled by independent contractors.

The 114 candidates were subject to a more thorough screening process to narrow the list of candidates. This involved an in-depth qualitative analysis over available company information on their respective websites. After this screening was completed the number of potential acquisition candidates had been substantially decreased to 17. A financial valuation was performed to eliminate any remaining candidates that would exceed Emikron Group’s budget for acquisition. 11 candidates were disqualified during this process.

To further narrow the field, the remaining candidates where ranked with the ambition to produce the top 5 candidates for acquisition. The candidates were ranked by:

- Geographical location
- Financial Risk
- Equipment & Operations

Geographical location ranked each candidate by its distance to the Center of Gravity of the existing customers within the United Kingdom.

Financial risk was assessed by the quotient of the liquidation value and the enterprise value of each candidate. The financial risk quotient is in other words the part of the acquisition investment that would be returned upon liquidation of said candidate.

Equipment & Operations involved comparing each candidate’s pre-requisites to perform the same task as the Swedish subsidiary Verktygsmekano i Motala.

With the candidates all compared against each other, the top 5 candidates moved into the final part: the on-site inspection.

An on-site inspection was performed mainly to validate the existing information upon which this study has been performed.

“Do they have what they claim they have?”

By inspecting the candidates personally, you also get the opportunity to inspect other elements of the candidates not otherwise shown in key figures or websites:

- Quality of facility and equipment
- Work force atmosphere
- Environment & accessibility

The result of this case study produced three highly qualified candidates to Emikron Group that all meet the requirements and pre-requisites of Emikron Group.

This acquisition model can be applied to a variety of different industrial manufacturing industries apart from plastic injection moulding, as well as in different countries facing similar circumstances. The model can be further improved by increasing the efficiency of searching for initial candidates.

References:
