

International Marketing
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Lecture – 29
International Business Case Analysis

Hi, good evening. We will now have our module 6, lecture 29 on international business case where we had left in the previous session. In the previous session, we have discussed the role of investment bankers, we have discussed the role of audit firms and the legal firms or the law firms.

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So, identification of the prospective companies, then acquisition, so how it is held? And this is what exactly we will discuss this, will spend some time and this is quite complex here. So, each of these there are 12 different points, but I would highlight each one of this. You may have some role in some of this, but most couple of things you may not have any much role to play. So, where you have to play a very crucial role that is very important, I will explain.

And where as an international marketer where you do not have much role to play, your other colleagues from finance or from HR will or in the operations or in the R and D they will be working on that. So, what is your role here that I will explain to you. So, the first one is the identification with the help of investment bankers. That means you have to appoint; the company ABC Incorporation has to appoint an investment banker.

So, this typically the finance head CFO will be taking a decision and you do not have much role to play here because they know which are the investment bankers and they have relationships. So based on that, their experience and their negotiation, they will go ahead, you do not have much role to play here. The second one is the engagement with a law firm and audit firm for due diligence.

So, law firm is also you do not have too much play, your company headquartered legal people they will get engaged with a international law firm and they will select and then they might tender and they might ask select from based on their previous experience and they do that. And third one is the similarly like audit firm, an audit firm is very important and as you know they will do the due diligence and all those things.

There also your finance people CFO will take a decision there. So, these are the people who will take a decision and you do not have much role to play. Then they will select and here once they select identified out of say they are 3 or 4 prospective companies which can be acquired, this is a very strictly confidential process and this is only shared between the investment bankers with the top management of the company.

This is not shared in public, this is very confidential and typically the senior management of the company only discusses with the people who will be directly involved in this acquisition process. So, the company will involve the marketing people here during this selection process. So, which company out of; there might be 3 companies available for acquisition, but you will be consulted by your CEO and the senior board manager out of these 3 companies which one to acquire.

And your views will be very important there because you have to look at their brand at the market share and all those things of the companies, their reputation and all those, based on that they will take a decision. So, your role is there more of recommendation there. You have no approval role as. As an international marketing manager, you have a role there to say that out of these 3 or out of these 2 or out of these 4 this can be an order of choice preference based on that.

Rest of the thing will be the negotiation and the approval will be taken by the top management or the board of directors and they have to take it to the shareholders for the

approvals and all those. So, these will be typically done by the Board of Directors, where as an international marketing manager, if you are not the board member you do not have much role to play. So, once it is approved then the acquisition process start.

So that means you start acquisition process, the entire acquisition process starts, the payments to be made, investment banker starts. Before this acquisition, law firms and the audit firms will also provide their input. So, law firms will investigate the they will go through the entire legal documents of all the distributors the company is having and they will look into the various; whether the company there exist, the European company whom this ABC Incorporation is trying to acquire.

What are the legal cases they have pending at the various courts in US and what was the bearing on the financial for these legal cases. All those things where the company has any legal case against the patents or IP or anything, so all the legal firms will scrutinize that. Legal firm will also scrutinize all the distributor agreements the company is having. Legal firm will also look at whether any customer cases, legal cases from the hospitals on the company is there because of non-performance of any clause.

So legal firms will do all due diligence on this and it is a very cross border, I say it is very complicated because you have so many different countries in Europe and then each of these countries having different legal guidelines. So, these legal experts they will analyse and they will look into that and if they give you the green signal then only you can proceed. So, legal firm is also very crucial here. Then comes the audit firm.

So, audit firm will look at the complete financials audit firm will look and also audit firm will do the due diligence of the source. What is due diligence here? The audit firm will go through the entire payables and receivables of the company and ensure that whether the payables and receivables are genuine there or not. What is the inventory showing in the balance sheet? Whether that inventory is physically available at the warehouse or not?

All those details are extremely important because the company whom the ABC Incorporation is going to acquire in Europe will have the balance sheet and these people, this audit firm will do the due diligence, look at the entire inventory level of the company, look at what are the

payables, all the suppliers, what are the amounts the company needs to make the payment, was there any default on that.

And what is the receivables that means the company is going to receive, are these payments are really receivable or some of these are bad dates or not? All these due diligences will be done by the audit firm. So, any of these audit firms whoever the ABC Incorporation selects will do the due diligence. So, this takes quite some time, say around right from search process, then negotiation, selection negotiation, due diligence.

Depending on the size of a transaction it might take 3 months, 6 months, 8 months' time or maybe a year's time in depending on the size of the operation. Some of these operations, some of these acquisitions we have seen has happened in 6 to 8 months, some of this acquisition was taken more than 2 and half years, 3 years, it all depends. It is very difficult because it all depends on the size of the company.

Because if the size of the European operation is very big and scattered in various countries, then the due diligence process is also very complicated because you know it is time consuming, the auditor's firm the auditors has to travel to various countries, look at the various inventories in various countries, stock points, and then also check all the receivables, all the payables, ensure that they are all correct documented, so they will do this audit.

So, they are a great help. So, you can see the three pillars are extremely important. You cannot do any mergers or an acquisition in international market without the help of these investment bankers and the law firms or legal firms and also this audit firms. Then once everything is over, then you have to do the acquisition is complete, then you have to make media communication.

So that media communication needs to be done by your public relations department where your CEO of your ABC Incorporation will inform to the shareholders in US because till now it was absolutely confidential, but the Board gave a permission to acquire a company that is all, nothing more than that. So, the board has given an approval to go ahead, but board has not given approval which company and all those things.

Those has been given in that and then in the next board meeting that has to be ratified and the board gives approval for the acquisition and then once the acquisition completes, then the CEO of the company gives a press release that certain such company in Europe has been acquired by ABC Incorporation of US. So, that will come and say once it is a public media, then all the employees of that company and the customers they will all come to know through this.

Then what happens from day one, once you make the payment and you acquire the company, all the customer bases are already with you from day one. So, then you need to have a communication to all your customers, so that your customers are scattered in various countries in Europe and then various install base you have to then tell them look now the equipment the company has been acquired by us, the sales and service will be done by us.

So, all those communications have to do there. This customer communications typically if it is a large acquisition, and if there is a very important event like this type of medical equipment, there is an event happens in Dusseldorf known as Medica. So, the companies participate in the Medica exhibition, it typically happens in the month of November. This is a large exhibition where the company takes a stall there.

And then displays that we have acquired this company, now we will be selling this brand product in that name in the market. So that is the customer communication. The customer communication can happen through direct mailing. Customer communication can happen by senior executives of the company going and meeting with the owners of the hospital or the administrators of the hospital communication, it can be verbal communication and has to be written communication also.

And also the communication through media and also the communication by holding a couple of the events at the customer place so that we communicate that the acquisition has taken place. Now, the previous one the Japan as you have seen it was not an acquisition, it was starting a new entity, but here there is a different company. So, this different set of people, they are not, they are totally different payroll system.

They have a different IT structure and everything is different and now it has to be integrated with your parent company ABC Incorporation, so that is a big task. So, there is always in this

type of a situation an integration team is formed where all the people from HR, IT, sales, marketing, logistics, procurement, R and D, all the people from ABC Incorporation will be part of this, the senior people are part of this integration team.

So, integration team is very important because you know each of these integrations, the employees who are working for that European company will now become part of the American company, then some of them might be happy, some of them might not be happy, some of them in Europe depending on his or her culture may be liked to work for an American company, may not like to work for an American company.

So, there will be some amount of HR issues there, so these are all issues of the European company has to be handled by the American ABC Incorporation and the HR integration team, so that is to be handled. So, typically what happens from ABC Incorporation one HR person, one HR senior person and from the company the company whom the ABC Incorporation acquired say XYZ of Europe, one person from HR of XYZ will be part of the HR team and they will do this HR integration.

IT integration is extremely important because you need to start invoicing in the name of ABC Incorporation in Europe and then your entire inventory and entire sales everything has all the modules of ERP sales module and the inventory module and your accounting module, HR module, supply chain module or procurement module all these module needs to be integrated to your parents Company ABC Incorporations SAP system or Oracle or the MFG PRO or whatever is the ERP system.

That is a huge task that takes quite long time because if both the companies are using the same ERP platform it is easier, but if the companies are using different ERP platforms it is very different. So, it is a very important role of the IT people to do that because see in today's world without the help of this IT you cannot run the operation because there are so many modules, taxation modules and then there are regulatory modules, so many different things you have to follow and this ERP will help you to meet all these requirements.

So, the integration to the ERP in IT is very important. Then comes the sales and marketing where your role will be extremely crucial because here you are getting a bunch of new sales people from the company whom you have acquired for in Europe and they have a different

skill set, you need to train them on and then you have to ensure that they also follow the same ethics and norms in what internationally ABC Incorporation follows.

So, maybe that company's sales and marketing varies the way of functioning, the way of submitting offered, the discussions may be different, so needs to be standardized with the ABC Incorporation's sales and marketing way. Then manufacturing, logistics, procurement, R and D. So, here we will discuss only the sales and marketing team because the other functions are not the purview of our subject. So, here direct sales team integration process.

So, the sales team because in European market you will have a direct network that means you have your direct sales people located in various countries and also you have distributors in various countries, why company does that? Because you know say a smaller country like Romania or in maybe a small country like Vienna, a small country Austria where you may have one distributor there and one manager may be sitting somewhere in Europe.

Somewhere in country maybe in London or maybe in Paris and then travels to three countries manages the business, typically in the European Union it is done like this. You do not put really one-one person in each of this country because there are too many countries and the business may not be that high, you may not put that, you may put a distributor. So whole the network is real hybrid network, so you do have your direct sales people and you also do have your distributors in some countries.

So, this direct sales team integration process and training on the internal process so that is very important like the approval matrix of the discount, so how much discount I can give. Say I am the manager for Italy and France and if there is a washer disinfectant customer asking 5% discount, can I give that, do I have the authority to give it? So, how do I give or should I have that authority or I can give maximum 2% or I can have an authority of 10%.

So, these all approval matrices are required. What are the contract documents I can sign as a manager? So, these all training are required, approval matrix, authority matrix, contract signing because once you get an order from the customer you have to sign a contract with the hospital in Europe and that contract has to be signed by the hospital administration and also one of the sales persons of the company.

So that who will sign it that authorization is also important form there. So, there is very crucial for that in that direct sales team integration because you know a set of people; some of these people may not speak English, may speak French or may speak Spanish very fluently but may not be speaking English, so we need to have this training across the whole set of people is also very time consuming and very complex because language is also important.

Language is also one of the barriers here in integration because some of these European people will speak only German or some of them speak Spanish, some of them speak French, some of them speak Italian language, so all those are very different. So, in the integration, entire sales team integration process due to language will be some amount of challenge, not much challenge because most of the people can speak English.

But maybe some amount of challenge, language can be some amount of challenge in signing. Then comes distributor agreement. So, distributor was having a previous agreement with the company whom the ABC Incorporation was accepted. Now, distributors are located some in Finland, some in Norway or some in Sweden and someone is in Italy, so largely they are spread across the Europe, some in UK.

So, this in UK is you know maybe somebody is in England, some distributor in Scotland, so all these distributors need to be again revisited and renegotiated with all of them the terms. So, this is also a very crucial thing because from the practical experience what we have seen some of these distributors sometimes 70 to 80% of the distributors might agree to continue with ABC Incorporation.

Maybe 30% distributors may think we are not interested in all those things, so if this changes, so better we go to some other company and all those. So, here this takes enormous amount of time to build a distribution rebuild the network, that means if some of the existing distributor agrees to continue then the life is much simpler, some of the distributor may not agree to continue that may be a challenge.

Then you have to find out a new distributor, then you have to train the distributor and as I say that training has to be at the plant here. So good that the plant is in Europe because the company now acquired is located in Europe, so you can train the distributors there in that and

no need to really send like Japan case all the way to US, so you have an advantage in training. And then so this takes quite long time and this should not be a showstopper.

So, what is you know a showstopper? See the biggest challenge in mergers and acquisition is the continuity of the business, so, the continuity of the business and the flow of revenue and flow of profit. Why you are acquiring? You are acquiring because you want to have a larger amount of revenue and larger profit, otherwise why you are making investment. Otherwise, you should have taken the option 4, one which is no expansion in Europe.

You took a decision to go to this market, just the reason behind this is that you want to get a larger revenue and larger profit for your shareholders so that is the reason you have gone. So, the biggest challenge here is to continuity of the business and then get the revenue, increase the revenue and also the gross margin, so that is also very crucial here. Then comes customer engagement process. So, then you have various sets of customers in Europe, not like Japan.

In Japan, all the people they speak Japanese, they have the same culture. Here, you do have the different cultures and different set of customers, the set of customers in Finland, the set of customers in Germany, set of customers in Switzerland will be different. So, then you need to have different customer engagement programs determining on the size of the installation. If you have a large installation in Switzerland then you might have to have a customer engagement program in Switzerland where you can request.

You can ask the customers who are located in Zurich or maybe the customers located somewhere in BL in Switzerland or the customers from Germany also to come to Switzerland, can come here and can also have a customer engagement program, so that is a very time consuming and there is a huge cost for that. So, all these should be taken into consideration for this.

And the last one is the sale, service commitment liability of the previous owners of the business. As the audit firm will do the due diligence and will give you that these are the commitments of the previous owners of the business and you have to ensure that you meet the commitments on the previous owners. Someone say that I will give this equipment additional one year warranty or I have agreed for this type of an AMC or this type of a CMC.

Annual maintenance contract or comprehensive maintenance contract by the previous owner and they have signed that agreement, you have to follow that agreement, you have to take that agreement into the place. So, this process is a very, what do I say very you need to do lot of management in each of these processes to ensure a smooth transition from the company whom the XYZ in the Europe to ABC incorporation in USA.

So that smooth transition should happen and if that smooth transition happen there should not be any problem in the revenue recognition, but from my experience I have seen this transition sometimes are smooth, sometimes are a little bit very complicated it becomes, lot of difficulties are there, lot of obstacles are there, handling HR is a big issue there. Handling the manufacturing also becomes a big issue because you follow a certain manufacturing process.

They follow a certain manufacturing process, quality control norms, R and D, there are so many differences there, so these need to be reintegrated. So, this process is the most fastest process of entering into a market where you do not have a product in that market and instead of developing a product at your home country or developing a product in this European country, acquiring will be a much faster process but have different set of challenges.

So, in this section we have discussed the entry in European market by a US company who does not have a product to meet with the European market, so the company decided to acquire a company in Europe and to go ahead and market, so that is the way it has proceeded. I hope you understood this and if there are any question, in the question answer session I will take it forward. Thank you very much.