Synergies in Mergers and Acquisitions
A Qualitative Study of Technical Trading Companies

Master's thesis within Business Administration
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Abstract

Background
Synergies or rather the absence of synergies has been blamed for many failures in regards to mergers and acquisitions. Still, there are companies using mergers and acquisitions as a natural part of their growth strategy, indicating that these organizations manage to handle synergies efficiently.

Purpose
The purpose of this study is to analyze synergies in regards to mergers and acquisitions in technical trading companies to learn about success factors.

Method
Because of synergies’ complexity this study has used a qualitative approach. The empirical findings have been compiled by semi-conducted interviews with company representatives from the organizations regarded in the study.

Conclusion
The conclusion points at several success factors in regards to synergies and mergers and acquisitions. However, the three most important were found to be; the entrepreneurship and human capital, the corporate head’s knowledge, the experience and selection capability and the inclusion of acquisitions (developed from the urge for growth) in their business models.
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1 Introduction

This section gives a general introduction to the study and tells why it is of interest to read.

At a very young age, the school mathematics teaches us that one plus one equals two. As the learning process proceeds we realize that there is logic in this because nothing can be created from non existing material. Interestingly, synergies in regards to mergers and acquisitions are supposed to create an added value. By combining two entities the result should sum up to an outcome larger than the stand alone entities, i.e. one plus one should equal three.

With $1 + 1 = 3$ as standpoint, this master thesis will investigate how this statement holds for a certain type of mergers and acquisitions. Due to the large number of failed mergers and acquisitions in the business world and the associative criticisms, some researchers have started to question if synergies exist at all, claiming that mergers and acquisitions often destroy value rather than create it. Still, it is fascinating to see that mergers and acquisitions are conducted on a daily basis. It becomes even more interesting when considering that some corporate groups have included mergers and acquisitions as a natural part of their growth strategy, where some of them are doing more than ten acquisitions every year. Unless it was not profitable, these acquisitions had presumably not taken place to such a large extent. How do these corporate groups create synergies? What is it that makes their mergers and acquisition strategies successful?

To be able to put the ‘$1 + 1 = 3$’ acronym into a context, this study has concentrated on a certain industry and a certain type of corporate groups within this industry. Also further assumptions and limitations have been done in order to handle the complexity and constraints in regards to this.

1.1 Background

This section describes the study more in depth and aims at giving the reader a further introduction to the content and the problems.

Mention the words mergers and acquisition* (from her on referred to as ‘M&A’) and many people will think of synergies** and the benefits of added value*** the synergies are supposed to bring as a result of M&As. For example, functions such as human resources, finance and marketing can easily be shared across internal borders, carry cost savings and thus add more value to the organization. The logic says that reasons for M&As should always be to improve the organization’s performance, although several cases show this is not as simple as it seems (Zhou, 2011).

* Mergers and acquisitions refer to “the consolidation of companies. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.”

** Synergy is “an effect arising between two or more agents, entities, factors, or substances that produce an effect greater than the sum of their individual effects.”

*** Added value is “used in several ways to indicate an enhancement to a product or an entity”
A recent study targeting the U.S. manufacturing industry has investigated the effects of synergy costs and administration costs on organizations’ M&A choices. The outcome is showing that the more inputs that can be shared within the new cooperation, the larger the likelihood for a M&A is. On the other hand, complex interdependencies between business units in the new organizations arises administration costs increasing the barriers for M&As. The study points at how bureaucracy costs counterbalance synergies and limit the organizations’ M&A choices (Zhou, 2011).

Further limits to M&As have been found in another study, pointing out that realized M&As aiming for synergies are facing two major problems. The first problem, called the contagion effect, occurs when the organizations initiates resource sharing at separate business units and not only positive effects of the sharing emerges – also the negative outcomes become visible and contaminates the intended gains. Secondly, the M&As are likely to result in extended use of existing resources, resources whose capacities are limited and not adjusted to such a substantial use; the capacity effect appear (Shaver, 2006).

Additional reports point at similar problems. An analysis of 168 mergers between large companies showed little or no support for the creation of synergies. Instead, the study found support for management’s hubris and growth desires related to the M&As (Mueller & Sirower, 2003). There exist many examples of unsuccessful and collapsed mergers having lead organizations into bankruptcies and failures. Only 9% of the M&As are by senior level management considered to be ‘completely successful’ show an analysis conducted by Hay Group (2007).

However, examples of successful M&As exist. The technical trading organizations focused on industrial components and related products in Sweden and the Nordic area have for long been fragmented with many smaller players and several intermediate links between suppliers and customers. In the last couple of years the industry has started to move towards consolidation, mainly because of harder pressures from stakeholders, competitors and customers. Also the possibilities for potentiating gains in the organizations’ value chains have been highlighted, as well as the increased focus on core competences and competitive advantages. Several technical trading companies have taken advantages of this and realized the potentials in acting as the kit between customers and suppliers in several distinct niches. Interestingly, these corporate groups have made acquisitions to an obvious part of their growth strategy, where several of these groups are acquiring a vast number of companies every year (Indutrade, Addtech et al, 2011).

1.2 Problem

This section develops the information from the background and explains some problems associated with synergies in M&As.

The official purpose of the majority of M&A activities is to achieve synergies and to create added value to the new organization. Although the major potential synergies are recognized before the deals it does not guarantee that these surveyed synergies are realized in the end. Problems occur when synergies will be put from thought to action. One of the reasons are said to be too much focus on tangible aspects, the financials and the rationales of the deal, and too little focus on the soft sides of the integration (Cartwright, 2011).

According to Ficery et al (2007) a few of the most common errors done in connection with M&As involve the definition of potential synergies and the overlooking of opportunities
within a reasonable time frame, as well as misinterpretations of cultures and systems. Even though the deal and the synergies are feasible on paper the mismatching becomes obvious when they are about to be realized.

Also in another study, the human resources and culture issues are blamed to be the reasons why realization of synergies has such a high failure rate. Management is involved in the overall plans and the strategic changes; however it is the organization’s people, the employees that often are the ones who will make the changes work in reality. If the employees are not satisfied synergy realization problems arise (Schuler & Jackson, 2001).

However, the realization problems can also be connected to what kind of synergies that are sought. Looking at the actual ‘to be’ or ‘not to be’ of synergy realizations, a study conducted by Accenture shows that no more than 50% of senior managers believed that synergies related to costs were realized. The same results for the revenue synergies were lower, 45%, pointing at the slightly higher difficulties with synergies that will increase revenues (Accenture, 2006).

The problem with revenue synergies is further supported in a study conducted by KPMG (2008), showing that companies in general do not put a price on the revenue synergies and much less informs the market about these synergies. Instead the focus is usually on cost synergies that are more easily quantified in comparison with the intangible revenue synergies (Sevenius, 2003).

Despite all obstacles and examples of unsuccessful M&As and unrealized synergies, Swedish technical trading companies seem to do well with their acquisition strategies. During the recent years, the majority of the companies* in this study have outperformed both OMXSPI** and OMX Stockholm Industrials PI*** when measuring from 2005 until today’s date (Dagens Industri, 2011).

These corporate groups, with subsidiaries largely working as technical consultants using their expertise and their supplier relations to solve complex and customer specific problems, have developed very special and distinguishable M&A strategies where decentralization plays a larger role than in other types of M&As. Even though many studies are pointing at the obstacles with M&As, these corporate groups must do some things differently since M&As are inherent in their corporate growth strategies. The questions are: How do they assure that the whole add up to more than the sum of its parts? How are the synergies realized in these corporate groups? Where do the synergies occur? Why are these organizations succeeding with M&As when others are not?

* This comparison is not applicable on BE Group (as it is not a technical trading company) or Latour Industries (as the organization neither is a technical trading company nor is stock exchange listed; the organization is a unit within Latour (listed on Large Cap)).

** An index that contextures all shares listed on the Stockholm Stock Exchange.

*** An index that contextures all shares in the industrial sector listed on the Stockholm Stock Exchange.
1.3 Purpose

This section explains which aspects of the problem the study will focus on and also explains how the problem will be solved. The purpose will be used to guide the following parts of the study.

The purpose of this study is to analyze synergies in regards to M&As in technical trading companies to learn about success factors.

1.4 Research Questions

This section states the questions asked that will help to fulfill the study’s purpose.

The research questions asked and used to fulfill the purpose are:

- How do the organizations find potential acquisition objects and potential synergies?
- Which criteria do the organizations use to analyze potential acquisition objects?
- Which synergies are prominent and denoting?
- How do the organizations integrate the acquired companies into their own organization?
- Which are the most important success factors?
2 Method

This section will go through the study’s method.

Method, type of data, collection of data, interviews and analysis of data, literature search, delimitations and limitations, validity and reliability and criticism of method will all be treated in this chapter.

2.1 Qualitative Method

This section will explain which method that has been used and why this method is the most appropriate for the study.

“Qualitative research methods involve the systematic collection, organization, and interpretation of textual material derived from talk or observation” (Malterud, 2002). Huff (2009) explains qualitative methods as the identification and comparison of characteristics of empirical facts, including easily understood information as well as features difficult to capture. Given that synergies are a very complex phenomenon and given that synergies differs depending on industry and each organization’s corporate strategy, a qualitative approach give answers to:

- what different forms synergies can take
- why certain M&A strategies are chosen and why they create certain types of synergies
- where the synergies are found
- how certain synergies are created

Huff (2009) describes some typical goals of a qualitative method, including: explanation of how and why things happen, extended detail and depth to abstract explanations, and exploration of unanticipated antecedents and consequences, which are all in line with the above stated arguments concerning what, why, where and how above. Adding that a quantitative method makes it possible to give room for reflections and connections, include rich descriptions, comprise qualified arguments and involve further meanings (Huff 2009), a qualitative method is indeed the most suitable method for this study.

A quantitative study, with its objectivity, oversimplifications and precision, would not give answer to how the previously mentioned aspects are interrelated to each other. In addition to this, a quantitative study would neither give a deeper understanding of the selected field of study, since the detailed company specific information required would be very hard to obtain by relying on statistics only. Because statistics requires verbal information to be translated into numbers, it is not suitable for complex question formulations letting the respondent give exhaustive answers. If using a quantitative method, the risk would be to lose many important points valuable for understanding the large picture (Huff, 2009).

Even though not all of the what, why, where and how aspects stated above will be examined in detail, it is important to have an understanding of them to be able to answer the research questions. To investigate a few organizations’ M&A strategies will give a perception of how these organizations deal with synergies and the implications that encompasses these synergies. The fact that the organizations’ businesses are very closely related, they are to a large extent operating in the same markets and share similar customer and supplier bases, makes it interesting to compare the data gathered from the empirical findings. Also, it makes it
possible to dig deeper into the important areas and understand how these are intertwined with other relevant aspects.

Considering the above mentioned information, a qualitative method is chosen. The qualitative approach aims at gaining an in depth understanding in the selected field of study, at the same time as it intends to discover differences as well as similarities among the selected organizations (Huff, 2009).

2.2 Primary and Secondary Data

This section describes which sort of data that has been collected for which purposes, and also explains why some type of data is more suitable for some type of information.

This thesis has been based on both primary and secondary data. Secondary data is previously collected data that has been gathered for other reasons but that can be used because of its relevance to the field of study. Secondary data takes less time to acquire and is less costly to acquire than primary data is, and for that reason it has been the preferred source of information. Secondary data was used especially in the initial phase of the thesis compilation; to gain information about the selected organizations, and to compile material for the theoretical framework mainly consisting of previous findings concerning synergies. Primary data, defined as data collected specifically for the study, has been the main source of information for the empirical findings, both because this information had been hard to acquire elsewhere, and because it is more realistic, trustworthy and updated than information given from secondary data (McQuarrie, 2006).

2.3 Collection of Data

This section describes how the primary data and secondary data respectively has been collected.

Academic literature in the form of books and articles has been the primary sources of information. For detailed information, please read section 2.4 Literature Search below, and for information regarding limitations and delimitations associated with this secondary data, refer to section 2.6 Limitations and Delimitations.

The secondary data has been complemented with primary data. Two main sources of primary data has been used; company specific information retrieved from the selected organizations' web pages, where the main sources of information have been general company information, press releases and annual reports. The primary data in form of interviews with company representatives has been conducted either by phone or on site at the organizations' head offices. Initial contacts with these organizations were taken through e-mails; the goal in each case was to get in touch with the person having the largest M&A knowledge in the organization (which not always is the CEO). Dependently on the company representatives' wishes, their willingness to share company specific information, their knowledge about their organization's acquisition processes and the duration of the interview itself (from twenty minutes up to two hours), similar questions were asked to all of them. The interviews were recorded by the use of a dictaphone, and later taped from the dictaphone to computer. The found limitations and delimitations in regards to the interviews are described in section 2.6 Limitations and Delimitations.
2.4 Interviews and Analysis of Data

This section describes how the data retrieved from the empirical findings were retrieved and analyzed.

Ascertain the use of a qualitative method, the next step concerned choice of which qualitative method to use. Semi-structured interviews, where the interviewer asks the respondent a set of open-ended questions in a way that lets the respondent answer freely, has been found to be the most appropriate interview method to use in this study. The room for flexibility, possibilities for expansions of points found interesting, as well as opportunities to ask for additional questions are all applicable arguments for the choice, considering the what, why, where and how described in 2.1 Qualitative Method (United Nations, 2011).

A difficulty in regards to qualitative studies is the large amount of information, thus it is important that the analysis involve decontextualisation and recontextualisation. In decontextualisation, parts of the information is highlighted and looked at in more in depth in order to find similar elements. Recontextualization aims at assuring that the information is coherent with the framework and involves making sure that no incorrect reductions are done (Malterud, 2002).

The theoretical framework has been used a starting point for the empirical findings and the analysis of this data. As the theory has created an understanding for synergies, their problems as well as for the whole M&A process, the information retrieved and gathered in this section has to a large extent set the frames for further subsequent work. The combination of the theoretical framework and information retrieved from the companies’ web pages established a deepened understanding for the synergy implications, which contributed to the formulation of interview questions and the characteristics of these. Gradually, the interview questions were adopted, cultivated and developed along the way, as the inherent trial-and-error process in having interviews lead to making each new interview better than the previous. The information gathered from interviews were sorted and broken down into more specified parts with the purpose of facilitating handling and structuring of the large data amounts. In cases where a widely asked question gave answer to several smaller questions, the widely asked question were modified to include many smaller questions (and answers) which were taped instead. In association with this, the large amounts of data were perceived to be difficult to manage and balance; at the same time as an overload of information is undesirable, the loss of essential synergy information due to cuttings in information is neither desirable. In order to assure recontextualization, any elimination of data has been done with large cautiousness.

Already before all of the interviews were conducted, the analysis of these started to shape up. Initially, the focus was put on using existing knowledge gained from theory and compare this information with the empirical findings, i.e. which synergy problems do exist in theory? Do the empirical findings point at the same problems? Secondly, by comparing several different factors between the companies a further development of the analysis proceeded, i.e. comparisons in synergies found, synergy outlooks, integration levels, acquisition purposes etc. Rather soon it was clear that several strong features, especially the high degree of decentralization and the absence of integration, were found to be distinct and of similar character in Addtech, Indutrade and Lagercrantz and Latour Industries where applicable. Whereas the same features were found in the other companies, these were not perceived to be as strong and also contained exceptions, making them stand apart from Addtech, Indutrade and Lagercrantz. For this reason, the decision to divide the analysis in two categories was taken; 5.2 Synergies between Subsidiaries, and 5.3 Synergies where Partly or Complete Integrations Take Place. However, it is important to note that in the cases
where OEM International and BE Group work with decentralized acquisitions (explained later), they could as well have been classified as belonging to category 5.2 Synergies between Subsidiaries, which also is stated when describing their synergy implications in 5.3 Synergies where Partly or Complete Integrations Take Place. For that reason, it should be kept in mind that the categorization has been done to facilitate the analysis of data, not with the purpose of intriguing the organizations.

Comparisons of similarities (as well as differences) have been used for the further analysis as well. The analysis and the two major categories have been presented in smaller paragraphs, preluded with subheadings, in order to give a better overview of the different synergy implications and make it possible to grasp the overall essentials. The analysis has resulted in many implications, and the reasoning is that rather than grasping only a few of the implications the thought has been to give an understanding for the wholeness. The paragraphs have been used both to explain different synergies and different aspects in regards to these synergies, for example problems and other emphasizes found interesting.

The conclusion part of the analysis aims at highlighting the most important findings and further discuss findings that are relevant for all of the companies in this study. The conclusion part recalls the study’s purpose and discusses the implications in regards to this. The conclusion can be said to contain an analysis of the analysis as it clarifies the aspects standing out the most.

2.5 Literature Search

This section describes how the literature search has been conducted and what sort of information that has been used for the collection of data.

As synergies is a relatively narrow area, it soon turned out to be useful to learn and gain information in close relation to the concepts with synergies. To understand synergies alone was found to be little worth unless understanding the whole M&A process. The focus was put on finding information concerning fundamental concepts of corporate strategy, synergies and other M&A related questions in order to gain a throughout understanding of the relevant concepts.

Many different sources of information were used; the most important were the academic literature written by organizational strategists. Although much of the facts in these authors’ non-fiction books are understandable and informative, the literature does not concern synergies directly but rather M&As in general, and for that reason academic articles targeting synergies more precisely have been used to gather the latest data in the field of study. Many of the found articles have been written by experienced people working with M&As at consultancy firms, making the information pragmatic and realistic. All in all, it can be said that the combination of general M&A information and synergy specific information constitute the frames for this study.

The articles and books mentioned above were found by using academic databases in the Stockholm City library, in Jönköping University’s library, in the online library ebrary and in Google Scholar. Examples of key words used in the search includes: synergy effects, synergies, corporate strategy, M&A, mergers, acquisitions etc.

Suggested readings and reference lists in literature already found was an important source to new references and new information. Researchers tend to cite and refer to literature
written by other researchers which turned out to be very useful for the writing of this thesis.

Company specific information other than primary data has been collected from articles in business magazines, analysis and forecasts conducted by different financial institutions. This information was found to be parsimonious and of general nature focusing more on the overall company performances than the companies’ M&A processes. For that reason, this information has to a large extent been used for the purpose of learning and understanding, and also to facilitate the creation of more objective views of the organizations before the interview conduction. Although this information has mirrored the author’s view of the organizations it is not necessarily used in the empirical findings and thus not quoted in the final reference list.

2.6 Research Approach

This section explains which research approach that has been chosen and how the thesis has been built up along the way.

In research, there are broadly two different methods used to describe the work’s reasoning; deductive approach and inductive approach. Deductive reasoning goes from general theories towards the specific field in a top-down approach, illustrated as a waterfall principle, where theory is leading to hypothesis, hypothesis is leading to observation, and observation is ending up in confirmation and conclusion. The inductive approach is described as the opposite to deductive reasoning, a bottom-up approach illustrated as a hill climbing principle, starting with very specific observations finally leading to broad and general theories (Goel & Waechter, 2010).

In this study, secondary data such as general facts and already existing theories have been used to a large extent. The secondary data was collected, categorized and analyzed at a primary level, but before these parts were finished, the collection of primary data was initiated. As new findings, so far not touched upon in the secondary data, emerged during the collection of primary data the secondary data was revised and double checked accordingly. This way of handling data in iterative steps, where no clear sequential order exists, can be considered as a combination of both deductive reasoning and inductive reasoning. For that reason it can be said that the method procedure was abductive; intuitive steps were used rather than the following of logical processes. This can be further supported by the fact that “the abductive approach stems from the insight that most great advances in science neither followed the pattern of pure deduction nor of pure induction” (Kovács & Špens, 2005).

2.7 Delimitations and Limitations

This section explains the major delimitations and limitations in this study, and also describes how and why these have been changed several times during the thesis compilation.

The delimitations are defining the study’s frames and boundaries, and the limitations are influences not controllable by the author, both making up an important part for the understanding of this study’s purpose, company selection and results (McQuarrie, 2006). Many turns back and forward have contributed to the creation of the final frameworks, and an explanation of these turns will be given below.
To make a wide and general analysis of synergies in regards to a large number of different M&As had not been appropriate, given the existence of constraints related to aspects such as time (the time frame is limited to one semester only), knowledge (the author have limited previous knowledge in the field) and financials (no financial support for travelling in regards to interviews exists). To obtain a better and more detailed analysis, and be able to claim that the findings are answering the research questions, it was considered appropriate to make the delimitations creating the frames for this study. The initial delimitations was narrowed to technical trading companies in Sweden, more exactly the ones that are stock exchange listed and categorized as “distribution and resellers” (Addtech, B&B Tools, BE Group, Empire, Indutrade, Malmbergs and OEM International) in the business magazine Affärsvärlden. However, the final selection of organizations differs much from the original selection, which will be further explained throughout this section. Firstly, the initial delimitations are described below:

- **Technical trading companies** – That the choice fell on the selected organizations is because information was found about one of the company’s (Indutrade’s) very uncommon and high frequent acquisition strategy, where a large number of companies are acquired every year, and from an objective point of view seen to not include any synergies at all. A desire to investigate if similar acquisition strategies where used by competitors arose as similarities and differences in companies’ nature of businesses is not only mirrored in the actual output of products. Similar businesses have the same the same type of structure, faces the same type of challenges and have the same type of processes. In this manner, synergies vary according to business idea and industry and for that reason the study was limited to a certain industry and narrowed down to a certain type of organizations.

- **Sweden** – Simply because Sweden is the author’s home domicile, the focus on organizations within the country facilitated the collection of data.

- **Category ‘distribution and resellers’** – After further investigations about Indutrade’s competitors, information about competitors pointed at the organization Addtech, and it was soon found that their acquisition strategy is somewhat similar to Indutrade’s. This in turn led to additional research about comparable organizations, which further lead to investigations concerning how these types of firms had been categorized by independent actors. As the business magazine Affärsvärlden had classified a number of companies as ‘distributers and resellers’, and as both Indutrade and Addtech were included in this category, the decision to look at all of the different organizations in this category was taken. Because Affärsvärlden is considered to be an established business magazine, it was assumed that their categorization of companies was reliable and credible, making it possible to do comparisons between the included companies.

- **Stock exchange listed companies** – Large companies’ faces stronger pressures when it comes to information obligations and issuing of information. Because of this, it is much easier for an outsider to find relevant, updated and available information about these organizations than it is in comparison to unlisted organizations. From a thesis writing perspective, stock exchange listed companies is to prefer as the sought information is easily accessible from the organizations’ web pages. Considering the importance of finding relevant information (discussed earlier), the deci-
cision to discard the company Empire was soon taken, since Empire is listed on SSE First North*, and thus not considered to be “stock exchange listed”, as the other companies listed either on SSE Mid Cap** or SSE Small Cap*** (NASDAQ OMX, 2011).

In the initial phase of the compilation of empirical findings, it came clear that not all of the companies in Affärsvärlden’s category (Empire already excluded) had such an extensive acquisition strategy, and some did not do as many acquisitions as for example Indutrade and Addtech. It was mainly the companies BE Group and Malmbergs where doubts arose. After further investigations, it was apparent that Malmbergs had not been involved in any M&A related activities at all during the last years. BE Group had done four acquisitions during the last five year period. Considering that the field of study for this thesis is synergies in regards to M&As, the decision to discard Malmbergs from the study was taken. BE Group was kept with the motive that the company still had done a moderate number of acquisitions and hence could constitute an interesting contrast and antipole to the other companies in the category.

With the purpose to book interviews to the empirical findings of this study, initial contacts were taken with all of the selected companies and the responses were predominately positive. Unfortunately, the company B&B Tools decided to not participate in an interview, thus creating bias for this study and limited the selection negatively. At this stage, Empire, Malmbergs and B&B Tools had fall away from the study.

After further progress in the compilation of empirical findings, and after a couple of conducted interviews, questions concerning the organizations’ own interpretations of competition came up during the interviews. Who knows more about the companies’ competition than their own company representatives? A combination of the author’s own interpretations and facts gained in association with the interviews changed the picture of the original company selection. Considering that Addtech, Indutrade, OEM International, B&B Tools and G & L Beijer, are all denoted as technical trading companies and (as interpreted from some of the interviews) to a smaller or larger extent consider themselves to be competitors, it came clear that BE Group stood apart from the rest of the companies with its business focusing mainly on steel distribution. Thoughts about discarding also BE Group from the study emerged at this stage. However, the decision to still include BE Group was taken, with the argument that the company would add a different viewpoint and a peculiar dimension to this study, creating contrasts and making up a better ground work for comparisons.

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* First North is a trading place for smaller and more fast-growing companies than the companies on lists owned by NasdaqOMX. The legal framework for the First North companies is not as extensive as for companies listed on the stock exchange.

**Companies listed as SSE Mid Cap have a market value >150 million euro and <1000 million euro.

***Companies listed at SSE Small Cap have a market value <150 million euro.
What is more to add in relation to competition is that some “new” companies were discussed during the interviews. Although not considered to belong to Affärsvärlden’s categorization of distributors and resellers, the company Lagercrantz Group, listed on SSE Small Cap was considered to belong to the category technical trading companies. The company Latour Industries (an investment company, part of the Latour Group listed on SSE Large Cap*), even though not being a pure technical trading company, was mentioned to be a competitor in regards to acquisition objects. After further research it was evident that these two “new” companies also work intensively with M&As. Bearing in mind that B&B Tools already had fallen away from the study, and bearing in mind that BE Group was not a technical trading company, the decision to add Lagercrantz Group and Latour Industries to the study was taken.

At a late stage in the study, G & L Beijer fell away due to unknown reasons, and the final selection of companies included Indutrade, Addtech, OEM International, BE Group, Lagercrantz Group and Latour Industries.

Table 2.7-1. The table summarizes the different selections and falling offs of companies, leading to the final research population.

<table>
<thead>
<tr>
<th>Selection 1</th>
<th>Selection 2</th>
<th>Selection 3</th>
<th>Selection 4</th>
<th>Selection 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indutrade</td>
<td>Indutrade</td>
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<td>Indutrade</td>
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</tr>
<tr>
<td>Addtech</td>
<td>Addtech</td>
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<td>Addtech</td>
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</tr>
<tr>
<td>OEM International</td>
<td>OEM International</td>
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<td>OEM International</td>
<td>OEM International</td>
</tr>
<tr>
<td>B&amp;B Tools</td>
<td><strong>B&amp;B Tools</strong></td>
<td>G &amp; L Beijer</td>
<td>G &amp; L Beijer</td>
<td><strong>(BE Group)</strong>*</td>
</tr>
<tr>
<td>G &amp; L Beijer</td>
<td>G &amp; L Beijer</td>
<td><strong>(BE Group)</strong></td>
<td><strong>(BE Group)</strong></td>
<td>Lagercrantz Group</td>
</tr>
<tr>
<td>BE Group</td>
<td>BE Group</td>
<td><strong>Lagercrantz Group</strong></td>
<td>Lagercrantz Group</td>
<td>Latour Industries</td>
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<tr>
<td>Malmbergs</td>
<td><strong>Malmbergs</strong></td>
<td>Latour Industries</td>
<td>Latour Industries</td>
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<tr>
<td>Empire</td>
<td><strong>Empire</strong></td>
<td>Latour Industries</td>
<td>Latour Industries</td>
<td>Latour Industries</td>
</tr>
</tbody>
</table>


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* Companies listed at SSE Large Cap have a market value >1000 million euro (NASDAQOMX, 2011).
Further limitations involve biases in regards to the interviews. The ultimate goal in each of the interviews has been to gather as much information as possible in regards to synergies and the M&A processes in order to obtain an understanding of each company’s specific M&A strategy. However, several constraints and biases have restricted the possibilities for this. To interview the person knowing the most of M&As has been one of the sub goals, and in that aspect the outturn has been good. The durations of the interviews have been between twenty minutes and two hours, where one hour has been considered as a sufficient length, offering opportunities to ask the company representatives all the relevant questions. Only in one case the interview length was perceived to be far too short. Another limitation in regards to the interviews was the company representatives’ willingness to share information. As this study partly touches upon company sensitive information it is understandable that not all information will be relieved. However, it was more obvious in some cases than in others that there existed more relevant information that was not shared during the interviews, and this was perceived to be connected with the length of the interview; the shorter interviews, the less information revealed. Also the way the interviews were performed affected the quality of the outcome. Face-to-face interviews were preferable because of its possibilities to establish a relation with the interviewed person and its possibilities to read facial expressions and nuances in the language. In one case a phone interview was conducted, perceived to negatively affect both quality of input from the interviewer and quality of output from the interviewed person.

Further, a shortage of literature has been experienced; although there are an abundance of information related to M&As, this information turned out to not have a direct relevance for this study. The main reasons to the absence of relevance was found to be connected with the fact that: 1) much M&A research are done in the U.S., 2) the M&A research is mostly focusing on M&As involving very large organizations and cross border M&As, and 3) the research mostly deals with M&As where the involved organizations conduct a complete integration (or an almost complete integration). Considering this study’s organizations and their much decentralized M&A processes, desired research would instead uncover information about: 1) M&A processes in Sweden and Northern Europe, 2) M&As involving corporate groups acquiring small and medium sized enterprises, and 3) M&As where no integration, or very limited integration take place between the acquirer and the acquired firm. For these reasons, much of the information gathered in the theoretical framework do not concern only the kind of organizations touched upon in this study, the M&A related information is rather of the general nature, not narrowed down to a certain type of companies. As little research has been done in regards to M&As where decentralization is at premium on the agenda, the importance of primary data and empirical findings have been higher and thus given more space.

Also an absence of secondary data in regards to company specific information has been found. The main source of information about the organizations has been retrieved almost exclusively from the organizations’ own web pages, although the ambition has been to supplement this information with articles from business magazines and similar sources. However, the articles found about these companies have mainly concerned evaluations and analysis about future predictions of profitability and stock values, only touching very briefly upon M&As and growth strategies. This make the company information in this study somewhat biased and univocal, as the sole source of information can by far be considered as subjective.

Further limitations in this study have concerned the time constraint and the fact that the this study has been written by one author only (and not by two authors as suggested). The-
se limitations have especially had negative implications on the analysis and the quality of
data. According to the author’s opinion, complex and wide question formulations results in
the best outcomes when discussed and elaborated with a co-author, and the absence of this
has resulted in a limited analysis. This limitation has of course also affected theory selec-
tion, formulation of introduction, background and purpose negatively, as well the study as
a whole.

2.8 Validity and Reliability

This section describes the concerns regarding the study’s validity and reliability.

Validity refers to the coherence of the result’s actual findings and its supposed findings, in
other words, whether the study has measured what it is supposed to measure (McQuarrie,
2006). All kinds of manual handlings, such as collection and typing of data, means that in-
formation can be lost during the way. Missing pieces of text, or more likely, misinterpreta-
tions of information can cause errors and bring invalid information to the study. Further,
language translations from Swedish to English, both in regards to collection of data (where
some information was retrieved from Swedish references) and interviews (all conducted in
Swedish), contributed with additional possibilities for mistakes to arise. In order to elimi-
nate these problems, the text has been double checked several times and data has been
gathered from several different sources. The problems described above are more obvious
for the empirical part of the study. Misunderstandings during the interviews and misinter-
pretations when transferring the interview outcomes from dictaphone to paper can possi-
bly have created invalid findings, although the limitations associated with phone interviews
mentioned in previous section are more likely to create the largest biases.

Reliability is connected to the extent to which similar results would be given if the study
was reproduced with the same measures, and is highly connected to present time and up-
to-date information (McQuarrie, 2006). The theoretical framework has been based mainly
on secondary data and it should not be a problem to produce the same results as long as
the same method was used. With access to the same information and an author with similar
experiences and background, it would be possible to reproduce this study and come to the
same conclusions as in this study. The findings from the primary data should neither be any
problem to reproduce as long as the same company representatives (or at least representa-
tives from the same companies) interviewed in this study were willing and able to answer a
similar set of questions. As is true for all research, time changes prerequisites, market con-
ditions, competitors etc., and for that reason a reproduced study conducted far from to-
day’s date would not result in the same empirical findings as in this study, because time also
changes the prerequisites for M&A processes and synergies.

The intention of this study has been to find the most relevant and proper data for the cho-
zen topic. However, what the author seems to be the most suitable information not auto-
matically is in line with other people’s perceptions. This is however not only a disadvantage
as it is what makes the study unique and distinctive.
2.9 Criticism of Method

This section criticizes the method and suggests improvements that possibly could have improved the results of the study.

The major disadvantage concerning this study is the fact that it was conducted by one author only. A co-author could possibly give the study more depth, since collection of data, selection, and not to mention analysis and conclusion often becomes better when discussions about the findings has been done.

What is more to be questioned is the selection of companies included in this study, where the concept “distributors and resellers” seems to be ambiguous, at the same time as “new” companies was both excluded and included along the way due to changed conditions and new information that occurred along the way. Simultaneously, the adoption to reality based conditions, and the ability to quickly change selection can be considered as strong advantages as it mirrors the up-to-date conditions and situations in the business world; however the uncertainties regarding this cannot be neglected entirely. In a perfect world, the study would have included companies that are all in the same business, competing for the same acquisition objects and working very similarly with M&As and synergies. On the other hand, it can be argued that not all of the companies have the same views on these questions as they can be interpreted differently.

Further criticism can be pointed at the author’s claim concerning shortage of theories and secondary data, as it can be argued that this information exists, it is only a matter of finding it. With more extensive efforts, and more time dedicated to finding research, it could have resulted in a better groundwork, contributing with further positive implications.

In addition, only one interview per organization were done. With the limited selection of companies the study is focused on, more than one interview per company would have given broader and more objective views in the field of study. It can also be discussed whether interviews of persons outside the corporate head, but familiar with the companies ways of working (for example customers, suppliers and foremost company representatives in the subsidiaries), should have been interviewed to give further contrasting and objective views, as their opinions surely differs from the company representatives’ views.
3 Theoretical Framework

This section goes through some earlier research conducted in the field of synergies and M&A related information.

The theoretical framework has been divided into sub categories to organize and sort the information, and starts out with describing synergies in general terms and ends with more specific information.

3.1 Different Types of Synergies

This section describes the fundamentals behind synergies and acts as a continuation to the introduction. After completion, the reader should have gained a deeper understanding of what synergies are, be familiar with some classification alternatives of synergies, and have knowledge about some synergy examples.

The concept of synergies states that the sum should be larger than its parts; 1 + 1 = 3. In other words, the two organizations together should be more worth than the two entities’ stand alone values. Sirower (1997) defines synergies as “increases in competitiveness and resulting cash flows beyond what the two companies are expected to accomplish independently”. The word synergy originates from the Greek word ‘sunergos’, meaning that “separate parts works together”, and unlike what is expected from today’s M&A synergies, the original denotation focus more on the relationships between the two parts than the actual results (Sevenius, 2003). Considering the potential upsides and results of synergies, it is to no surprise that synergies often work as main incentives in M&As where the arguments mostly involve the financial gains achieved by efficiency improvements at different levels in the organizations. However, the talk about potential synergies is little worth unless the plans are realized and integrated in the organizations (Zollo & Sing, 2004).

The concept of synergies is all about creating added value by sharing resources and acquire benefits that otherwise would not have been possible to achieve, or possible to achieve but at a higher cost. As synergies can be found and used all over the organizations, synergies do take many different forms depending on the type of M&A and the organizations’ businesses. Several attempts have been done to classify synergies and an abundance of categorizations exists. Sevenius (2003) has classified them as followed:

- **Cost synergies** – synergies decreasing the costs. Often related to economies of scale, such as administrative costs and overhead costs (Sevenius, 2003). Resources and competences that do not use its full capacity (100 %) or do not work effectively can be better utilized if combined with new, additional or related activities that extend the usage thanks to decreased average costs (Johnson et al., 2004).

- **Revenue synergies** – synergies increasing the revenues. Often related to economies of scope, for example extensions of customers and products (Sevenius, 2003), and cross selling or bundling (Schriber, 2009).

- **Financial synergies** – synergies related to decreased costs of capital through lowered risks, better cash flows and increased financial margins (Sevenius, 2003).
- Market synergies – synergies related to higher margins achieved through increased negotiation capabilities towards suppliers and customers (Sevenius, 2003).

The categorization above gives a good indication of where synergies occur and how financials can be saved or gained. In reality the actual synergies often belongs to more than one of the four alternatives as many of them overlap and are not entirely independent. Nonetheless, many researchers use a categorization even more simplified, where synergies are referred to as either revenue synergies (creating revenue enhancements) or cost synergies (creating cost savings) (Harding & Rovert, 2004; Early, 2004). In order to encourage facilitated understandings and avoid misinterpretations this study will mainly use these two concepts in further discussions.

Once classified the synergies, the next step is to explore what hides behind the concepts of revenue and cost synergies respectively. In order to obtain a better understanding of what synergies are and which different forms they can take, some common examples are presented below.

- Efficiency gains – economies of scale and economies of scope can be seen as overall advantages where the purposes are to increase efficiencies (Johnson et al., 2004).

- Entry speed gains – in growing markets where the pace is high, organizations find it hard to attain the resources and knowledge in the same speed as the market demands; resources must be acquired, people needs education and required end products take several years to develop. By acquiring other firms these essentials can be obtained faster by the usage of short cuts such as M&As (Johnson et al., 2004).

- Competitive gains – in slow, static and mature markets where competition is established the cost of expansion and building from the scratch is not always worth its money. Especially if it is hard for the organization to strengthen the current position by simply adding additional resources. If the extra cost of adding more resources cannot be counterbalanced by the benefits it will bring, needs to go beyond usual methods occur. To acquire these resources through M&As are in many cases seen as the only option to get away from this stuck-in-the-middle position (Johnson et al., 2004)

- Consolidation gains – especially in fragmented industries where there exists an absence of specialization and ‘all does everything’, competitive advantages can be gained or strengthened through increased focused on core capabilities and niche areas (Johnson et al., 2004).

- Resource gains – resources that cannot be attained at all, or acquired at a higher cost, can be acceded through M&As. A typical example of this is research and development, where it normally takes several years to access knowledge by building up needed expertise and educate employees (Johnson et al., 2004).

- Knowledge and learning curve gains – transformation of knowledge such as routines, information flows and best practices are more specified resource gains (Johnson et al., 2004). The exchange of knowledge contribute with opportunities to learn more and to learn faster, owing to increased cooperation possibilities or improved transformation (De Wit & Meyer, 2005).
- *Gains of stretched corporate parenting capabilities* – in situations where M&As are not motivated by business similarities between organizations, the motivations involve existing competences or capabilities possible to use in new areas although no common operative resources exist. In such cases, it is rather the skills at the corporate level creating synergies between diverse business units (Johnson et al., 2004).

- *Gains of increased market size and succeeded market share* – by forwarding the organization’s market position not only customers can be won from competitors, the synergies can also expand the whole market pie. In addition, an alignment of business units creates increased possibilities to offer the customers a broader product base in the same or similar market, thus contributing with a more complete market offer (Johnson et al., 2004).

- *Gains of resource sharing* – by sharing resources, for example by using one machine instead of using two machines, cost savings are done. Resources used by several business units at the same time, reused or shifted back and forward also create cost savings (Johnson et al., 2004).

- *Price pressure gains* – competitive advantages are gained through price pressures enabled through different forms of economies of scope decreasing the average costs (Johnson et al., 2004).

- *Transaction cost gains* – costs associated with transactions in relation to customers, suppliers and other closely related stakeholders can be avoided or decreased through the internalization and the shortened distance of these (De Wit & Meyer, 2005).

- *Bargaining power gains* – the gains of bargaining power increases with size since larger volumes are used. The bargaining power is mainly applicable in negotiations with external stakeholders (De Wit & Meyer, 2005).

Whereas few organizations see possible gains in all of the above mentioned areas, several of the mentioned synergies as well as combinations and overlaps of these are used as motivations for M&As (De Wit & Meyer, 2005).

### 3.2 Motives for Growth

*In order to obtain an understanding for why M&As take place and why synergies are sought, this section explains the overall M&A motive; growth. After completion, the reader should be aware of how growth and synergies are interrelated.*

Today’s organizations experience constant results pressures from its surroundings, and especially from its shareholders. The shareholders want to see progresses, and they are not satisfied with anything else than increased returns on investments. Increased returns on investments in turn imply that the organizations must grow. The growth is considered to be a key factor for successful enterprising and hopefully brings improved results and increased wealth (Schriber, 2009).
Broadly speaking, organizations face two alternatives for growth; they can either grow organically, or grow through M&As. When organizations grow organically they grow from own buoyancy, using current resources and capabilities to increase revenues. Depending on market conditions and company specific prerequisites organic growth works to a smaller or larger extent. Organic growth alone is not always sufficient to meet the shareholders’ high expectations and add the demanded value they are expecting. This is especially true in more mature industries where the possibilities to grow organically are limited. In these situations M&As and synergies become topical (Schriber, 2009). Few organizations uses M&As as a pure growth strategy only seeing the possible market expansions, other aspects such as knowledge acquisition and economies of scale etc. are also often important and considered as well (Johnson et al., 2004). If comparing organic growth with that of M&As, the advantages with M&As include faster access to new resources in organizations already up and running bringing positive changes in competitive environments and opens up possibilities for quick wins. This is especially true in markets where acquiring these kinds of resources take long time, and when the resources are hard and expensive to obtain (Schriber, 2009).

Given the information above, it can be concluded that the overall goal of any M&A activity is to reach increased growth. How the growth in M&As will be achieved differs from organization to organization and depends very much on which motivations acting as the strongest thrusts. However, synergies are always involved because of the possibilities to apply them in diverse areas. In the table below, the strongest motives for M&As are listed; potential synergies between two organizations can be found in any or all of these areas depending on the organizations’ natures. Market shares, sales and distribution, cost savings, technology and production facility can thus be said to have two things in common; growth and synergies (Sevenius, 2003).

<table>
<thead>
<tr>
<th>Motives for M&amp;As</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market shares</td>
<td>1</td>
</tr>
<tr>
<td>Sales and distribution</td>
<td>2</td>
</tr>
<tr>
<td>Cost savings</td>
<td>3</td>
</tr>
<tr>
<td>Technology</td>
<td>4</td>
</tr>
<tr>
<td>Production facility</td>
<td>5</td>
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Table 3.2-1. The table ranks the motives for M&A in Sweden, UK and US where the question “What did you look for when conducting the M&A?” was asked to managers involved in M&A activities (Sevenius, 2003)

The take off point in this study assumes that synergies occur as result of M&As, and that M&As are initiated by organizations’ incentives for growth. If synergies are successfully realized, they will contribute to the desired growth.
3.3 Porter’s Value Chain

This section explains the concepts of organizations’ value chains and value systems, and the activities and processes falling into organizations’ outputs. After completion, the reader should be able to understand where and how synergies are found and occur in any organization.

Once clarified what synergies are and why they are sought, the next step is to clarify where and how synergies arise. The value chain is equal to the different value adding activities and processes linking together and seeking to develop organizations’ main functions, leading to the actual end products and customer offers. Every organization’s value chain is unique and contributes to the creation of competitive advantages distinguishing it from other companies. The value chain consists of different activities further divided into primary activities (from creation of products to after sales support) and secondary activities (activities facilitating the primary activities).

The primary activities are:

- Inbound logistics – activities related to handling and monitoring of supply
- Operations – activities associated with production
- Outbound logistics – distribution of products to the final customer
- Marketing and sales – customer focused activities linked to attracting and gaining sales
- Service – activities intended to improve or maintain customer experiences, such as installation or after sales services

The support activities are:

- Procurement – activities related to purchasing and maintenance
- Technology development – research and development improving and generating current and new products
- Firm infrastructure – activities connected to administration, planning and control
  (De Wit & Meyer, 2005)

The value chain’s broadened base, called the value system, also includes the value chains of the organizations’ suppliers, distributors and customers, thus consisting of several value chains linked together making up a whole network of relations and interdependencies. Any problem along the organizations’ value chain can cause severe difficulties affecting either input or output of products, and for that reason it is of large interest for organizations to streamline and optimize these processes. An analysis of the organization’s value chain and value system will provide information on existing gaps and potential synergies. It is either
in direct relation to different activities or in linkages between these activities that synergies can be unhidden (Lynch, 2006). People involved in the actual M&A processes might not have sufficient knowledge needed to discover and evaluate all potential synergies, and for that reason it is invaluable to obtain advice from people working in the organization, both because they have the most knowledge concerning processes and because they will realize the found synergies in the end (Early, 2004).

### 3.4 Different Mergers & Acquisitions

This section explains how M&A are classified differently depending on where in the value systems the organizations are connected. Once straighten out, this will give an understanding for how synergies in M&A differs dependently on M&A type.

**Figure 3.4-1.** M&As do take different forms depending on how the organizations are related to each other. The figure summarizes the different M&A alternatives the organizations’ faces (Lynch, 2006). Figure created by the author (2011).

**Related diversification** – refers to M&As in related businesses within the capabilities or value systems of the organization. Outwards the two organizations look the same; they have equal interests, produces same types of products, targets same category of customers and so forth. Related diversification is further divided into vertical integration and horizontal integration (Lynch, 2006).

**Vertical integration** – concerns the M&As taking place either backwards (inputs and suppliers) or forwards (outputs and distributors) along the organizations’ value systems, and in some ways overlap the current core competences. It is often in overlapping activities potential synergies are found. Reasons for vertical integration involve desires to make profits otherwise made by suppliers or possibilities to control quality and lower input costs. In oligopoly liked situations where organizations are largely dependent on one or few suppliers vertical integration is more common, as well as in situations where many intermediate links exist (Lynch, 2006).

**Horizontal integration** – integrates complementary activities or competitive activities that are related to organizations’ present activities. Often, two organizations aim to become a unified entity and thus several synergies in diverse areas are found. Close relationships between business units are necessary in order to enable close relationships, resource sharing and functional releases. Due to high integration needs, high levels of coordination and communication is needed, making it difficult to avoid increased costs of bureaucracy (Lynch, 2006).
Unrelated diversification – in contradiction to related diversification, unrelated diversification concerns development beyond the organizations’ current capabilities and value systems. More or less, the sole incentive for an organization to involve in unrelated diversification is if there exist a synergy potential for the new management to put aright inefficiencies and controls that present management are not able to do. Unrelated diversification lacks the potential benefits associated with economies of scope, and has as only goal to restructure and monitor performance (Lynch, 2006).

No clear boundaries exist between related diversifications and unrelated diversifications. Most often, it is a question of opinion since M&As in reality are mixes of the alternatives mentioned. However, research show that M&As classified as related diversifications tend to be more successful than unrelated diversifications because of similarities between businesses and the increased possibilities to find and realize synergies (Johnson et al., 2004).

3.5 Problems Associated with Synergies

The previous sections have been related to the why, where and how associated with synergies. This section takes the concept one step further and tries to explain the complexities, intangibilities and problems associated with synergies, as well as the importance of integration for successful synergy realization.

Karlöf (2001) claims that synergies are one of the business world’s most abused words, used to motivate doubtful M&As with completely different motives than to create synergies. Synergies and overoptimistic calculations of these have often been blamed for the failure of many M&As, and synergies have in several cases been used as main incentives for justifying bad deals (Harding & Rovert, 2004). What is a successful M&A deal? A definition says; “If the acquirer did not increase the shareholder value or did not achieve the financial, commercial or strategic objectives set at the time of buying the business”, the M&A is said to be a failure (Rankine, 2001).

The question is whether synergies alone can be blamed for the failures. It is suggested that the complexity in defining potential synergies creates the matter in debate. Deals are made and organizations are bought without sufficient understandings of what the price includes; integration and deal costs are underestimated, the savings are overestimated, and synergies not existing are imagined (Perry, 2004). Valuation of synergies is said to be one of the major challenges in deal makings. Because it often is the bidder offering the highest price winning the deal, synergies’ values can be adjusted according to the bidder’s likings. Not all deals carry the actual benefits of 1+1= 3, even if claims before the deal say that they will (Early, 2004). Sometimes synergies are even estimated to be as much as or even more than the acquired company’s stand alone value which illustrates a difficulty associated with the concept (Sevenius, 2003). As much as two thirds of managers involved in M&As admitted that there exists an overestimation of synergies in the transaction process (Cullinan et al., 2004). As this overestimation can be derived from the complexity associated with calculating the true value of synergies and the costs of realizing them synergies must be critically handled (Sevenius, 2003). Sirower (2006) refers to the synergy matching principle, stating that a synergy cannot be valued unless amount and time are considered for both benefits and associated costs, including costs of integration. If the synergy matching principle is not taken into account before the total deal value is set, losses and unrealized synergies will follow as a consequence.
So far, the problems with synergies in M&As can be summarized to 1) that the value of synergies are overestimated, and 2) that the costs associated with synergy realization are not taken into account to its full extent. Besides from the two problems already mentioned, Ficery et al. (2007) adds a third difficulty needing consideration. The third factor deals with negative effects on cash flows due to implementation. Costs associated with implementation and realization must be considered along with the temporarily negative cash flows effects when subtracting costs from the synergies’ stand alone values. For example, installing a new machine that in the long run will increase productivity might temporarily force large parts of current production to be standstill for a shorter period. To presume that synergies stand alone values can be included in the total deal value is hence an incorrect comprehension, as synergies are nothing worth unless implemented and realized.

The cost problems with synergies make more sense when inserting them into wider contexts; “time is money”. Figure 3.5-1 shows the relationship between time frame and probability of success. The faster the synergies can be realized, the higher is the probability of success. The figure also shows that the more complex the synergies are, the longer is the time frame and the lower is the probability of success. By identifying how quickly synergies can be realized and by identifying the probability of successful realization, it becomes easier to estimate the synergies’ true value (Harding & Rovert, 2004).

Figure 3.5-1. The figure shows the relationship between time frame and probability of success in regards to synergy realization (Harding & Rovert, 2004).

Why bother to value synergies and associated costs at all? Why not just take the costs as they occur? If deal premium price exceeds the true value of synergies then shareholder value will be damaged and the M&A will be classified as unsuccessful, which will have further negative imperatives on the organization (Sirower, 2004). However, paying too much for a
company is the most common mistake in M&A, and the reasons are said to be lack of experiences, poor financial advices and over optimistic managers (Johnson et al., 2004). The synergy value is important for the overall deal value; hence it is important that estimations are as close to reality as possible (Sevenius, 2003). Due to valuation problems related to synergies, some argues that the overall deal price should not include any synergy values at all. As it is a question related to negotiation, Orrbeck (2005) say that synergies should still be estimated to give a true value of the firm. This statement is further supported by Harding & Rovert (2005), claiming that ignorance of positive synergies will lead to lost deals, whilst ignorance of negative synergies will lead to bad deals.

Not all synergies can be handled equally. Whereas there is a distinction between cost synergies and revenue synergies, revenue synergies are harder to estimate due to their intangible nature (Harding & Rovert, 2004), and for that reason revenue synergies are sometimes referred to as “soft dollar synergies”. As much as 70 % of M&As fail to meet the requirements for revenue synergies (Early, 2004). Revenue synergies tend to be harder to calculate than cost synergies due to the absence of measurable controls. It is quite easy to justify and calculate cost synergies, for example by proving how much savings that will be generated through down shutting of facilities, and thus focus tends to be on the obvious and tangible savings generating quick and measurable returns. Revenue synergies are more likely to be of the intangible kind since they often are dependent on markets, competitors and customers, and thus dependent on volumes and prices (Sirower, 2006). The organization cannot control these factors because they cannot decide who and how much that will be bought from them (Early, 2004). In comparison with cost synergies, it also takes longer time to 1) build up functions associated with revenue synergies and 2) see results from revenue enhancements. Meanwhile the new organization has adjusted for example customer service and marketing incentives, competitors are likely to nag on market shares (Sirower, 2006). Also, cost synergies are more of the tangible nature, easier to control and easier to acquire concrete information about, simply because managers can choose either to spend or to not spend (Early, 2004). For these reasons, integration usually focuses on putting cost synergies in first place, forgetting about revenue synergies and the importance of quick handling. To cope with these problems, organizations must first realize which undesired consequences the lack of care for revenue synergies causes, and secondly, must also find ways to measure these synergies. Even if intangible revenue synergies (such as new market access, knowledge or organizational culture) are hard to measure, it is recommended that attempts to do so is done. If the valuation turns out to be impossible for some synergies, these synergies should not be included in the total deal value since there do not exists any clear proof (no financial data) that these synergies will create added value. It is of importance to distinguish between what possibly could add value and what actually adds value if an actual result is sought (Ficery et al., 2007).

Although it is convenient to separate revenue synergies from cost synergies, what should not be forgotten is the correlation between these two, and how they can depend on each other. Cut costs may lead to lost revenues. For example, a M&A drawing a bead on shutting down less profitable branches must consider that these cost savings can lead to revenue decreases as customers will shift consumption to competitors’ alternatives. Another example is that of a new unit (created by a M&A) experiencing declining sales. To meet the downward sloping spiral it is convenient to cut costs instead of giving the unit the time and resources it needs to mature and realize the full potentials. Hence, the relationship between revenues and costs should not be neglected, as they together can create further synergies (Early, 2004). Perry (2004) also claims that many organizations are neglecting to balance revenue synergies and cost synergies. Too much focus is put on either cost synergies or all
associated savings that should be done, or on revenue synergies and the growth potentials that will be captured. This results in organizations forgetting to consider the fact that a mix of these two types of synergies will lead to the best outcomes.

What mix of cost synergies and revenue synergies that are suitable depends on the two organizations. Figure 3.5-2 shows how different cost synergies and revenue synergies occur depending on the two organizations relations in regards to market access (sales force, brand etc.) and capabilities (operations, cost structure, supply chain etc.). Better refers to the advantageous position in comparison with the other organization, and new are the capabilities or market access that does not overlap with the other organization. The figure shows that same type of capabilities/market access will mainly bring cost synergies because of similarities facilitating economies of scale. Where better dominates, both cost synergies and revenue synergies can be found, and if new is dominating, mostly revenue synergies are found (Sirower, 2006).

![Figure 3.5-2](image)

**Figure 3.5-2.** The colors mirrors what kind of synergies that can be found depending on the organizations’ market access and capabilities. The light blue color reflects pure cost synergies and the dark blue color represents purely revenue synergies. Simplified, the lighter color, the more cost synergies, and the darker the color is, the more revenue synergies (Sirower, 2006).

What also must be considered when defining a mix of synergies is the involvement of the right persons. Management in charge of the M&A process might not be working hands on in the organization and might have parsimonious knowledge about operative work and best practice processes. For that reason, it is important to involve operative persons working in the organizations, such as managers at business level and specialists in concerned areas. They are likely to share information not only about the potential synergies but also about potential risks and areas of improvements helpful to know about (Perry, 2004).
3.6 Negative Synergies

Until now, synergies have been described as positive and desired aspects creating added value. This section is shedding new light on synergies and describes some negative implications synergies can bring.

Whereas a positive synergy leads to that one plus one adds to a sum that is greater than two, a negative synergy creates outcomes where one plus one equals less than two. The concepts of diseconomies of scale and diseconomies of scope are examples used to describe the undesired results brought with negative synergies (Harding & Rovert, 2004).

Other examples of negative synergies are that of lost accounts due to duplication, employees who leave the organization (and take the accounts with them), increased IT costs, and managers who lose focus on the ongoing business due to integration and cost cutting focus with lost revenues as a consequence (Harding & Rovert, 2004). Yet another negative synergy is that of increased bureaucracy, the coordinative activities automatically increases with the M&A, leading to prolonged lead times and increased administrative work. Increased managerial costs, arising as a direct consequence of M&As, and increased complexities also need to be considered (Johnson et al., 2004). Not to be forgotten is the increased workload likely to arise due to need for extensive integration efforts (Schriber, 2009). Negative synergies can have a large impact on totality, hence it is important to not only consider the upsides of synergies but also be aware of the disadvantages (Harding & Rovert, 2004).

Shaver (2004) argues that mainly two negative effects arise in the integration phase due to the implementation of synergies; the contagion effect and the capacity effect. When explaining these two effects, they should be set in relation to if the two organizations did not merge. The contagion effect refers to the interdependency created between the firms, and the negative effect occurring as a consequence of these changes. For example; a M&A typically lead to some managerial turnover, causing less suitable managers to step up and apply their skills all over the organization, thus bringing aspects affecting the organization negatively. The capacity effect on the other hand, refers to the increase in capacity utilization of underlying resources. Capacity constraints occur as a result of extended use of slack resources which further restricts possibilities for enhancements in the organization. For example, when workload becomes heavier than what employees is able to handle capacity constraints occur. Hence, the company cannot take advantage of an opportunity, such as an temporarily excess in demand. The final outcome shows that the more activities the two organizations integrate, the larger is the negative implications of these two effects. Even if well planned integration activities and properly assessed M&As can prevent these negatives to some extent, they will still lead to failures of met expectations.

3.7 The Integration Phase

“Synergies are nothing worth unless realized”, is an expression that to a large extent characterizes this study. This section will explain the implications of the M&A integration phase at a deeper level.

In regards to synergies, a successful M&A integration is first and last for realization and in the end for a successful M&A. An ill conducted integration results in defaulted synergies (Schriber, 2009). If an elaborated work with careful analysis of synergies and plans for implementation of these are conducted it increases the likelihood for sought results. The transaction and evaluation phases of M&As are often said to be the most intense parts where all involved people and management have little energy left for integration efforts. In
order to avoid this so called post acquisition blues, it is important to keep focus intact (Sevenius, 2003), because integration normally takes a lot of hard work to be done efficiently. While the business is supposed to run as usual, the new organization is facing duplication problems needing to be handled, at the same time as integration is meant to take place. Since the ongoing business always needs to be prioritized it often causes interruptions in the integration work. Because of this it is common that the integration phase takes longer time than planned even though a detailed time schedule has been elaborated, leading to risks that some synergies are lost (Ficery et al., 2007). Thus, synergies need to be viewed upon from a long term perspective, as it takes time for organizations to adapt to new circumstances. Focus, reoccurring reconciliations and surveillance must be used to not fall away from the synergy realizations and the implementation (Sevenius, 2003).

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<th>Need for Autonomy</th>
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<td>Low</td>
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<td>(Holding)</td>
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<td>Absorption</td>
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**Figure 3.7-1.** The level of need for autonomy and the level of need for integration decide what kind of integration strategy the M&A should adopt (Schriber, 2007).

The matrix in figure 3.7-1 depicts four possible integration alternatives dependent on the organizations’ need for autonomy. A conservative approach is the best alternative in organizations with high need for autonomy and low need for integration. A symbiosis strategy is suitable where both need for autonomy and need for integration is high, and an absorption strategy is the likely outcome where need for autonomy is low and need for integration is high. The fourth alternative, holding, do not need any integration at all as the combination of low need for autonomy and low need for integration rather describes the strategy used in holding companies. Most often, it is not obvious which integration strategy that is the best alternative for the organizations, and the true often is somewhere in the middle of the four alternatives (Schriber, 2007).

Depending on the level of integration, timing is of more or less importance in regards to the integration phase. Several of the integration related issues needs quick handling to not lose the estimated synergies. These issues are called day one issues and deals with the organization’s daily operations and maintenance, described as the firm’s basal needs (Sevenius, 2003). In the beginning of the integration phase the daily activities and such things as keeping customer service and sales at the same level as before the M&A can be very challenging. Consequently, it is important to affirm that these business as usual procedures work as they should, before any wider improvements are initiated (Allen & Renjen, 2009).
Also Boeh & Beamish (2007) claim that the need for quick integration of daily activities is crucial if the other integration activities will give desirable results.

From a financial viewpoint the day one issues are central for cash flows as payments and disbursements must work painlessly. Liquidity problems and further financial problems may otherwise arise (Sevenius, 2003). Time lags destroy value as it significantly affects expected net present values, the organization is losing money due to expected gains that do not occur as predicted (Sirower, 2006), and these losses in cash flows increase with time past (Ficery et al., 2007). Even though many synergies for financial reasons need to be implemented as fast as possible, it cannot be taken for granted that the actual benefits are visible at once. For example, the concept of learning effects states that employees who repeat processes learn to perform them more efficiently as they become familiar with the work tasks, thus decreasing costs and increasing performances in the long run (Schilling, 2005). Larsson & Finkelstein (1999) mean that benefits from continual long term synergies not visible at once should not be neglected. It is not possible to see all potential synergies, neither to realize them immediately, as ongoing trial-and-error processes uncover at beforehand undiscovered synergies and enhancements. This is further supported by Schriber (2009) who argues that many synergies evolve over time; organizations do not know everything about each other, making it impossible to integrate unknown enhancements.

Besides timing, management and leadership questions matters largely in the integration phase, since managers have the overall responsibilities of integration and realization of synergies. Because the responsibility often is divided further down in the organization, management works with coordination of resources and allocation of competences (Schriber, 2009). One of their prioritized tasks is to keep important key persons in the organizations, as the key persons are the ones knowing the organizations and its operation better than any other persons. Without motivated people in the organization, synergies are likely to decay before the M&A can walk off with its gains (Sevenius, 2003). Especially the commitment of middle managers must be affirmed, since they normally are responsible for both operations and customer relations, thus acting as links keeping it all together (Johnson et al., 2004). The success of integration is highly dependent upon human capital. Findings show that the more managers in the acquired organization that can be retained, the better will the outcome be (Early, 2004). Potential retaining problems can be overridden by nomination of one or several persons eager to make sure that synergies are implemented, and economic incitements can be used as motivations. If the people involved in the actual implementation have been engaged in planning, elaboration and development of the synergies, they are more likely to feel obligations to deliver the desired results (Sevenius, 2003). If no incitements are at place and if the follow up of realized synergies is poor, underperformance will occur as employees will see little or no reason to improve. The consequences are that it is impossible to elucidate where underperformance is hidden and if the synergies have been implemented to their full potentials. Due to complexity reasons, the problem grows with company size (Johnson et al., 2004).

As mentioned, the employee involvement is crucial for integration, and especially crucial is it in M&As where the aim is to integrate organizations completely, and/or where the organizational cultures differ greatly from each other (Johnson et al., 2004). Cultural differences between organizations can create large barriers to integration and realization of synergies, as uncertainties, misunderstandings and resistances are likely to occur when new directives are topical (Cartwright & Cooper, 1996). On the other hand, Larsson & Finkelstein (1999) argues that organizational cultures work defensively to all kinds of external threats, not only M&As in particular. Therefore, the consequence is that all M&A integrations face
problems with culture clashes, no matter if the organizational cultures differ severely or not.

In order to avoid the negative effects of cultural clashes in the organization, communication is said to be a key aspect contributing with senses of safeness, bating anxiety and un-bending question marks raised due to uncertainties. However, communication only is not sufficient to erase all doubts. One way communication from management to employees is vital, but unless management’s values and behaviors are not visible, the communication will only be considered as being empty words. Values and behaviors should be reflected and translated into the employees’ works and goals (Allen & Renjen, 2009). It is also suggested that the employees are given explicit career advices and other information related to their employments, as old promises are thrown about and new conditions arises when a new organization is formed (Larsson & Finkelstein, 1999). Also other stakeholders are important from a communication perspective, especially the customers and suppliers, since their exchange with the former organizations will be affected to a smaller or larger extent depending on relationship (Sevenius, 2003). Most often, commitments need to be renegotiated, and plans and future ambitions needs to be clarified as uncertainties are likely to arise at all levels (Allen & Renjen, 2009).

What highly affects realization of planned synergies and obstacles in regards to this is the degree of integration that is supposed to take place. The more integration, the more work, and the more potential problems. However, in cases where the organizations do not aim for a complete integration, there are still potential obstacles, such as financial surveillance and management capabilities that will cause misinterpretations and doubts (Sevenius, 2003).

In order to avoid as much misinterpretations as possible, a well thought plan including risk assessments of issues related to realization of synergies should not be forgotten. By counting potential risk scenarios associated with the integration, occurring incidents will be handled faster and to a lower cost than if there were not known beforehand. For example, probability and impact can be formulated and mapped out, followed by more specific risk mitigation plans describing which actions that should be taken in case of occurrence. However, it should be kept in mind that rules of how risks will be managed, reduced and/or eliminated is nothing worth in case new and sudden changes shake up every detail and reverse all efforts. Organizations are operating in dynamic environments and not only internal aspects impact businesses. Macro economic factors, foreign exchange rates, competitive moves etc can change the organizations prerequisites drastically in a very short period of time (Perry, 2004).

The problems with synergies are diverse and complex, “Six synergy problems to avoid” outlined by Ficery et al. (2007) summarizes it:

1. **Synergies are defined too narrowly and/or too broadly.** Management does not bother to define and value synergies for what they are, as it takes some efforts to both measure and follow up them after the deal closure.

2. **Missing the window of opportunity.** The longer time that passes after the deal closure, the harder it is to capture the synergies. If synergies are not captured 18-24 months after the M&A, the likelihood of finishing the work diminishes severely since people will not stay focused and soon fall back to the pre-M&A situation.

3. **Incorrect or insufficient use of incentives.** Management often use different incentives to achieve corporate goals, the same thing should be done in regards to work associated with synergy realization. Incentives should be clear and accurate with direct connections to the desired
achievements. If this is done, management will not only show the importance of capturing synergies but also set standards for how they should be achieved.

4. **Not having the right people involved in synergy capture.** Management should handle the overall synergy implementation, but the actual processes and the hands on changes in the organizations are best done by employees who know the work. As the employees are likely to have best practice procedures and also be less critical, their results will be better than if persons with less knowledge try to achieve things they know little about.

5. **Mismatch between cultures and systems.** As one of the success factors for capturing synergies is to work with measureable goals, it demands that organizations have the ability to handle goal oriented work procedures. If an organization is not used to working with performance measures obstacles are likely to occur. The key is to build in desired results in existing systems and processes, for example through integrating it into the budget.

6. **Using wrong processes.** Identification, quantification, valuation and prioritization should not exist only on paper. To actually achieve something suitable tracking systems where synergy targets are linked to relevant financial plans that considers time frames will facilitate synergy related work processes and help to avoid obstacles.

### 3.8 Synergies in Consolidation of Fragmented Industries

Until now, synergies in general have been described and touch upon from different perspectives. This section aims at giving a closer explanation to synergies associated with the organizations in this study.

The majority of the organizations in this study are large corporate groups whose incentives are to intervene as little as possible in the acquired companies and not to reach the full integration that are sought in many other M&As. The industries where they operate are fragmented, characterized to sell single products or a limited range of products, often serving a niche market in a limited geographic region. As a consequence, certain types of synergies exist for all of these companies, the most common deals with revenue enhancements and new growth opportunities (Sudarsanam, 2003).

The acquirer is a corporate group often divided in a certain number of business units, sometimes divided further into sub business entities. The corporate head has an overall command of all subsidiaries where surveillance and sometimes common support functions are the head components contributing to the organization’s competitive advantages. Each subsidiary operates with a high level of autonomy; the corporate head engages very little or does not engage at all in the subsidiaries’ daily operative activities (Sudarsanam, 2003).

The corporate head’s main tasks and the synergies are instead connected to the outlining of strategic objectives for the corporate group as well as for the subsidiaries, allocation of financial resources, monitoring of financial performances and decision on goals. As not much activities related to integration take place the predominant part is on financials figures. Financial resources are transferred among the subsidiaries, and depending on specific situations the corporate group can invest in one subsidiary and cut costs in another. Since these corporate groups master several subsidiaries they are also able to decrease the costs of capital through larger bargaining power in negotiations with financial institutions (Sudarsanam, 2003).
In regards to the financial synergies, the managerial aspects become very important, both before and after the acquisition. A large part of the corporate group’s success depends on how successfully the subsidiaries are being managed. While the seller (the acquired company) might have short term thinking and incentives to blow up the firm value, the acquirer’s incentives are the opposites. The corporate head has a long term interest in the acquired company, seeing it as an opportunity to develop and streamline the new subsidiary. Thus, conflicts may arise as a result of the contradictory wants if these ambiguities are not found and straightened out before the acquisition. The corporate head’s challenges are associated with making accurate predictions about the acquired company’s future. Also to make sure that the acquired company will contribute to the corporate group’s success, and later sublime and preserve the subsidiary although external factors constantly shift the market conditions, are key factors. These challenges are in many aspects associated with the subsidiaries interdependencies and the responsible people (Sudarsanam, 2003).

Although pure cost synergies have not been mentioned so far, scale synergies can be created in some areas such as law, economy, education, IT, business systems, and purchasing where opportunities to spread resources over large volumes are possible. However, cost synergies are not the main reason in these types of M&As (Sudarsanam, 2003).
4 Empirical Findings

This section presents the primary data and the findings concerning the organizations targeted in this study. In addition to the interview findings, company specific information gathered from the organization’s web pages will be presented. The information is sorted per company.

Important! Please note, all company specific information (interview material not included) in this section (4 Empirical Findings) is retrieved and quoted from the organizations’ web pages. Smaller adjustments have been done by the author.

4.1 Addtech

Addtech is a technology trading group developing and selling high-tech components and systems to industrial companies and the service industry in Northern Europe. The group achieves annual sales of about SEK 4.5 billion to more than 30 countries and has approximately 1500 employees. Sales and trading in standard products form the foundation of the operation, but advanced technical competence, long-term customer relationships and understanding of customers’ operations often lead to more in-depth co-operation and development of specially adapted products and services. Addtech consists of more than 100 operating companies all striving to be market leaders in their niches. The companies are held together by a corporate culture in which business skills and technical competence are central concepts and in which the flexibility of a small company is combined with the broad network and solid financial resources of the group.

Acquisitions are an important part of business and organizational growth, and they are necessary if goals set are to be achieved. Addtech is always looking for entrepreneurs and technology trading companies that can bolster existing operations or contribute with new product or market segments where the conditions are right for taking the lead in niche positions. Addtech acquires companies in order to maintain and evolve them in the long term. The new companies contribute with a presence on new sub-markets, supplementary agents and suppliers and, perhaps most importantly, skilled employees with a strong entrepreneurial spirit. On the other hand, Addtech is able to make a contribution as a financially robust, well-established and committed owner with clear goals for growth and profitability. Over the years Addtech has acquired and integrated several companies in the group, and through these experiences, a clear, successful process for integrating and evolving the companies acquired has emerged. According to the Addtech model the route to a successful acquisition for both buyer and seller is not always the shortest one. The process may well take several years, giving the parties time to become well acquainted with each other before the deal is closed. This acquisition process minimizes the risk of misunderstandings or false expectations. Also, it lays the foundations for trust and for the parties and key personnel to be satisfied with the outcome. Each acquisition process involves the company being evaluated in a number of areas, and all acquisitions made involve the seller gaining confidence in Addtech and the company meeting Addtech’s key acquisition criteria, which are as follows:

• Profitable and well managed
• Offers a high level of expertise and technical content
• Adds value for customers
• Well-evolved relationships with suppliers, which are maintained after the sale to Addtech
• Sales made chiefly through personal contacts with customers
• Market-leading, or has the potential to become market-leading in conjunction with existing group companies, in a well-defined niche
• Boosts Addtech’s potential for growth and profitability
When these criteria are met, there is a sound basis for further development within Addtech; the company acquired is also expected to contribute to the group’s profitability in the short and long term and have good prospects for growth. As a rule, Addtech’s subsidiaries are wholly owned. Addtech is an attractive owner for family companies run by entrepreneurs who wish to see the company continue to operate in the future. In Addtech, the entrepreneur and seller find a buyer that wishes to maintain the company’s identity and develop the business in the long term. Any commercial integration with fellow subsidiaries takes place within the business units. The possibility of benefiting from shared support functions is one of the most common reasons for collaboration. A sense of community and affiliation usually grows as employees become involved in Addtech’s internal networks. Addtech prefers previous owners and senior executives to continue to play an active role in the company’s operations. The independent position of subsidiaries leaves great scope for personal involvement and entrepreneurship. A large number of genuine entrepreneurs continue to thrive and develop within the Addtech group for exactly this reason. Addtech’s focus on niche areas is clear in the division into various business units that fall under the respective business areas. Entrepreneurs interested in selling their companies to Addtech often see a natural position for their companies within the group structure. Future acquisitions will primarily be made within the framework of existing operations. However, the market is constantly changing, providing opportunities for developing new business units or even new business areas, while Addtech gradually moves forward its positions. In its role as refining link, Addtech works closely with customers and suppliers to develop different product and service solutions. The group focuses on adapting applications to improve product functionality as well as on developing cost effective aftermarket services in areas such as logistics, education and service. Development work related to various product and service solutions as well as production processes are carried out in line with current quality standards for each industry. The group limits risk related to product development because it is based on identified customer needs and it takes place within the framework of the existing network of suppliers and customers. The subsidiaries invest in their business relationships for the long term. Employees spend a considerable amount of time on site with customers to be able to identify needs and propose solutions, which often generate collaborative projects over time. The subsidiaries handle their own sales and they provide both technical and commercial solutions. Companies co-operate to varying extents to take advantage of each other’s complementary skills and business relationships. The group provides support to the subsidiaries in creating effective business solutions. The companies have guidelines for customer limits and the like to limit risk exposure. Addtech works closely with its internationally active suppliers to further develop technical applications and service solutions. Collaboration involves sales of the supplier’s standard components as well as modifying them to develop new application solutions that meet specific customer needs. Addtech’s subsidiaries are always on the lookout for new suppliers through established contacts or at venues such as trade fairs. Developing close collaboration places stringent demands. A good supplier is one that allows Addtech to add value. The supplier must also:

- be a market leader in its niche
- work with high quality standards
- have attractive product development
- be accountable in its approach to ethical and environmental issues

The choice of strategically important suppliers is of crucial importance to Addtech and requires major commitment. The responsibility for choosing suppliers therefore ultimately rests with the companies’ management and boards of directors. Each subsidiary is managed
by a managing director who has responsibility for developing the company’s business within the financial frameworks that apply across the group. Subsidiaries are grouped in business units headed by managers who report to the business area managers. Business unit managers often also hold the position of subsidiary managing director, while a business area manager may also be in charge of a business unit. This structure ensures close contact with the operating side of the business. Addtech’s key financial ratio is $P/WC$. This stands for operating profit divided by working capital and is how Addtech measures profitability. As well as a measure of profitability, $P/WC$ may also be used as a barometer of performance at product, customer or market level. At Addtech there is a healthy spirit of internal competition among business units and subsidiaries. Addtech also benchmark performance between the group’s various subsidiaries and business units. Business area and business unit managements are closely involved and play an active role at board level and in operational discussions. The same enterprise resource planning system (ERP) is used at group level and in several subsidiaries. Some companies also share administrative services in order to achieve higher cost efficiency. When several subsidiaries have identified common opportunities to take advantage of synergies in purchasing and logistics, they do so whenever possible. However, in some cases the differences among Addtech’s market niches limit the opportunity to develop comprehensive solutions.

(Addtech, 2011)

4.1.1 Interview

Interview with Anders Claeson, Business Area Manager, Addtech Components, at the head office in Stockholm

What is the main purpose with Addtech's acquisitions?
To complement the existing business concept and establish stronger market positions. The growth goal is 15 % annually over a business cycle. The organic growth is 7-8 %, and the rest is represented by acquisitions.

What do synergies mean to Addtech?
The word is not used in the company. Generally, it can be said that no direct synergies are reached the first years after the acquisition. Indirect cooperation advantages arise gradually since the subsidiaries operates within the same product area and the same business fields, hence they can for example make profits from sales and cooperation, market positioning, expansion through resources, development vis-à-vis customers, and other cooperation that contributes with advantages.

Which cost synergies do exist?
We work less with cost synergies, there is a goal concerning optimization of costs in total but no centralized cost strategy exists. Opportunities are used through common localizations of companies, for example common IT systems and similar. Law, accounting, education, quality and general agreements for services and other requisites are also cost synergies used. Addtech offers a common recommended IT platform. Some subsidiaries have older IT systems while others have newer. There is a business support function consisting of five employees helping the subsidiaries to handle questions related to the IT system, in order for all of them to use it in the same manner. However, it is voluntarily for each subsidiary and we do not calculate on cost savings and economical gains with these things even if we are aware of that savings exists.
When it comes to accounting, there is a controller in each business unit and we have accounting competence in-house contributing with additional cost savings. For smaller subsidiaries with 4-5 employees it would be very costly to have an own accounting clerk to uphold this work. For that reason we have this function that can be shared with other subsidiaries within the corporate group, the costs are shared between the involved parties. There is an online accounting system all subsidiaries use for reporting purposes, Addtech pays this cost centrally. It facilitates much for the corporate group because the reporting becomes unified. We also have developed structures, templates and frameworks that are ready-to-use, the subsidiaries report according to our principles in several areas and do not have to invent everything on their own since much support already exists.

Which revenue synergies are found?
Several revenue synergies exist, mostly associated with opportunities for market positioning and the structures we build through entrepreneurship. Also the strength vis-à-vis customers and market helps us to increase the revenues.

How does Addtech find potential acquisition objects and how does Addtech make sure that the acquired companies add value in the long run?
It is mostly about market knowledge within the business concepts. Each subsidiary has come from being a small player and has built up a large competence within their niche along the way. The persons in charge of the acquisition stays in the subsidiary and knows the market, have contacts and are familiar with which other companies that could be potential acquisitions. For this reason, they make sure to stay in touch with these other companies. If an interest arises, further investigations concerning the specific company’s possibilities to contribute with complimentary business not already existing in the corporate group are done.

No acquisitions are done to liquidate the company; the acquisitions are conducted in order to reach stronger positions. In other words, the acquired company contributes with competence or improves the business in other ways. There are for example technical companies that are better than any other Addtech company, because of this it is in our interest to approach this companies and relate them to us.

How does Addtech reach stronger market positions?
We work much with development of businesses with existing customers, rather than finding new customers where we do not have any experience. It is also connected to our management structure and what we are best at. If there is anything we cannot do it naturally takes longer time to conduct the business, for example when new customers are involved. In addition, it can steel power from the other development, and for that reason we mostly work with expansions of existing customers and help them to add value through broadened offers, deepened techniques and competences.

How are potential acquisition objects evaluated?
We partly look at the financial use that can help us to maintain the group’s financial goals. It is the evaluation phase that are the most important, there may exist financial thresholds needed to be exceeded in order to not deteriorate the corporate group’s key ratios or financial development, for example profitability growth or shareholder value. The acquisition objects must have good future prospects and must strengthen the group’s competitive advantages. At our concept meetings, information about for example technical changes come up, and the acquisition objects are then valued from without opportunities that are related to technical changes. Many competence based decisions that are done.
Which are the most important aspects to consider in order making sure that the acquisition objects fit with the corporate group?
The human capital is the absolutely most important thing, the people in the acquired companies must be good persons who can continue, who stays and contributes to the development. It has always been the most important aspect and will always be in the future as well. If the people are not there as the kit between supplier and customer, contributing with competences, fit in well with our culture and the way of working, then it is worth nothing in the long run.

Which persons in the acquired companies are involved?
Foremost it is the owners, but there are examples where they are not the most important persons. For example other key persons in the companies, the ones with the most knowledge crucial for future success, such as marketing managers or technical managers.

Which negative synergies are experienced?
Since every company undergo a get-to-know-each other process before the acquisition, it is possible to see embryos to what could lead to negative synergies. These problems can often be handled before the cooperation is deepened, and in that way be solved ahead. If the people in the company do not like Addtech than it becomes apparent along the way and no acquisition is done. Such cases have we experienced.

The companies' have a product portfolio and a supplier portfolio, it is possible that overlaps possibly contributing with negative synergies can be found in regard to this. A supplier can react negatively on expansions within one area where Addtech wishes to strengthen, because this supplier wants to have the sole right within its niche. On the other hand is the competition that arises positive, because the competing contributes with a higher standard on average. The supplier reaction is of course evaluated before an acquisition; there is no head-to-head, no extreme completion problems occur even if there is competition in the outline regions of an acquisition. There are often some suppliers that do not think the acquisition is optimal. Possible risks to lose suppliers are considered in the acquisition calculation.

How are synergies valued?
The synergies are not valued at all. The reason is that synergies cannot be isolated, which successes depends on synergies and which successes depends on other effects concerning development? The important thing is that the acquired companies are profitable and develops as they should; it is these measures we work with instead.

Do all subsidiaries have to fulfill the corporate group’s financial goals?
Everyone is working with the overall goals. Stock-in-trade, accounts receivable and account payable is continually followed up in the subsidiaries to handle the capital. We must release as much capital as possible to expand and have a positive cash flow. Otherwise, it is very easy for trading companies in general to tie capital in stock-in-trade but profitability is often suffering from this. Capital can be allocated from the top to the subsidiaries that do have sustainable ideas; we add capital where it is needed and where there exists opportunities to grow.

Are there any other synergies?
Yes, the possibilities to benchmark between subsidiaries, we work with key ratios. The subsidiaries with the same business concepts and logics can have diverse values, and then it is useful for us to question and/or help them to improve. It brings a positive competition among the subsidiaries and makes them motivated to continuously improve. In the same
manner there are other ways to use benchmarking to improve efficiency. For example, it is possible to benchmark how organizational structures differ in different subsidiaries, or how the subsidiaries work differently with the same type of sales.

**How are the risks minimized in regards to the acquisitions?**

It is mainly done through good competence and a philosophy to not enter areas where the knowledge is insufficient. You must know, feel and understand the area, if not the risks become considerably larger. In countries where we are not yet established and have a relatively thin structure it is important to beware, mainly because competence is not built up and human capital is not sufficient to back up, proper safety nets do not exist if anyone would quit. What is most important is always to have alternatives that can be used if needed. In the cases where it is possible to move subsidiaries to the same address and help each other over the subsidiary boundaries this is done to minimize the risk taking.

There are also risks associated with suppliers; sometimes a supplier does not think that Addtech is a good owner of the company and withdraw the representation rights with the acquired company. This relation is always secured in agreements before the deal closure; it is a prerequisite for the acquisition. Key persons jumping off is also a risk, and therefore is this secured before, for example through engagements and premium price.

**What decides the size of the premium price?**

There are several parameters, but the view on future development is one of these. Different views on development within the companies are prerequisites for growth. The premium price should be realistic and no one should be disappointed. The premium price is mostly based on growth in results, the growth usually does not explode because of the acquisition and hence historical aspects on future expected result development are important.

### 4.2 Indutrade

Indutrade is a group of some 140 companies that each has their own president, all with total responsibility for their respective companies. By virtue of the companies’ size (a typical Indutrade company has annual sales of SEK 50-100 million); the respective presidents can maintain control over the entire operation and relatively quickly adapt the business to the customers’ needs. The companies all have individual profitability and growth targets, which mean that while some companies may be cutting back on costs, others may be investing in more employees.

Indutrade has a long record of experience in company acquisitions. During the last decade more than 90 companies have been acquired. These acquisitions have accounted for a large share of Indutrade’s sales growth. Future growth is also expected to be achieved in part through company acquisitions. Indutrade is a long term owner, and the companies it acquires are not subject to further sale. The acquisition strategy is based on a two pronged approach:

1. acquiring niche technology companies in countries with a strong trading tradition. Examples of such countries are the Benelux countries, Denmark, Norway, Sweden, Finland, Switzerland, the UK and Austria;
2. acquiring international niche companies with proprietary products.

The goal is to acquire a number of companies each year with net sales exceeding SEK 30 million each. Through a network of customers, suppliers and other market actors, In-
dutrade has a good picture of potential acquisition candidates in the market. Due to the fragmented market structure, access to acquisition candidates is good. By virtue of its strong acquisition history, its size and its good reputation, Indutrade has the experience and conditions needed to carry out value-creating acquisitions. The best decisions are made by the people who have the best knowledge about the customers’ needs and processes. Since its start in 1978, Indutrade's philosophy has been to run a decentralized organization in which the financial responsibility rests with the group companies that generate business, earnings and cash flow. The latitude of independence that the subsidiaries keep leads to customer specialization and flexibility, and creates a favorable environment for nurturing an entrepreneurial spirit in the organization. Moreover, the subsidiary heads' self determination is a key factor in retaining key persons in acquired companies. With Indutrade’s acquisition model, the companies keep their name, culture and management after becoming part of Indutrade’s organization. Acquired companies are not subsequently sold. Decentralization is also a natural consequence of the group’s niche strategy. To build up the expertise that is required to create customer value – and thus profitability – it is necessary to concentrate businesses on a number of niches. However, the conditions differ quite a bit among the various niches, which make it necessary for each subsidiary to form its own strategy. The companies vary in size, but typically have 15-40 employees, most of whom are sales engineers or technical consultants. Most of the companies have built up enduring, close relationships with their customers over several decades and have gradually become specialists in their respective technology areas. The business of the agency companies often revolves around a couple of strong, well established suppliers, backed up by a number of smaller agencies. Companies with own manufacturing are also characterized by enduring relationships with customers and subcontractors, with sharp focus on a limited number of product lines. The parent company's role is to support the subsidiaries with industrial know-how, financing, business development and management by objective. Management by objective is primarily focused on profit margins and growth. The subsidiaries can also benefit from internal benchmarking and the informal exchange of ideas between different companies in the group. In 2006 an annual internal benchmarking system was established, consisting of a ranking list to lay out goals for the companies and to give the company presidents knowledge about best practice in other companies within the group.

**Management our way.** Indutrade has a deep-rooted business philosophy. It goes back more than 30 years. It is based on common sense. It is easy to understand. It is inspiring. It builds upon growth. It creates profitability. And it is based on three fundamental concepts: Acquire. Strengthen. Refine.

**Carefully considered acquisitions.** We are extremely thorough when acquiring companies. It involves much more than just looking at P/E multiples. Above all, the interesting companies must be run by talented people, have a genuine entrepreneurial spirit, and have a high degree of technical expertise in their respective niches. Indutrade therefore dedicates a great deal of time from the start to meeting the people who run these companies and their key employees. Indutrade wants to understand them. But Indutrade also wants them to understand the group and the way the group works. A successful acquisition requires that all parties think alike.

**Strengthened position.** All Indutrade companies work with a clear sense of decentralized responsibility. Decisions are to be made as close to the market as possible - by the people who manage the respective companies. At the same time, all companies that Indutrade brings in to the fold acquire a group affiliation. While they may have a great deal of individual responsibility, they also have many colleagues with similar problems and opportuni-
ties. Indutrade’s companies stimulate each other, they share their knowledge, and through internal benchmarking they can compare their efforts and gain ideas for improvement. Most of all, they gain an owner who instinctively understands the problems and opportunities that small businesses face. Indutrade lends support through industrial know-how, financing, business development and management by objective. This provides an extra measure of security.

**Opportunity to refine.** Indutrade does not sell companies. Most of the companies that have been part of the group for a long period of time have been able to gradually refine their way of working and their product offering. Indutrade gives them room to maneuver - both mentally and financially - and thereby opportunities to add new dimensions to their business.

Indutrade works according to a tried-and-tested process for analyzing, executing and implementing company acquisitions. The aim is to structure the acquisition process and ensure the quality of the acquisitions that are made. This process involves five steps:

1. **Identification**
   A list of potential acquisition candidates is continuously updated and normally contains more than 100 companies. Small companies, with net sales of less than SEK 50 million, are often identified by Indutrade’s subsidiaries or at the business area level, while group management focuses on identifying larger strategic acquisition candidates. Indutrade strives at an early stage to engage in a dialogue with the owners of potentially interesting companies. By doing so, Indutrade is often the natural partner for the owners when discussing the possibility of a sale. At any given time, Indutrade is engaged in talks with five to ten acquisition candidates.

2. **Evaluation**
   Potential acquisitions are evaluated according to a number of set parameters. Examples of these include market position, customers, competitors, the strategic and technical orientation of main suppliers, recurring elements in the product range, financial position, history, the continued involvement of key employees and the value-added the company can create for customers and suppliers. The aim of this analysis is to minimize the operational and financial risks associated with an acquisition.

3. **Negotiation**
   The primary aims of the negotiation phase are to ensure:
   - that the acquisition can be carried out at a price that makes it a value-creating deal. Historically, Indutrade has acquired businesses at a price of 4-8 times net profit;
   - the continued involvement of key employees after the acquisition. Since the key persons are often part-owners of the company being acquired, usually an acquisition structure with an earn-out payment is used. This gives the key persons an incentive to continue working with the group and contribute to continued growth in net sales and earnings;
   - that the acquisition candidate’s main suppliers approve of the acquisition, to prevent the loss of key product agencies.

4. **Implementation**
   In connection with an acquisition, a structured review is conducted of the acquired company. This review is focused primarily on three areas:
   - Customers and suppliers – broadening of the customer base and product range;
• Organization – streamlining with the primary aim of increasing focus on customers and sales;
• Costs, margins and inventory turnover – to boost profitability and ensure a stable financial position.

New financial targets are established and adjusted to the company’s specific conditions.

5. Follow-up
Group management and the management of the respective business areas carry on a continuing dialogue with the company’s management. The day-to-day management is goal-oriented, with focus on growth, margins and tied-up capital. Normally, most key employees of acquired companies continue to work for Indutrade, even after an earn-out payment. A key reason for this is Indutrade’s company culture, with a strongly decentralized organization that gives entrepreneurs considerable freedom to continue developing their businesses.

(Indutrade, 2011)

4.2.1 Interview
Interview with Claes Hjalmarsson, Group Controller, Indutrade, at the head office in Stockholm

What does Indutrade’s overall acquisition strategy look like?
We believe extremely much in long relationships and the efficiency and profitability it brings. Long relationships with customers, suppliers and companies contribute with good profitability, much thanks to the fact that all processes and everything around take place faster if you know your stakeholders well.

We do not have any exit strategy when we acquire companies. The companies we acquire stay in the corporate group; we are not a traditional investment company in that sense. We do not go into an investment and keep it for 3-7 years, sell it to reap the capital gains and then get into the next investment. We keep our subsidiaries.

Has Indutrade ever sold a company?
It has happened three times, for special reasons in all of the cases. Once was in 1986 when we bought a company from three widows in Brussels, and it did not turn out well so we sold it back soon. In the other two cases it was typical management buyouts. We stay in the companies we acquire and we are very careful to choose the right companies, we put a lot of time and effort into that.

How does Indutrade find acquisition objects?
We rarely find acquisitions by studying databases, we work extremely decentralized. We are 8-9 employees in the corporate group and almost 4000 employees totally in the 150 subsidiaries, spread over 30 countries, it is indeed extremely decentralized. Each subsidiary has a CEO, a marketing manager and a CFO, and they have as mission to identify interesting acquisition objects, which means that we have a broad network in all of the 150 subsidiaries. They keep their eyes open and bear the mission in mind when they are meeting customers and suppliers. The advantage is that our subsidiaries already have a relationship with the acquisition objects, and because of this we can be there early in the process. Normally, there is no bidding but an exclusivity already from beginning which is advantageous for us. Nowadays we also receive very many enquiries, especially from individuals and M&A advi-
sors who want to sell their company to us. We reject about 90% of the enquiries since we are looking for a certain type of companies that must fulfill several criteria.

**Which criteria do Indutrade use to evaluate acquisition objects?**

We are careful with following our business model. A customer is calling an Indutrade subsidiary when he or she has a problem that needs to be solved. The sales person visits the client and sits down to find a solution to the problem. In a way you can say that we are a technical consulting company, when we acquire companies it is also much about estimating and acquiring the knowledge and the people in the company. It is the people who make the differences, and there are large risks associated with this since the subsidiaries are relatively small with approximately 20 employees. We approach these companies with large respect, they are exclusively good and successful firms, and they are operating in a small, limited niches and often have market position number one, two or maybe three. It usually takes some time to understand such a company, about three years to know it fully. We are good at interpreting numbers and understand products, but what genuinely creates successes takes longer time to understand, it is in the head of a couple of key persons and is in the firm’s walls, it is the culture that is important but that takes time to genuinely understand. It is easy to interpret numbers and to read a calculation, but Indutrade’s success is in that extra thing. We very rarely do failures with our acquisitions. We put a lot of time in trying to understand the company, and it is an advantage to have the experiences we have in these cases.

**How long time does it take before an acquisition deal is done?**

We like long acquisition processes, because then you get to know the counterpart much better. It can take a couple of years from the initial contact to the buying; sometimes it even takes ten years. In the firms we contact, where we take the first step, it is a longer process because these companies are often not available for sale at that time. In the cases where the firm already has taken the decision to sell, where they have hired M&A advisors and done a prospectus, the process can be very short. When the deal is done the company receives a sum when they sign the contract, two years later they receive yet another sum. The premium price is important to secure the retention of key persons and give us time to get to know them better.

**It is important to keep key persons in the acquired company?**

Yes, in these types of companies it is very important. We owe companies that are good in limited niches, technical niches, where we think there is profitability in being really good. Given that reasoning we are very dependent on the people with the deep and desired knowledge. Often, it is a very limited number of persons who have this competence, unlike large organizations where there are several persons with similar knowledge. For that reason it is extremely important to keep the key persons, but it also the aspect that is the absolutely hardest. The key persons are often the old owners and the founders of the company. When they choose to retire we try to replace them through internal recruiting within the same company.

**What is the difference for the acquired firm before and after the acquisition?**

The subsidiaries take care of themselves. They are for example choosing their own IT systems. It is as close as you can get to run your own firm. We take care of the financial risks, other than that the owners run the company like it was their own.

**Does Indutrade use any synergies between the subsidiaries?**

Every subsidiary will be able to affect their own success. Because of this they must also be able to affect their own income statements and their own balance sheets, and hence affect
their own business entirely. If you are stuck in some sort of grey zone in the middle, the own success principle will not work to 100 %. For that reason we have said that it is up to the subsidiaries to make own decisions about IT systems for instant. It must be the right system for the type of business they run. If coordination would take place the subsidiaries would need to be more similar, but we both have very large and very small organizations operating in completely different areas. For these reasons the needs are very variegating and we have chosen to not coordinate at all. For example, each subsidiary has their own warehouse, their own accounting function and their own CFO. What is common is the monthly reporting, but that is because it must be possible for us to compile the monthly closings and be able to report correctly to the stock market. Other than that, there is nothing that is the same for all subsidiaries.

**Does Indutrade consider using any potential synergies?**

Our business model has been successful in thirty years, we have never lost money, have always grown and have had strong cash flows, and because of this we are very careful when it comes to changing anything in this model. We have rather chosen to be over explicit; each subsidiary will have their own CFO and their own CEO no matter of size, this is to create the feeling that they are in possession of their own company. It is possible that this model becomes somewhat more expensive, but we believe that the human propulsion is stronger, and we believe we are obtaining a higher marginal income by letting the business model stay as it is.

**Why is this business model so successful?**

We talk much about entrepreneurship and the power that exists in it. Everything falls into the people; it is only people which create wins, successes and developments. It is rarely computers or robots creating the success; it is the power and willingness in all people who generates success. We care for maintaining and developing the entrepreneurship, and then these persons automatically come with it.

**In which ways does Indutrade encourage entrepreneurship?**

For example, we have a CEO conference every year where all the subsidiaries participate and take part of each other success stories, and winners are announced in different categories. The criteria in the competition compare growth, returns, results, margins etc. The price is a trophy and the honor to hold a presentation. It is much worth for these people because they are competitive by nature. There are also possibilities for the CEOs to build networks since 150 persons with almost similar interests and problems meet. If we would think of more synergies, for example through common warehouses, there is a risk that we get another type of persons. If that would be the case there is a risk that we would not attract these entrepreneurs willing to sell their companies.

**What characterizes these entrepreneurs and why are they attracted to Indutrade’s concept?**

Often, these companies have been founded by a husband and a wife at home; they have had a dream to do something differently. They have with the help of laboriousness and hard work built and created something during several years. Sooner or later, they come to a situation where they realize that they get older and must handle the succession in some way, they need a new domicile for their firm, someone who can take over and carry it on as before. When they meet us and we tell them that we are interested, that we will pay a reasonable price, that we are not going to sell the firm, that the firm will be run in its current shape and on the same place with the same name, a liking often arises. The owners are left in the business a couple of years more and they help to develop the company. They keep their salaries, they drive the same business car, and everything is business as usual. The only
difference is that we secure the capital that has been built up. This attracts many owners because they do not want to experience their life work to be destroyed. If we would intervene more, there is a risk that this type of entrepreneurs would not be attracted to us as buyers.

**What makes the market where Indutrade operates suitable for this type of acquisitions?**

During some decades there has been a growing, continuing outsourcing trend, many small firms only keep their core business. Fifty years ago the large industries had everything in-house; there were many different specialist functions within the organizations. Nowadays many choose to only keep the key competence and outsource the rest from specialized companies. Our subsidiaries are often small specialized firms disbudded from these large industrial organizations, firms that have realized that there is profitability in owning this type of knowledge on their own. They do what they are good at; they have few fixed costs and work much with variable costs. If you have a need for a certain type of knowledge you outsource it even if the price becomes slightly higher. This trend has not been disrupted but rather continues. There is a value in choosing these narrow niches that our subsidiaries choose, and consequently there is profitability in owning these types of companies. Our success is highly based on our ability to handle these self run companies.

**Is company size a determining factor for success?**

We think that if the subsidiaries become too large an increased bureaucracy enters. Other discussions arise, more politics become involved and they start to watch on each other. We try to avoid this, sometimes when the subsidiaries have become too large they have chosen to niche even further and then started a couple of smaller firms instead of being too broad.

**Are there any other reasons to why synergies between the subsidiaries are not used?**

We do not think that this business model would do any good of synergies in that way. There is much talk about cost synergies, but we do not believe in it even if it surely would be possible to calculate wins if some efforts were done. We think that these types of companies have a large value in that the employees working in the warehouse also have coffee breaks with their CEO a couple of times a week, that they know what is going on in the business. The warehouse staff takes care of customer inquiries, accompanies the sales persons’ customer presentations and is absolutely integrated into the whole business. We think that it has a value. If you choose to have a large centralized warehouse for example, there is a risk of getting too much anonymity, you lose the presence and the opportunities to influence. In that case, the CEO would not own the control of the whole income statement if the warehouse spaces were bought from a central unit. Discussions concerning how costs were divided would presumably arise.

**Which are the advantages with the decentralization?**

In Indutrade you are visible; we see each subsidiary’s result each month. Even if you are a very small firm you are seen. We see if the subsidiaries are doing well or not, and this small firm can very well win the yearly competition. Often the subsidiaries have a strong competitive instinct; they want to be visible and perform well. Generally, all people want to be visible and measured in some way, to receive confirmation of how successful you are. If we would choose another model where these people would not be able to influence their own results, there is a risk that they would choose to start their own companies or do something else. We want the subsidiaries to be able to do their own acquisitions and build on something larger around the own firm, unfortunately it does happen too rarely because there are so focused on their own things.
We want to create further possibilities to make career and have used the decentralization for this. Each subsidiary will have the right president and the right type of board adding a value to their business. The more subsidiaries, the harder it is for us to handle each subsidiary. Since a couple of years ago, we have created business units or divisions, where a CEO in one successful subsidiary act as president in 4-5 other subsidiaries, and in that way take on more responsibility. This also works as a way to stimulate these career driven persons, it is another work to direct and coach other CEOs than it is to be your own operative CEO. They learn to work and develop companies through other CEOs since they are not engaged in the operative works in the same manner. The board work also opens up for many acquisition discussions which contributes with opportunities for these persons to build something on their own, in that way many new subsidiaries can be added and placed within these groupings. We do not acquire any company without having a taker, someone that is willing to take responsibility for the company. It is not like we are sitting on a headquarters compound, do acquisitions and then send out the subsidiaries, they are very active in the processes. In our organization you cannot hide, you are visible and have clear goals straight through. We do not have any matrix organizations or key account managers. It is one organization, one CEO, one responsibility.

**What does the competition between the subsidiaries look like?**
We have full and free competition between our subsidiaries. There is no coordination at all. It is neither possible to have because our customers would not perceive us as trustworthy, our customers must feel comfortable with our offers and prices, that these are market oriented and mirrors free an full competition.

**How does Indutrade work with networking?**
Some synergies we see are related to networking. The subsidiaries are similar; they sell technical solutions to the industry which opens up an enormous network. It is up to each individual subsidiary to take advantage and use this network. Many CEOs choose to meet each other, to discuss and exchange experiences and contact persons, but it is entirely their own decisions. The best companies realize that there is a value in networking and uses it more than others.

During our CEO days lasting for two days you meet and listen to internal as well as external presentations and have some fun during the evening. There are opportunities to build good networks which can be used forth. We have similar activities on the accounting side where the CFOs meet once a year. They will also have a value in discussing for example implementation of IT systems, if there are any other subsidiaries having helpful experiences in regards to this. Sometimes groupings of subsidiaries using the same type of IT solutions have been established, but that is not anything we administrated, it emerged as a result of these meetings.

Further, the people sitting in many different boards acquire much information that can be used, but also here the local subsidiaries make their own decisions. We are very careful with that no responsibility lands on Indutrade AB. We do not meet customers to make businesses, that is something the subsidiaries do on their own. How much money we win and lose with this is impossible to estimate. The propulsion that our business model creates is and has been successful, it attracts the right type of persons with very strong commitments. To run a company is a way of living for many of these entrepreneurs, they preside over and influence their own successes. Many of them have backgrounds from sports; they want to be seen and are triggered by competition.

**How does Indutrade work with benchmarking?**
Because of the competitive instincts the use of benchmarking is very valuable. We measure some different parameters, among other things growth and profit. We have promised our shareholders to grow, to have certain margins and certain returns. These goals do we use in the benchmarking where it is possible for the subsidiaries to be compared with each other and exchange tips and ideas. A subsidiary making a profit after tax of 7% for example, and realizes that there are subsidiaries where the same number equals 19%, they can choose to contact this other subsidiary and ask for advice. Hence, there are rather large advantages with this. The key ratios are measured quarterly and a ranking list of all subsidiaries is published. The measures used are growth, profit margin and return. We talk much about growth; if you do not grow you die, without growth there is a risk that you become anorectic in your behavior and focus too much on costs. Though, all organizations need a strong growth thinking. Profit margin and return measure the efficiency in the subsidiaries, we are not friends of many different key ratios or advanced and complicated reporting; we try to use a minimum of reporting to interfere as little as possible in the subsidiaries. The goals must be easy and clear to make it possible to understand and embrace them. The most important thing with the goal steering is that it is understandable rather than advanced. However, the limited reporting also requires a certain degree of experience and a certain element of courage from our side, since you still must be able to capture the essential parts. The set goals are not the same for all subsidiaries, they depend much on the subsidiaries’ own prerequisites on the market where they operate, but we always want to see improvements. The goals are completely individually for each subsidiary, something we call it “chirurgical operations”. We try to see each subsidiary on its own; this means that we can cut costs in one subsidiary at the same time as we invest much in another. We compare the subsidiaries on same conditions, the right subsidiary with the right subsidiary. For example, it is like a walk in the park for some subsidiaries to do earnings before tax of 20%, while other subsidiaries must tear very hard to reach 12% because they are operating in a market with a completely different competitiveness. We work with each subsidiary from without the subsidiary’s prerequisites.

We have individual goals in our subsidiaries; we want to see constant improvements. To be able to measure it we want the improvements to land in the income statements and balance sheets. Softer improvements areas, for example more customer visits, better working environment etc. are things they work with internally to improve the results. Some subsidiaries work more with these types of soft values because they have realized and understood the positive implications it gives on the results in the end.

**How can Indutrade’s business model be summarized?**

This (see appendix) will symbolize that we walk in a different direction than other companies do. This is what it is supposed to look like according to theory, but our reality is exactly the opposite. We do not do this because we think it is funny to be different, but because we have a history and a track record where we are and have been more profitable than many others. Many companies say they are decentralized, but in reality they are not as decentralized as we are, since they often have some sort of common purchasing agreement or similar. We only have some such small agreements, but also here it is up to each subsidiary to use it or not. In many cases the subsidiaries have their own, local agreements that give them better prices.

No other structured synergies do exist; it is up to the subsidiaries to take initiatives. We hold a strategic meeting with each subsidiary once a year where they do a strategic plan. Each subsidiary has their own benchmarking where they compare themselves with a decade of similar companies within their niche, but that is companies outside Indutrade.
Which factors are used when potential acquisition objects are evaluated?

There are two types of processes; one is the companies we find on our own through the subsidiaries. These are companies we know in any way, we have met them earlier and sometimes already made the decision that they will fit in.

Concerning the companies where we receive inquiries directly, it is more about trying to understand if it is the right type of firm, and then we look closer into some different criteria. The companies must be technical problem solvers, they should have a reasonably strong position on their market, preferably be number one, two or three. They must have a history of good profitability; the company must operate in a customer segment that we believe will exist for several years. It must be a certain type of industry; the products must add a value and the company must have a reasonable history. More philosophically, you must ask yourself why the firm has the right to exist in their market. What sort of value is added to the customers? There are some different types of values that you must try to size up, and we are a couple of persons in the corporate group with long experiences that have seen many companies. Because of this, you rather quickly grasp if the company fit in or not.

How does the risk evaluation work?

To identify risks are very important. Calculations on discounted cash flows can anyone do, but the important aspects are to identify risks and existing possibilities. A large company often has smaller risks with key persons and so on, and then the deal price can be higher. If it is a small company with few employees and 90% of the knowledge is in one person, the risk is much higher and thus the price is lower even if the figures look good. If this key person got a brick in the head it would become very complicated. It is important to value the risk in these companies with strong consulting features to get the feeling for if the key persons are willing to stay for some years. You must try to look the persons in their eyes and tie them to the company; it is much about gut feeling and to do business with solid persons who can be trusted. A company can have a very good calculation with high returns and good future prospects, but if important key persons quit after a short period it is worth nothing.

70% of our subsidiaries sell products from other companies, and there are risks associated with the companies’ suppliers as well. We always visit the important suppliers and look them in their eyes. Often there is some sort of agreement with clauses concerning change of control; if the owner is changed the supplier has the right to quit the agreement. Because of this, the supplier question is very central; many suppliers contribute with lower risks and a higher deal price. Few suppliers, higher risk, lower deal price. It is much about common sense when valuing this.

What decides the size of the premium price?

It is because of the premium price we do not work with synergies since it would affect the outcome to 100%. We put it on the results instead, business as usual. We do not want to get into discussions about that we took the decision to change their IT system, that we told them to hire three sales persons, or that we sent them an invoice on management fees etc. The subsidiaries must be able to affect everything. Life becomes so much easier, then you engage in customers and businesses instead of reading agreements and discuss nonsense. Only in some cases we have connected the premium price with the binding of suppliers. The easiest is to set the premium price on some sort of profit; we always have a cap on everything. We look upon it as an insurance that key persons stay for a period, and hence we connect it directly to the premium price. The premium price makes people stay in the business.
What has made Indutrade so successful?
That we work very simply and do not have any prominent theories where people are sitting and draw diagrams, we rather meet customers and do business. We do not complicate things. Our subsidiaries know that we are in for the long run; we have good relationships with our suppliers. Some subsidiaries do have eighty year old relationships, many long relationships with customers is a safety. Nowadays, we are large and have a good risk spread, which means that if one subsidiary is doing less good during one year we do not need to panic since it does not affect the corporate group as a whole. Calmly and easily we can work back the profitability again. We are talking about simple things; growth and profit, keeping the subsidiaries and developing them. We are trying to turn around the organizational pyramid, what is produced by the corporate head should be requested by the subsidiaries. Things should be requested on demand, rather than we sitting on a headquarters compound, signing large central agreements and implementing what no one have asked for.

Are there any negative aspects connected to Indutrade’s business model?
The negative is that we do not know what we are losing if we would fail with important acquisitions. We are only 8-9 employees working here and much is built on that we have the right type of subsidiaries in the corporate group. If we would shuffle off with our acquisitions, then we would experience deep problems. If we would change our approach there are large risks that these entrepreneurs consider it to be boring and quit. If we would start to coordinate towards customers and suppliers they would begin to lose confidence for us, therefore clearness is important.

What do the future prospects look like?
Today things happen faster and has larger direct impacts. Information runs as fast as lightning and if companies will be able to handle these circumstances they must be very quick, flexible and adapt directly. You must be close to the market and be mobile. Our subsidiaries live very close to their customers; they can adopt, influence and make quick decisions.

Then there are the market risks. We spend much time on trying to understand the market. If we would choose to acquire companies that are dependent on one customer we could not be sure that they still existed in ten years time. We try to understand what will happen with specific markets in the future; we want to have customers that we think will stay. For example, we do not acquire companies south of the Alps. We only operate on markets we think we understand, where we understand the culture. Experiences and knowledge about how the business is done is essential to not take too large risks.

A company needs an owner. Most of the people who sell to us have reached a certain level where they realize that the succession must be handled. Or they realize that there are potentials and opportunities to double the turnover, but are not willing to take the financial risks it would mean to invest. They are searching for an industrial owner who is willing to invest in the business’ development. We give a possibility for these companies to be run onwards.

4.3 Lagercrantz Group
Lagercrantz works according to a decentralized model where business decisions are made by the subsidiaries, close to customers and suppliers. This results in great commitment and the employees’ good business manship represents an important competitive advantage. Lagercrantz creates value by offering proprietary products as well as products from world-
leading manufacturers combined with advanced business and technical knowledge. The customers mainly consist of manufacturing industrial companies. Exports to countries outside the Nordic region account for an increasing share of sales. Lagercrantz operates in eight countries in Northern Europe as well as in China. The group’s annual sales amount to just over SEK 2 billion and the company has about 700 employees. Lagercrantz shall strengthen its position as a profitable and growing company by developing its existing operations and by acquiring more companies with strong positions in well-defined niches. Lagercrantz uses six group-wide strategies to achieve the sets goals relating to earnings growth and profitability.

- Decentralisation and management by objectives
- Strong corporate culture
- Business manship
- Strong market positions in niches
- Increased value added
- Acquisitions

The management of each subsidiary has considerable freedom to develop the operations under its own responsibility. The most important business decisions are taken close to customers and the market, where the knowledge is greatest. Business plans are drawn up on an annual basis by every subsidiary with quarterly targets for earnings and for how much capital is tied up in the business. Plans are followed up on a regular basis and action is taken by the subsidiary as needed. Lagercrantz cultivates a strong corporate culture. The common value base in Lagercrantz Group’s corporate culture rests on four concepts:

- Business manship – the ability to see opportunities, create good relationships, perceive customer benefit and focus on results for customers and suppliers.
- Responsibility and freedom – the ability to take control and realize own ideas that deliver results.
- Simplicity and efficiency – the ability to work in a concentrated manner and to find simple solutions, prioritize the right things and implement them in the right way.
- Willingness to change – the ability to embrace innovation and to adapt to the market.

Business manship includes contributing knowledge and acting in such a way that added value is created for the customer. This means having a holistic perspective and the ability to recognize new business opportunities and future needs. It also involves cultivating good relationships, a creative ability and personal sales. All subsidiaries at Lagercrantz strive to achieve a strong market position in their niche. A niche consists of a well defined technology area, customer segment or geographical area with a total market value that normally amounts to MSEK 200-1000. With knowledge of a local market and specialized technical know-how, Lagercrantz Group contributes with added value by customizing, developing and combining different products in the solutions presented to the customers. The degree of refinement is continually enhanced by phasing out standard components and offering proprietary products to a greater extent. The growth targets shall be reached through organic growth and acquisitions. Acquired companies strengthen the market position in existing areas or pave the way for entry to new areas. It is crucial that acquired companies have a well tried business model, good earnings capacity, strong competencies and good growth potential. Lagercrantz Group is a financially strong and long term owner which has the strength to develop companies further. The executive management in each individual company has considerable freedom, but also responsibility for developing and implementing
the company’s strategy. Lagercrantz has an expressed ambition to grow by acquiring companies. The aim is to strengthen an existing market position or to enter new markets and technology areas. We are a long-term owner and therefore buy companies we believe in and where we see long-term development potential. Our business model, with autonomous subsidiaries, means that we are interested in companies that operate in different areas provided that the company has proven earning power, and a strong market position within a technical niche. Lagercrantz believes that a business executive who has responsibility must also have freedom to act. In practice, this means that Lagercrantz Group’s subsidiaries are run independently towards defined goals with a high degree of independent decision-making and flexibility. Lagercrantz is a Swedish listed company with resources: experience, know-how, contact network and capital. As new owner, Lagercrantz offers evolution rather than a revolution which usually means that the management is afforded the opportunity to:

- Continue running the company in the accustomed manner
- Retain profile and corporate name
- Develop the organization on the basis of existing staff
- Strengthen the work relating to growth and development
- Increase the confidence in the company through a stable and financially strong owner
- Provide the financial muscle for development of good new business ideas

The role of the group management at Lagercrantz is to support the management teams of the subsidiaries in developing the companies further. In most cases when Lagercrantz buys a company it is desirable and customary that key people remain in the company in order to grow with the group. It is also common that Lagercrantz come in as owner when the company is facing a succession process, a situation Lagercrantz has broad experience of and which are handled and worked out with all of the parties involved. Lagercrantz Group has a 100-year history of owning and developing companies to fall back on. Selling a company is a multi-facetted issue which requires reflection and it is usually not just a question of money. In order to ensure that acquisitions can be completed with the right orientation, high quality and on the right terms and conditions, a structured acquisition process consisting of five phases is used:

In order to maintain a high rate of acquisition the group must have a steady stream of acquisition targets to process. The gross list is a centrally prepared list of all acquisition targets identified by the group. The list comprises about 100 targets. It is updated on an ongoing basis and is based on the acquisition opportunities identified in the course of the subsidiaries’ and the group’s day-to-day market contacts in each respective industry. For each company on the list, there is a person responsible to follow that company’s development. An unprejudiced contact is taken with the company and/or its owners when the timing is right. The contact phase often takes time, since it is really important to get to know the business and its owners, its earnings potential and if there is potential for co-operation. At a later stage of the contact phase documents are prepared that briefly describe the background, idea and motives behind the acquisition, the market position, the economic prerequisites, the price range, a time-line and a project plan for consummating the acquisition. This is presented to the management group and in competition with other acquisitions proposals; allocation of time and resources to go forward with the acquisition is approved. The analysis and negotiation phase commences after the group’s management approval. This involves a careful analysis of the industry, the market and the company, and that a plan is prepared together with the seller for a common future. Negotiation of terms and conditions are begun. The analysis and negotiation phase should be kept short and intense,
which normally means a duration of two months. Due diligence is performed and final nego-
tiation of the purchase agreement is done. The purpose of due diligence is to ensure that
the company is of the quality expected, to ensure the earnings capacity, to identify any dis-
putes and other risks in and outside of the balance sheet. An integration plan for the period
immediately after the acquisition is prepared. After approval of the acquisition by the board
of directors, an agreement can be signed. The job of implementing the integration plan is
begun soon thereafter. The company is also integrated immediately into the group’s report-
ing routines for order bookings and monthly financial statements. No later than within one
quarter, a presentation of the Lagercrantz Group, its vision and corporate philosophy is
made with all personnel.

(Lagercrantz Group, 2011)

4.3.1 Interview
Phone interview with Magnus Söderlind, Executive Vice President responsible for
Business Development, Lagercrantz Group

What does the market look like and what make is suitable for acquisitions?
There are many factors that matters. If you look at the companies they are often owned by
individuals or families that must handle a succession and have a need to change owner.
During the financial crisis the lid was on for acquisitions, but the improved economic situa-
tion have opened up for new possibilities and there is a pen up need from the financial cri-
sis in combination with a continuous entering of new companies in the market. It was long
time ago since so many companies were available for sale as there are now. We are not in-
dustry specific; we look at technical business-to-business companies having strong market
positions in their niches. They can operate in for example electricity, mechanics or steel.
We are not tied to a specific niche which also contributes to the large supply of acquisition
objects.

How are the subsidiaries integrated in the corporate group and which synergies are
there?
We are owners to our subsidiaries and they are run as independent companies and units.
We do not buy companies because we see potential synergies, but we buy them because we
believe in the company. We keep the acquired companies as independent units, but when
we see potential synergies we convey them to respective CEOs making the decisions if the-
ese should be realized or not.

There are also very pragmatic networks between the subsidiaries, and synergies are used
when the occasions occur. We know the subsidiaries and mediate the synergy opportuni-
ties. It can concern co-operations thanks to common customers or common suppliers.
There can also be potential back front synergies in the form of shared warehousing or
common IT systems. In all of these cases it is up to each subsidiary to decide on this.

Which factors are important to secure before an acquisitions is done?
Normally we do not change the management in the acquired companies, in general no larg-
er changes are done in regards to the acquisition, and it is business as usual. After the ac-
quision a growth agenda is set up in order to have something to work towards, and then
the existing resources are used as stand points. This implies that quality of management is
very important, and there must be prerequisites and possibilities to develop the subsidiary
forwards. We do not have as goal to do any turn around and do not acquire companies where large changes are required; we keep them as they are.

**Which role do key persons and owners have in regards to the acquisition?**

We do not want the whole management to walk out of the door only because we enter, we want the subsidiary to continue with the management they are having today. If owners or CEOs are supposed to be phased out, this is done in a controllable manner during a longer time period.

**What risks are there in regards to the acquisitions?**

There are many classical risks. A large part fall back to management, for example must the personal chemistry between us and the management work well, and it is important that we are having the same viewpoints and the same horizons on different aspects. Because we are operating in many different industries we look differently upon the possibilities in new areas, it is always an element of risk when new markets are entered. For that reason, we always care of doing walkthroughs of the concerned industry to minimize all elements of uncertainty.

**How does Lagercrantz work with the subsidiaries’ financial goals?**

We have common goals for the corporate group but these are not directly applicable in the subsidiaries. We mostly work with return on equity. The goals are converted and adjusted to the specific subsidiaries but they are roughly the same. We do a rating of all our subsidiaries that we communicate; all of them want to be on top of the list so there is some competition.

**Are there any negative synergies?**

No, not really. We as owners and corporate group do not tell the subsidiaries what they should sell or to who they should sell, we rather open up for opportunities and developments of new ideas, because they have large freedoms to make their own decisions and run their businesses independently. On the other hand, it means that we as owners are dependent on our subsidiaries’ performances and that they perform well.

**What decides the size of the premium price?**

Because our subsidiaries are completely autonomous the premium price is mostly connected to achievements and results. We want the management part to be intact and for that reason it is also considered in the premium price, it creates opportunities for owners to take part of the future financial success.

**How is the competition in regards to acquisition objects?**

We get in touch with companies in different ways. One way is when we already have a relation and operate in the same industry and niche, in these cases the companies know us and we can have an acquisition dialogue during several years. When it is time to change owner we become a natural part because the companies have a trust in us. In these cases we sometimes do not have any competition at all. There are also companies consulting M&A advisors helping them to look for buyers, and in these cases the situation differ because there is competition both from industrial actors in the same niche and from other actors, such as companies in the same industry who works almost as we do.

**Are there more synergies between the subsidiaries?**

We use the concept synergy very little. When we see synergy opportunities we always inform the subsidiaries about this. If the subsidiaries together decides to realize these synergies we welcome them to do so, but it is nothing determining when we acquire companies. We calculate more on the revenue potentials and the future results, the synergies follows as
a natural part of the acquisition. Another synergy is that the CEOs to some extent take part in each other’s board works.

### 4.4 OEM International

OEM is one of Europe’s leading technical trading companies and consists of 21 operating units in 13 countries. OEM shall be a leading industrial trading group in industrial components and systems in selected markets in Northern, Central and Eastern Europe. OEM offers a broad and detailed range of industrial components and systems from leading suppliers. A well structured local market organization and effective logistics make OEM a better alternative than the suppliers’ own sales organizations. OEM contributes with advanced expertise and service and markets the products according to the specific conditions for each particular market. OEM’s goal is to sustain stable growth together with a good return on equity and limited financial risks. The financial targets over one business cycle are:

- 15% annual turnover and profit growth
- 20% return on equity
- equity/assets ratio not lower than 35%

OEM shall be one of the largest industrial trading companies in its chosen geographical markets. Profitability will be on par with, or better than, that of the largest actors in each respective market.

**Growth**

1. **Organic growth**

Organic growth takes place through increased market share and expansion of the product range. In areas where OEM is firmly established, business units are expected to grow 5% above the underlying market growth. In markets where OEM has yet to achieve a position among the five largest players, our ambition is for the growth to be considerably higher.

2. **Geographic expansion**

Geographical expansion will occur in markets where it is possible to become a prominent actor by representing a majority of OEM’s suppliers. Geographical expansion will be in Central Eastern Europe.

3. **Acquisitions**

The company acquires companies and product ranges that strengthen OEM’s market position within the current product areas in existing markets, as well as companies that have a brand new product area or new geographical market.

**Product Range**

OEM sells a product range including industrial components and systems from leading suppliers. The product range is developed through collaboration with existing and new suppliers. Each product area is tailored to the local markets. Development of the range is central for OEM and it is the task of each local marketing organization to find new products to improve further the competitive advantage of OEM’s customer offer.

**Marketing**

Marketing is conducted primarily through face-to-face sales. The personal meeting is crucial in understanding the customer’s applications and needs while, at the same time, making
it possible to offer OEM's unique expertise. Face-to-face sales are supported by web-based and printed marketing communication.

*Logistics*

OEM's ambition is to make its logistics world class by investing in group wide logistics solutions.

(OEM International, 2011)

### 4.4.1 Interview

**Interview with Sven Rydell, Marketing and Communications Director, OEM International, at the head office in Tranås**

**What does your acquisition strategy look like?**

Our acquisition strategy is built on the development of our business idea. The acquisition strategy is closely related to the ways we want to grow and operate; we will be a leading company in technical trading. That is the framework for us, and then it is divided into different parts. Half of the growth will be through acquisitions, 15% is the total growth goal.

We work with acquisitions in the way that management in our organization has a responsibility to create growth within their business areas. The growth can be created in two ways. Either the organic growth that is about digging where you are standing, and use the existing products and suppliers to sharpen the customer offer through expansions of product portfolios and by working with the sales organization to create positive loops.

The other part is acquisitions. If you are CEO in our subsidiary in UK you have the responsibility to keep your eyes open, it is a part of our growth strategy to work with acquisitions, products and sales development. We have a group executive board with responsibilities for our regions, each area manager works with acquisitions among other things. They spend approximately 50% of their focus on acquisitions since it makes up 50% of the growth. It is a natural part of our way of thinking.

**How are the potential acquisition objects found?**

The acquisition objects are found in different ways. It can be through co operations we have, suppliers that today sell their products through other parties, where we are interested in knowing what type of channels they use on this market. It can also be through regular M&A advisors, the channels are many. Often it is a long process from initial contact to the feeling that you want to take a next step. Sometimes it clicks early in the process and sometimes there is no interest to sell, then you have to put it on the waiting list until further notice. There are no regular “this-is-how-we-always-do-to-find-a-company-to-acquire”, it is a divine mix of coincidences and active searching.

**What characterizes an interesting acquisition object?**

It has changed over the years. It varies depending on business cycles and identified growth areas. We did an acquisition in October of Svenska Batteripoolen in Borlänge, they have a very good customer base for batteries that we before had problems to reach. Until the acquisition we were not known to operate towards resellers in the battery area since we work more towards industrial customers directly. We wanted to enter the reseller part and in that acquisition case it was more about broadening the customer base and reach a new platform. Svenska Batteripoolen has operated on that market during a longer time and is con-
siderably better known on the battery side than we were before, now we reach this market with an established name.

In the acquisition we did this spring in UK, we bought a supplier who sold a product we were lacking in our assortment. We earlier had some co-operation with this supplier/competitor, and after pressures and discussions we realized that an acquisition would be the best solution. In this case we did not want their name but wanted to reach their suppliers and customers. After the acquisition we have integrated the firm into our UK company. The company we bought has been liquidated, finished and moved their warehouse to us.

The types of companies we are looking for depends on which segment and market it concerns, it is hard to give one clear answer. In 2007, we did a large acquisition of a lighting company in Jönköping, quite many synergies existed, foremost on the customer side and in regards to some products we had in another company. In this case we considered it to be an interesting irruption on a completely new market in construction installation. We already had a very strong position on the industrial side and saw clear connections in-between. Just as in the case with Svenska Batteripoolen we reached a completely new market.

Our ambition is often to find clear connections with today’s business and create added value in some ways where we see potential in marketing new products to new customers groups or vice versa. Sometimes it can be as in the UK case where we also know that there are opportunities to find synergies on the cost side through warehouse, supply chain, personnel administration, sales staff etc. It became considerably more efficient than if we would have had it as a standalone entity. It is very rarely we buy something parked separately and let it be run on its own. Often we try to find synergies in different areas, sometimes in all areas and sometimes only in some areas. We integrate less or more depending on situation.

**What decides the level of integration?**

It differs from case to case. The lightening company is run as earlier, while the company in UK does not exist anymore. Svenska Batteripoolen is likely to be run just as before, they have a strong name and it would be devastating to not keep it as consigner. Svenska Batteripoolen is located in the middle of Sweden and has a very strong platform to operate from. In the UK case they did not have any strong name on the market and only had one supplier and a very narrow product, we knew that their customers would consider it to be advantageous if they could buy from us instead. The company was small and had a small warehouse, there was a potential in absorbing the company into our business without having to use too much resources.

The degree of integration is very adapted to situation and can be changed over time. It can also depend much on how the business is developing, if it grows or decreases in worst case. Is there a business having problems with operating on its own we have to take actions to regain profitability. For example, with the help of cost synergy creations through a clearer integration with another party in the group.

**Which types of synergies are the most common?**

We work more with revenue synergies and the customer side. It is often from without these aspect it starts, from the customer and market perspective, and attempts to find new assortments and products complementing our product portfolios in total. Cost synergies are natural to look over in an acquisition, it should in some way be considered as a misconduct to not review if and how the costs could be handled differently. In some cases it is very good to move a warehouse or integrate something else, and in some cases it is not. Perhaps
because you remove the whole soul and heart in the company and does not create a good platform for growth. It is very hard to say something generally.

The revenue synergies are about our customer base. In the acquisition in UK it was about a gap in our assortment where we saw that the customers were in need of this product, and for that reason we bought it from a competitor. By making it possible for us to offer it in our portfolio we became more competitive, and through this small firm we facilitated our business and could escape from paying for two places, thus the acquisition brought positive aspects. It is in this way revenue synergies emerge, when it is possible to arrange our offer by making the total offer better.

The acquired company in UK had a customer list including several customers we did not know about, despite the fact that we should have known them because they could have been our customers. In addition to the current customers, we also got these new “plus customers” as a bonus. Other than the product we earlier lacked in our assortment, we could also offer the new customers our complete product portfolio. That is some of the synergies.

The other synergy is about the building of an international group. One part in our organic growth concerns the introduction of assortments on several markets. To start to sell one assortment in Sweden for example, if it succeeds the suppliers are pleased. Then we can start to sell it in Denmark too and still use the warehouse in Sweden. When the sales work in Denmark, we can expand it to Norway, and then it continues in the same manner. We want to try the products, and the approach we use for this is very good. We invest very much in product competence, a new co-operation with one supplier means that we send over a lot of employees in order to learn them about the new product and educate them to become experts. Our customers will never have the need to ask our suppliers; we must know everything about the product. Our suppliers should consider us to be their home domicile; preferably even better than that. If we invest in a supplier, sell their product and make money, we want to continue the cooperation. Probably is the supplier also pleased with the cooperation. If we increase the turnover in Sweden the supplier often want to try a new country/market. The markets where we operate (Northern and Eastern Europe) are already rather small separately, but large all together. Our suppliers are often German, French or Spanish; they think Sweden is a small country far away. We offer them handling of sales and customer contacts. It is also a strategy in regards to acquisitions; sometimes we are able to reach a supplier where we see potentials. If the acquisition works well as it did in England, we get the opportunity to introduce the supplier on several markets. Revenue synergies in large scale operation occur.

**How does OEM work with supplier relations?**

It is important for us to secure that important suppliers stay after the acquisitions, and for that reason our ability to show a good track record is significant. To show that we are liking to work with the same suppliers in the long run, that we are planning to be good representatives for the acquired company even after the acquisition, and that we are willing to build a relationship. We are working much with this, that we are good at building relationships with both suppliers and customers. We have leaders in our organization having worked here for a long time and are engaged in the relationships with suppliers the whole way up to group CEO. This is to secure that we are not a company changing people all the time, we think it is nice to have worked together for fifteen years.

**How can OEM's revenue synergies be summarized?**
Revenue synergies are created through the reach of products that can be marketed on existing customers, where we through new assortments can find new customers, or through opportunities to introduce assortments on several markets. These major things are always of interest for us.

**Which resources are shared between subsidiaries?**

We have customers that are buying products from us on several markets, and in these cases it is important for us to have talked prior to this. It is important from many views; supply chains, agreements, prices etc. All subsidiaries (besides one) are having the same IT system; it is a prerequisite for making it work in reality. Geographical prerequisites decide if it is possible to share warehouse. In Tranås we have a warehouse serving most of the businesses in Sweden, Norway and Denmark, because it is possible to arrange transportations in a good way. Often it is service and quality that decides, we must be able to deliver as fast as possible in a good way, and for that reason we must have warehouses distributed in different places. Service does always come first. It would be devastating to buy a company in UK and suddenly be forced to send the products from Sweden; it would take three days longer and would not work in the long run. Cost synergies are always interesting if they give at least as good service.

**Does OEM value the synergies?**

Yes, it is an important part; there are a lot of factors mattering in how synergies emerge and how they are valued. Clear valuations that are easy to identify is cash and warehouse, a lot of other things are harder to value, for example customers and market. The cost synergies are a part of the calculation because you want to see the potential in the business.

**What is important to consider reaching a successful integration?**

Much of the integration you have to work with when you do the actual acquisition assessment, to do a thorough and exhaustive investigation and research work prior to the deal. It determines if the integration will be good or bad, you must know what you are acquiring. Have we found the acquisition object’s suppliers and have we secured that no surprises will occur, have we made an apprehension about accounting, relations, disputes – an exhaustive ground work. It is this long period before you have signed the papers and agreed on a price. Afterwards it does not always become as thought initially. In these cases it must depend on other factors and not on bad research, if so, it means that we have shuffled off. On the other hand, you can do an acquisition and shortly after the economic situation changes, then everything is seen in a new light and you maybe have to start over again and act from without the current situation. The last couple of years have been very volatile. Maybe you acquire a company when the timing is right and it works perfectly well. Maybe you have bad timing and the market plunges completely after a while, then you have to tuck up and start over again. As always it is more work with some things than it was thought from start. It is always a bit more, always something additionally. We are not very large on the management side, and this kind of things requires a lot of management capacity.

**Which persons are involved in the acquisitions?**

The people involved in acquisitions are the CEOs in the companies, we have a fantastic group of experienced persons who have been working in our business and earlier have worked closely with both customers and suppliers. Hence they know what needs to be done to develop the businesses in the right directions. It is the same thing in the group executive board; the business area managers have very long experiences of working with these types of businesses. If these persons are sure we have made it pretty far, because they have much experience making that they, with the right questions and the right groundwork
rather quickly are able to see how interesting it is. The hardest thing is of course when you enter a completely new field and do not have enough knowledge. In these cases you have to presuppose business sense and total experience; systematicity, earlier acquisitions and so on. You know the industry and know what is good and what is not good. Much is about having competent persons at high level who have been in the game for a couple of years and built up a large experience. There is no ready checklist telling how things will work.

**How important is timing in regards to integration?**
Timing is very important, but it depends on the ambitions as well. In UK it was much about the sooner the better, because it was first after the integration we could start to use the synergies. In some cases, for example Svenska Batteripoolen, it is more about learning about the customer segment. In that case we are not in such a hurry, we are entering with a number of key persons close to the business and are trying to understand, visiting customers and listen, meeting suppliers and size up how they fit with us and how we will develop. The plan grows gradually. It is not always you have answers to all questions at once, it depends. You rather soon realize that you do not know enough about the customer segment and then you must be perceptive.

**How do you work with risk assessments?**
We have persons with experiences from acquisitions who knows the industry very well. They know where the risks are, everything from foreign exchanges, to supplier co-operations, to relative customer weights. It is in us, it is what we are good at in the everyday work and are trying to understand and judge in our acquisition objects. The results of the risk assessments decide the price tag, a fixed sum and perhaps a premium price etc. Gumption minded risk assessments from without our perspective decides the price and how much we are willing to pay. Premium price is used to the acquisition and depends on a certain development. We do a forecast telling what we think and how much we are willing to pay. How much we believe in the company is mirrored in the price, both parties must agree to share the risks concerning the development plan equally. If the development runs as planned the seller receives more money. If not, there is no reason to pay more. The premium price is used to secure that both parties have an engagement, and that there is honesty in the dialogue when the deal takes place. In some cases it is also about keeping important key persons in the company, and in these cases the premium price can be a good way to engage them in the business.

**How important are the companies’ key persons and the human capital?**
If important players drop off it is not good, no matter where in the chain they are, for that reason you sign agreements. The first thing that must consort is that the seller and we as buyer know where we have each other. It is a confidence to sign papers and agreements, negotiate and find a price. The personal chemistry and a good co-operation are important. When you work as we do the human capital is very important, since much of the work is about building relationships with customers and suppliers.

We work differently with this, sometimes it is more about meeting all employees directly after the acquisition. Sometimes it is about securing that we have good agreements and contracts with the key persons, that we keep the human capital in the business. We have our culture in the corporate group, in our subsidiaries and on different places. The acquired companies also have their culture, it is about creating an understanding for that nothing is painless. Much is about experience, in these cases perhaps mostly about management experience, that you have worked with human resource aspects and know which questions that are asked. It can be everything from if the company will disappear and will be liquidated, to which opportunities it creates. The communication is very important as well as the presen-
tation of us as human buyers. Family owned companies are closely connected to individuals and we are more industrialized which is another thing that must be considered.

**Why is OEM an attractive buyer?**

We have experienced leaders who have been in the industry for a long time; they are famous persons with long experiences. We are serious and in for the long run, family owned companies who want to sell their treasures like this. We are a “småländsk”, pragmatic company with persons you know from before. We are not an investment company, we have larger ambitions. We are not interested in short term investments but want to build something that is persistent and belongs to us. We will not just meet in a board room four times per year, but we will work together very tightly, and that is something many appreciates.

**Which negative synergies are there?**

There are many factors affecting if the acquisitions turn out well or not. Have you done a good preparatory work, is it the right timing, do we have the right management capacity, is it a good organization, do we manage to succeed with planned customer synergies and cost synergies etc. If so, it usually turns out pretty well, but it can also be that everything looks very good before and then the market plunges. In these cases it will be bad anyway. Vice versa can be true if we do a less good acquisition but the market pulls, then it is likely to turn out well anyway.

It is like any business, do we fail with appointing a new CEO in one of our existing businesses it will be as harmful as if we failed with the CEO appointment in the acquired company. If we mismanage quality and service in one of our current businesses or in an acquired company, it is the same thing. However, you could say that the moving of a warehouse becomes a negative synergy in three weeks time because the customers suddenly do not receive their products, although the ambition is to obtain an improved product delivery the next time.

**What characterizes a successful acquisition and what characterizes a failed acquisition?**

To judge what makes an acquisition good or bad is very hard to define. When you do the preparatory work you have certain thoughts concerning how you want the business to develop. Before an acquisition you map out how you want the result to be, if you fulfill this the acquisition is successful, but if not it is a failure. Acquisitions can be very successful, but the revenue synergies can default because of a plunging market, the forecast will not be redeemed anyhow and that is very hard to anticipate. Unexpected events can make that you lose momentum during a period and can have large impacts. An acquisition is successful if you fulfill what you thought initially, some sort of development that can be measured in financial terms. A failure is simply when you have not fulfilled the initial thoughts, but the reasons for this can be extremely complex.

**If you look beyond the external factors, what can do an acquisition less successful?**

It is much about management capacity and management time. There is a risk when you have done an acquisition that you are losing speed when the deal is done. It is often a long process with discussions during years sometime. Decisions and negotiations have finally leaded to a price. It is easy to exhale when it is done. It is our CEOs and our senior executives that are taking care of this and they are often having quite much on their agendas. To not land in the acquisition, that it takes too long time before it is taken care of; “well, this acquired company, we have to work with it. Who have time? No one, it has to be run as usual for a little while and then we look at later”. With our ambition to be close, it often takes more time and effort than expected. It is easy to forget to reserve enough time. Man-
agement is very busy with other things, and they are the ones who have steered the acquisition until the deal closure, after it must be landed at several persons. If a warehouse will be moved and if customers and suppliers will be visited, it is often a whole new group of people who must be activated, for example the business area manager and the warehouse manager. It is important that time does not pass by because then it does not work very well.

**What other synergies can be found in regards to the acquisitions?**

We do not have any generic model; it depends on the geographical market but is also highly connected to logistics. If you have common logistics you also have common purchasing. For example, we both have common logistics and a common purchasing function for Sweden, Norway and Denmark. In UK they do purchases to their own business. Otherwise it is much about assortments and customer synergies. Products, markets, new customers. Our e-trading platform recently introduced makes it possible to communicate and sell products digitally through the linkage of customers and products.

If we acquirer a company with a turnover of MSEK 30 they get access to a lot of things we have since our turnover is MSEK 1500. For example, they access experts in logistics, purchasing, quality and market communication. The whole machinery makes it possible for small firms to use the type of platforms we as a large company are having. It can concern everything from supplier agreements to purchasing of computers, locals and IT systems. In that sense we do have synergies with large values. Foremost small firms get access to the large company’s resources. It is natural that you become a part of the family, sometimes you forget about these things. Sometimes it also becomes more bureaucratic for them, which is the negative side of it. Suddenly they have to present things that must be presented forwards, instead of just calling the person in charge directly as done before. A larger company as we are sometimes makes it more difficult for a small family owned firm. Culture differences arise due to the different company sizes; presumably it becomes more complicated for smaller firms when they are entering a larger structure.

We also work with benchmarking between the subsidiaries. We have our overall goals for growth, result and profitability. To be able to deliver we must know exactly where our units are standing and follow them up. Dependently on unit and operating market the goals differ, but as a corporate group the overall goals must coincide, there must be plans, budgets and follow ups. No subsidiaries are left by accident, we follow them up carefully. We also use sub goals and do follow ups continuously. In rate with the accelerated market speed, the need for follow ups becomes more short sighted and more important. The measures also become more important, and that these are realized faster than before.

**Are there any other aspects important to consider?**

Acquisition maturity is something we talk very much about. For us each company is important, that we are having the competence and the organization it takes to get everything on place in the local market, and that we are able to handle it. If you will do an acquisition in another country you have to understand the market well. We think that to be successful, you should be very local; you cannot sit and steer on distance in Sweden on distance because the differences are so large. It is about doing assessments of acquisition maturity, to secure that there is a taker. Even if we sit here and sign agreements there must be an organization locally who can do and who are ready to start when the deal is done on paper, you cannot think about such things afterwards. Already in the initial phase of an acquisition process it is very important to have a taker, someone who can tuck in and make it in reality. We are trying to be observant all the time in order to feel ready before the stage is entered.
We have just started a business in Hungary, it is not likely that we would acquire something there now since we are occupied with building the own organization. It can differ depending on situation. If we have a pressured company in a country where we struggle to make it, we do not acquire something and put on yet another burden leading to further losses. The acquisition maturity is an important part in the judgment. Since we have been working much with acquisitions in our current management organization, we know that a throughout judgment about acquisition maturity must be done to evaluate if we are able to handle it.

4.5 BE Group

BE Group’s vision is to create value and increase competitiveness for its customers by saving them time, costs and capital. This will be accomplished by streamlining goods flows, reducing the number of business contacts and supplying a customer oriented range of products and excellent service in the form of superior delivery capacity, integrated customer solutions and extraordinary availability. BE Group has wide expertise in steel, stainless steel and aluminum means. The flexibility is reflected in the great number of different items and variety of services offered. Constant developments of products and services range to match the customer’s needs. Customer also benefit from BE Group’s in-depth materials and process know how and flexible logistics.

BE Group’s strength of reliability is supported by quality control systems, worldwide network of suppliers, and commitment to on-time deliveries. BE Group search all over the world to find the highest quality steel, stainless steel and aluminum at the most competitive prices. BE Group has the personnel, facilities, equipment, technology and commitment to supply customers with products and services that meet their needs, no matter how demanding. Together with customers and partners BE Group develops total solutions that enhances competitiveness to the benefit of all parties.

(BE Group, 2011)

4.5.1 Interview

Interview with Torbjörn Clementz, CFO and vice CEO, BE Group, at the head office in Malmoe

What does BE’s business model like?
The principle for our warehouse facility is that railroad cars are arriving with the material and trucks are driving out on the other side. It is about processing the material in order to make it ready for mounting when it is reaching the customer. The product is delivered to the customer just in time for usage. Often, the customer informs us about their order with short notice, making timing, distribution and logistics to key components. Sometimes there are deliveries several times per day to the same customer. Timing is thus very important. Some parts are more complicated, where we produce ready-to-use components the customers are installing directly.

What acquisitions has BE done in the last couple of years?
Thanks to our growth strategy we have been looking much as acquisitions in Eastern Europe, which has resulted in two acquisitions in Czechia 2007 and 2008. In 2010 and 2011 we did two acquisitions in Sweden to broaden our business.
Which were the purposes with the Swedish acquisitions?
They were conducted to broaden production competence and capacity. The reason to why
the competence was acquired was due to the time frame, to acquire this competence else-
where would have taken us longer time. Hence, it was very important that owners and
management stayed in the acquired companies. One of the companies manufactures ad-
vanced steel constructions and the other is a metal processing company (the only company
in Sweden doing this). The steel construction company had an annual turnover of 100
MSEK and the other was smaller, a management buyout had taken place, they had liquidity
problem and the company went bankrupt just before we bought it.

Which synergies were found in the Swedish acquired companies?
The synergies mainly deal with the delivery of material between the companies, which they
in turn can deliver directly to customer. Before, the customers sent material to them,
whereupon they processed it and sent it back. Now they are instead selling processed mate-
rial that we have delivered. The integration has run smoothly, it feels like they are a BE
company and they are on the market, but it is always a bit harder than what you expect
from beginning.

What about the Czech acquisitions?
The acquisitions in Czechia were to increase the distribution business and we bough distribu-
tion companies to increase our market shares. It was easier because we continued with
the same customer structure, just that warehouses and other things were merged. After the
acquisitions we developed the business further in one of the Czech companies, and it is
now a logistics center for the whole BE Group and our products.

Which synergies were found in the Czech acquired companies?
We have reached a productivity synergy thanks to improved warehouse handling. In this
type of business the key is to keep the warehouse as small as possible, the products should
rotate all the time. We have succeeded in this in a way that had not been possible other-
wise. It was thanks to the opportunities we discovered through contacts the acquired com-
pany had with a steel distributor. We chose to create an efficient outflow of material to the
sales companies. The material is produced in Czechia, Ukraine and nearby regions and is
distributed to the logistics centre. Instead of having some products here and some products
there everything is now stored at the same place, making it more efficient. Our market po-

tion has advanced. We took us from being nothing to become number three, four on the
Czech market. We have more customers and have become a larger player through the
growth. Because of this, some size synergies have contributed to more efficient processes.
Also product synergies are found, in one of the acquisitions the companies added products
we did not have before. We have not had much cost synergies, we were too small and
bought these companies to build a market position and to grow, it has not been the type of
acquisitions were we could walk in and cut a lot of costs. It has been more revenue syner-
gies. However, the financial crisis and the downturn came in association with this, which
did not make the financial timing superior. The positive thing is that now, on the other side
of the crisis, we have a completely different position since we now are much larger.

How did BE value the acquisitions and the synergies?
In Czechia we mostly calculated on market position, the broadened assortments, the larger
product portfolios, and the type of synergies associated with this. It is easier to calculate
cost synergies, but after the acquisition we had problems with evaluating the mentioned
synergies since the market suddenly sunk 50%. Considering today’s market position, the acquisition has still been what we expected, but we thought that the volumes would be considerably larger. To reach maximum efficiency, we had to reach a turnover of approximately MEUR 100, but the volumes disappeared because the market went down. Even if it was bad timing, we got the market position we had expected, even if the market is much tougher now than it was before. Purchasing synergies can be used because we now have larger volumes. However this was not something we had counted with, it was more like an additional benefit. Other cost synergies do not exist, but cost synergies in general are always easier to calculate. If you remove something it gives an effect on the cash flows. Follow ups of measures are important but very difficult to obtain for revenue synergies.

In the steel constructing company in Sweden we mostly calculated on multiples and normalized operating profit. In the metal processing company we calculated from without the potentials, in principle we only paid the value of the machines. We did not calculate on the synergies in the Swedish companies since they were acquired to complement the current business. If there are no special synergies, the future earning capacities are the most important, because if you do not make best possible money today you will not make best possible money tomorrow. It is important to do a throughout due diligence process to find out the true company value, since the seller always tries to get as much as possible.

**How has the integration proceeded in the Swedish companies?**

The steel construction company works well; we have even done additional investments. It is not very much integration, but more about gathering sales forces and so on. In the financially ruined company it has taken longer time to get it on track. It depends on their differing customer structure and time perspectives in the warehouse business.

The time frame is what you not really realize before the acquisitions; because the company was bankrupt it was a bit more damaged than we initially thought. Our risk and our deal price was low and we thought we had limited it in that way. In the other company it was financially more important to deliver directly, which we also did. It is obvious that acquisitions differ, the more integration that will take place the more complicated it is. The acquisitions in Czechia required much more integration and they have been much harder than the Swedish acquisitions that were done to complement the business.

**How should the risks be handled?**

It is important to not become too optimistic, and above all to have an understanding for the time perspective. It always takes longer time than expected. That the market and the macro economical environment can change are things we have learnt us. The impact of knowing what should be done directly should not be underestimated, it tends to take longer time than what was thought, and to be more aggressive can be useful. If it takes longer time, the expected upswings in results are not reached. If a clear integration will be done, for example implementation of a new IT system, it must be done directly. You should almost have the cable in your hand when the deal is done, and the IT manager should stand outside and knock on the door. The interventions included in the package must be done directly, and in that sense we have lost some. It is people we deal with, it is much easier to reach acceptance for changes when these take place directly than if some years passes. It becomes harder in the long run.

The results do not come as expected, they do not come on time and it costs more to realize the changes. The market in Czechia was halved and that is an extremely large risk.
How has the human capital mattered in the acquisitions?

There were some culture and employee problems in one of the acquisitions in Czechia. The company had few owners and two of them left, it was always they who made the decisions and suddenly someone else, the CEO from another competitor, came in and made all the decisions. On the other hand, this acquisition was not very dependent on individuals, we mostly wanted to broaden the market, but there were some problems. The acquisitions in Sweden have been more dependent on individuals because we added new capability and did faster integrations. However, it is easy to lose time. It takes year to remove old cultures, and that must be considered.

The cultural differences should not be underestimated. Not just between countries, but also the differences in coming from a smaller family owned company to a larger corporate group. It can be an enormous adaption for these smaller firms. In a small company things are more decentralized and in a large corporate groups there are completely different policy making organs. It is easier when a larger company buys a small firm because then it is completely absorbed by the larger organization. Every acquisition process contributes with challenges and new prerequisites.

Which are the costs associated with implementation? Are there any negative synergies?

Not everything you want to see in the due diligence process is possible to see before the acquisition. Hopefully, the worst things are discovered, however sometimes surprises occur. If you have bought from individuals that you want to keep in the company and who will contribute to the future results, it is not possible to re-read the agreement later and point at the guarantees saying: “if these damages exist you must pay”. It is easier to buy from another company, because than it is possible to indicate weaknesses and claim the guarantees.

How are other stakeholders affected by acquisitions?

One thing is what you do before and after the acquisition. It is important to handle the actual announcement; how it is communicated to customers and suppliers. How the employees in the acquired company are handled, when someone from the buying organization is at the acquired company and tell them what will happen from now on. This processes should not be underestimated. If you as new owner at an early stage show how you want to develop the business forth it is easier to be accepted by the employees. If the old owner stay in the company, and if he or she together with the buyer can show that the acquisition means new muscles for future growth it is very appreciated. Key persons are important to keep in the acquired company since they affect the employees, and that is especially true if the key persons are the old owners.

Which connections are there between the due diligence process and the synergies?

There is no acquisition that looks like the other, the situations differ. There are many aspects needing consideration, both when you buy and when you sell and both when you are finding companies you would like to buy and when you are contacted by someone who wants to cooperate. Discussions about due diligence and compensation are done, at the same time as risks for and against are considered. There is much to think about; the financial parts but also the legal parts, and how the employees shall be handled. Buying a company in Czechia is not very easy; there are large differences in comparison with Sweden.

Some time ago you did a joint venture deal, how are the synergies in that case compared with the synergies in an acquisition?
We had a special business on the Swedish market where there was an excess capacity. We had a facility in Borlänge that started to be old; we asked us if we would sell the business or if we would invest in new machineries. It would be an investment of MSEK 40, a large investment. A consolidation of the market was needed and we came into discussions with this company, the world’s larger steel producer with a similar business in Karlstad, and agreed on merging the businesses. In the new constellation we moved parts of the business from Borlänge to Karlstad and shut down the business, by doing so we reduced capacity on the market. We only wanted to reduce the capacity and did not see any reasons to do an acquisition. We have a good cooperation today, they could not take some customers because they did not have the competence, and we could not take some customers. Some market synergies have been found which were more than we expected from beginning. We have a tight shareholder agreement between us; it is known how things will be regulated. Because it was a competitor we knew the business well from before and did not see any reasons to do an acquisition.

How did you survey the market and the potential acquisition objects before the deals?
In the company that were bankrupt everything went very quickly, while we had followed the other Swedish company during a longer period. In Eastern Europe, we had a very aggressive growth strategy before and therefore had a long list of potential acquisition objects we contacted through M&A advisors and also visited. Some were interested, we had discussions but then the market decreased and in the end nothing at all was done. In Czechia we had several alternatives and thought that some of them shoot out.

Which are the most important aspects for synergy realization?
It is important to have a strong acquirer that is able to absorb the business easily, especially in owner lead companies because there are many things new for them. In Czechia for example, we made sure that there was a strong accounting function with controller and CFO who could make the work right from beginning. In small owner lead companies no one has demanded the monthly closings to be done on the fourth working after a month-end; there are large differences in reporting and similar things. From case to case you must review the business and do an evaluation of which complements that are needed. For example, there are in some companies very competent employees who can get completely new positions in the new constellation. However, there are no guides and the options are several. Or if you have as policy to implement an IT system it should be done at day one. The old identity in the company must be removed, the integration should be done directly and the acquired business should be inserted in the buyer’s organization at once.

Are there any negative synergies? What people are involved in the acquisitions?
Things takes too long time and you do not get the expected results. It costs more. Often, the outcome is less than estimated when things are integrated. You must have enough resources to handle the integration. We have chosen to keep the local people away from the acquisition processes; only management and external advisors have been involved. If everyone is involved too much of the daily business might be lost. On the other hand, not all synergies are visible at once, but they are gradually discovered. If we are looking at some companies it is not good if everyone knows it, too much focus makes you to position yourself. Because of this, it is important that as few people as possible are working with this. What is done from deal to announcement is crucial, to plan and involve the employees to learn about what needs to be done directly.
4.6 Latour Industries

Latour Industries has approximately 900 employees in 19 different countries. The corporate group’s turnover is 1700 MSEK. Latour Industries is one of four business units in Investment AB Latour. Latour Industries is an investment company in industrial technology and industrial trading. The strength is to develop and refine companies to reach their full potential. Through long experiences from industry and business development Latour Industries help each business unit to develop through independence and stability. Latour Industries is an attentive owner contributing with financial resources and inspiring leadership. Latour Industries encourages individual entrepreneurship leading to development and increases in the business unit’s competitiveness. The goal is that each company shall increase their profitability and durability in the long run to eventually constitute the foundation in new business units. Today, Latour Industries has nine business units with diverse orientations in engineering industry. All companies have a strong business idea and good conditions for profitable international growth.

Latour Industries ownership is long term – Latour Industries invests in companies to maintain and develop them. Latour Industries believes in long term brand building and have deep respect for the companies’ products, cultures and unique history. Latour Industries contribute with financial resources, inspiring leadership, network and knowledge creating new opportunities, in which it is made sure that the companies can develop independently to reach their full potential on the international market. The core values are long slightness, business likeness and development. The active and long term ownership, characterized by deep industrial knowledge and financial strength, has proven to be successful. The corporate group’s companies have showed large international growth and increased and assiduous profitability.

Latour Industries invests in companies that:

- have strong product- or service brands
- are not dependent of solitary suppliers
- have high degree of refinement – preferably own production with high technical content
- is operating internationally or has good potential to expand internationally
- operates in business-to-business

Latour Industries contributes with:

- a strong ownership with clear visions
- strategic analysis and financial resources
- experience of and knowledge in building and developing companies internationally
- a clear HR strategy with focus on leadership education and competence development
- developing exchanges of experiences and other cooperation with subsidiaries in the group

Latour Industries has the large organizations’ strength and the structure, but also the entrepreneurial spirit and the proximities to decisions characterizing the smaller organizations. The growth continuously creates new services and our employees consider the whole group to be their labor market. To work with Latour Industries gives large opportunities to develop and to continuously seek new and more challenging positions. Latour Industries have a well developed HR strategy with clear instructions and guidelines for recruitment and competence development. The leadership profile describes the knowledge and person-
al characteristics a manager in Latour Industries should have to be successful. It concerns for example basic understandings for business administration, labor law, law and technique, but also includes personal characteristics such as long sightedness, decision power, change proclivity and above all – entrepreneurial spirit. The managers are offered competence development according to an individual plan with continuous follow up. Latour Industries also identify, encourage and support other employees with the potential and interest to seize key positions in the future.

(Latour Industries, 2011)

4.6.1 Interview

Interview with Henrik Johansson, CEO, Latour Industries, at the head office in Gothenburg

How does Latour Industries differ from technical trading companies?
We differ in the way that we are not really interested in pure technical trading built on the representation of someone else’s brand. A couple of months ago we sold the technical trading company Stenbergs who is selling large machines for metal processing, we represented them on the Swedish, Danish and Finnish markets. It is a strong brand but the problem for us was that we reached a level where it was not possible to develop it further. When you represent a brand you have to stick with it because we cannot have competitive portfolios. We had a very high market share in Denmark that was hard to increase, in Sweden it would probably have been possible to increase a couple of percentages, and in Finland it would have been possible to work a bit more. But when you have reached the full potential, what do you do then? We did not have permissions to expand beyond these countries and could not take any other products so there was a limit in expansion. We prefer to work with companies having endlessness potentials, because then it is possible for us to be very longsighted in our ownership.

Latour Industries does not sell any subsidiaries after the acquisitions?
We are not hard as bone at that point and we do not say that we never sell companies. When we buy a company, we say that it is for an eternal ownership, but if a better owner emerges we are open to sell off the company, also if we feel that we have not been successful enough in the industry. However, we are not a private equity company with an exit strategy saying that 5-7 years is a proper length, we are able to sell companies more as we want to. Almost always we do have a 100 % possession in the subsidiaries; there are often agreements with the purpose to buy out the owners in the long run to avoid situations where the wills differ. In some cases, there is another construction where it is planned to list the company on the stock exchange. However, in nine out of ten cases we own 100 % of the companies.

Which are the owners to the companies Latour Industries are buying?
It is very often old family owned companies, we are used to buy companies from families and there exists all sorts of varieties. Sometimes the family sells and get off at the same time, sometimes the family sells and stays in the firm during a period, sometimes they will stay and continue to run the business. We are able to handle all these varieties, because of our background we know how it is to sell a company to us. We handle the company with dignity in order for the owner to see that there are opportunities to continue the business development.
Why is Latour Industries an attractive owner?
Latour has a very dominating owner and the company has a relatively long history. We have never liquidated any company; we have good ethical values and we run the companies with care. Companies contacting Latour have good reputations, it is important to know. The purpose is not to do quick wins, but through long sightedness create value. We do not have a method to walk in and destroy anything, but to build further on what already exists. In a process it is as important for us to sell ourselves, as it is for the acquisition object to sell them to us. To sell us as owner and tell where you stand for implies that different families are attracted to different buyers and choose depending on views and taste. Sometimes you have to realize that some companies are in a phase where a private equity ownership is considerably better for them. For a founder wishing to cash in but also make some additional money through another years of work, a private equity company is a rather good combination. However, that construction does not work with us. The important thing is not which strategy that is the best, the important thing is that you are clear with what you as owner offer and what you stand for. In many of the family owned companies it is not often about getting the last penny but more about getting a reasonable price and feel that it is right. Many of these people make much money when they sell their company; they will not be able to spend all the money because they have done good deals all their life, and the last deal they make must be very good as well. It is about finding a valuation step where you agree, and at the same time explain that we as buyers also must make money. It is important to have the mutual understanding. Especially if you buy a company where there are few synergies, where it is supposed to be run as an independent unit. In these cases the private equity companies can pay considerably more since they finance the businesses more aggressively than we do. We have a very modest mortgaging, at the moment we barely have any loans at all. Then we must have higher returns on our investments then the private equity companies have.

How does Latour Industries work with synergies?
We have to distinguish between two things; we have two types of acquisitions. The first part is a new unit in Latour, something new that we have not done before. The other part is a supplement to a company that we already own, a company that through acquisitions will grow further. When we buy companies that are “new” we do not have any synergies, then we enter the companies and make requirements on the financials, and increase the requirements on reporting. We want to run an active environmental work; the demands on these companies are leading to more costs than they had before. In these cases we do not find so much synergies since it always concerns well managed companies. The owners are often very good at keeping their costs low. Synergies can be that the owner has a lower salary than an independent CEO would require. Other than that there are no synergies at all.

In the supplementary acquisitions we run a very active synergy work. For example we owned a company, Fortiva, who produced trucks and sold metal processing tools on the Swedish market. We had identified a couple of supplementary acquisitions where one company was Långshyttan group with spread owners all active in the company. They were a little bit smaller than our group, 140 MSEK in turnover compared with our turnover of 200 MSEK. It was a very interesting process since we directly saw that there were a lot of synergies to implement, both on the cost side but foremost on the sales side. We worked in Sweden and Denmark; they worked in Sweden, Finland and the Baltic states. We saw that we could distribute each other’s products on different markets. They had a service network that we were lacking. The interesting thing in this case was that we during the process realized that it would be better if their group constituted the main part in the new business. It was better that we docked in Fortiva in Långshyttan than the other way around. To a large
extent, we kept the management they had and you can say that the outcome was a reversed integration. The head owner who sold to us is the new company’s CEO today. It is about taking care of families and companies, and actually look at the needs. In this case it became a real challenge for the seller, it was a person who wanted to stay and continue in the business for many years more. This challenge became a very attractive activity for this person.

We work actively with the synergy goals we have and run it as activities. We are working much with temporary resources in the form of project hired employees helping and controlling that the synergies are visible in the income statement in the end. It mostly concerns sales related synergies, but these synergies do not come naturally. For example, Fortiva had a good production of wood tools, Långshyttan produced wood tools to saw and we manufactured wood tools to shave. Industry wise we saw that sawmills tend to integrate forwards and refine, future sawmills will firstly saw and then shave, paint and maybe do something else because there is too little money to saw only. In this case we could now offer the customers a complete assortment of tools. Långshyttan had a number of service stations where you could grind these tools, we did not do that before but we let others do it for us. Through extracting the synergy in-between we are now able to sell the whole package, we can grind, serve and be an important supplier to the new types of sawmills. They had a grind station in the Baltic States and in Finland so we worked with expanding their business in Latvia to be able to serve them with our types of tools, and was later able to hire sales persons who could sell shaving tools in the Baltic States and also serve the customers. That was one project.

In similar ways we identify several projects that are run and become project groups in the organizations. We had a grind service in southern Sweden and we had cars that drove different rounds. A projects was about synchronizing these transportations in order to minimize the number of rounds and serve the customers at a lower cost. Another project was about moving the shaving business to the Baltic States. In Finland we had two organizations and saw some cost synergies concerning the removal of administration and the creation of one company. However the majority of the synergies were sales related.

Sometimes the cost synergies are not about removal of employees, in Finland we had much administrative work that were outsourced, and we could bring in these to the company. Often you do not need to hire an additional person to manage four additional salaries, but you can still get rid of the costs. It is about identifying the costs and the activities associated with these, the focus is to perform the activity and then measure the size of the savings. All integration parts get a project name and one person responsible to run and report it to the board. Often, some of the projects works well and other does not. Generally, it can be said that when the synergy projects are done you do not have all information; many plans are done before you have talked with the company, you do not get access to all information in the acquisition process. Although you can ask very many questions during the acquisition phase some assumptions must be made. It means that when you sit down with the other party you discover that not everything is possible to accomplish. Sometimes when you make assumptions there is also a third party involved, and then you risk encountering problems later. One example of this is from Lithuania were we thought that we could expand the space in the facility we rented, but when we would start the project the landlord told us that this space would be used to something else. We needed the space to store more machines and hire more employees. In another market we were dependent on an approval from a supplier to be able to sell the products on another market, and then we had to negotiate. It is easy to miss such things, you think that you can start to sell this and that, but if you are in another country you need approval from the supplier to do so. When you have
own control and work in a facility with own resources it is easier, then it is just to do things.

**What are the most important things in regards to the synergies’ realization?**

You need both of the organizations to make sure that your thoughts are correct. If we as buyer sees synergies and says that we will implement them, and the seller is not of the same opinion it will not work. It is much about building a new culture, or that you from begin-nng know you are buying companies having a culture close to the other. It is an important part in synergies, and foremost to have the right leadership. If you do not have the right manager you will not get anywhere at all. The more culture differences you have, the more important is the leadership and the leader’ ability to handle these differences. An important part when we do acquisitions is to get access to the other party’s leaders at an early stage in order to get to know these people. We have an HR function helping us with interpreting the personalities. The change liability is important; sometimes we make assessments on the leaders in the companies we plan to buy. If you do some tests and realize that they are not liable you have to think of how the acquisition should be handled. Some persons do not fit into a changing organization.

In the case with Långshyttan where we created a new company we dealt with entrepre-neurs, and when they are in the driving seat it is much easier. Sometimes it can be hard for entrepreneurs to enter an organization where they do not decide everything. These companies have often had a board before, but in the end they have always made the decisions, since they have been both CEO and board executive. The board work has had more of a counseling function. Suddenly, you have a board that actually is the decision making organ, you have to table motions and the board will ask you a lot of complicated questions before approving or disapproving. It is a bit like killing the entrepreneurship. Have you had your own business for twenty years and made all the decisions on your own, it is a change to suddenly be dependent on getting permissions, and that is of course a very large culture difference for these people.

One of our honor words is to raise entrepreneurship, but at the same time we are well aware of the necessity in having a structure. We establish a board in each company because the board will contribute with a good work; hence it is important that neither the board nor the CEO are steamrolled. If you enter a board meeting and all decisions are taken already, you will feel that you do not have any function. For us, it is very important to run things in a more structured way according to the long term strategy plans, telling what needs to be done and telling where the companies are heading. The board must approve things and activities; it is a rather large difference for an entrepreneur used to make all decisions at once. It is important to be explicit, to tell how we as organization are and tell how it works here. When the companies enter changes are taking place, but the changes should not be surpris-es. If you are very explicit in your message, what sort of synergies you expect and similar, then you have built up the correct prerequisites.

If you try to hide this during the process it will not be good when you are supposed to do things. One and another acquisition will not take place because you have been so explicit and the seller feel that he or she does not want to take part of it. Instead of describing best case scenarios and that things later turns out to differently in reality, it is better to be explicit from start. Already in the acquisition process we set some guarantees in the purchase agreement, the company must have paid their taxes for example, and they must sign this in the contract. If it turns out that things are not correct they have to pay back these money. The premium price is often locked in a special account that cannot be accessed before a certain time has passed. If you tell the seller how the business will be done from beginning,
the seller thinks it is ok. If things emerge as last point in the final negotiation a tough situation will arise. When you give the seller an offer you have to tell as much as possible, what kind of owner you will be and what kind of requirements you will have on the company. Already at this stage it is important to tell about integration plans in order for the seller to know what the future look like. Especially if it is a smaller company where it already from start is obvious that you will give people notices of leave because they are redundant. If you have a situation where all people in the company is neighbors, maybe the seller do not want to take part of such a thing. In these cases the best thing is to not do the acquisition. The explicitness is thus important to avoid future misunderstandings.

What decides the size of the premium price?
The synergies are a part of the ground valuation of the company. We often work with premium price when a seller tells us that there is a large potential in the future growth, we approve it and pays out a supplement firstly when these goals are reached. As soon as large synergies are involved it is because businesses will merge, and in this cases growth can be hard to track. It is thus not always possible to connect premium price to synergies.

Are there any negative synergies?
Often you also get increased costs, negatives synergies in regards to the acquisitions. For example accounting and reporting become more complicated, and perhaps the company does not have the required resources at hand. In the short run it is a pressure, but in the long run it is an asset. There are often negative synergies in regards to reporting; since we are a stock exchange listed company we have high demands also on our companies. The other parts concerns similar demands.

We are perceived as a good employer and have high demands on ethics, we want people to like working with us and because of that we run projects with goals concerning sustainability, we are demanding that employees get education and we have requirements on necessary resources. In the international companies we do a lot of work related to ethics and values, and we follow up that people do not conduct businesses incorrectly. There are much controls and we often put higher pressures on the companies than they are not able to live up to at the time of the acquisition. In one acquisition we got a business in Russia, and in this case we already from start built up these values and control functions to avoid strangeness in the long run.

Sometimes there are family owned companies where they have a rather low salary level, they have used dividends instead. It can be that the old CEO had considerably lower salary than the marketing director in the new company because the CEO was pleased this very low salary, but we must adjust the salaries to market conditions. We are not able to find a CEO sufficiently competent to run a business for no money. Sometimes it is the contrary, not even the employees are paid because it is a privilege assigned to the families. When we buy them we stop to pay these salaries. In one case all relatives were involved in the company and had salaries although they never worked there.

Our HR department can also be a pressure. Often these companies have not had any HR function at all; they have never cared about it. For them, HR is paying the monthly salaries and make sure that the pension depositions works, nothing more have been done. It becomes the opposite when we say that all the coworkers must have development plans, professional evaluations of wage rates, and employee’s educations. In the short run it can be a negative synergy, but in the long run it creates a value.

Which synergies are found between the subsidiaries?
We have a purchasing cooperation in Latour where we sign agreements with larger suppliers. The subsidiaries are relatively different so there is not much we can sign agreements on. We mostly see positive results in regards to company insurances and transportation. In some companies it is the customer and not we taking decisions about suppliers and in these cases the customer pay both transportation and suppliers. In the cases where we pay the transportations it is easily obtained synergies. We have common purchasing of trucks, IT and some other things. Train travelling with SJ for example, but it is often possible to buy tickets online to a lower price, and then it does not have that much value.

Here in Gothenburg we have a common IT system. We use it when it is appropriate, but we do not put pressure on the usage. If a company has a well functioning IT structure there is no point in changing it. Even if we possibly could save some money we know that it takes a lot of management time, and if it does not work there will be a lot of problems, it is better to not intervene at all. If you have IT that works, you should not change it.

Benchmarking is not used in a structured way; however we are trying to create environments where our CEOs and managers can meet. The educations, for example in lean products are one part where we run this. They meet, talk and ask each other how things work. They are able to find their own ways to use each other. It is some sort of networking where they do not have to think about confidentiality and exposure, where they can show each others’ production facilities and similar. Benchmarking between our companies are difficult since they differ so much from each other. The numbers are hard to benchmark, and in addition we do not have enough businesses to be able to set look-a-likes that are good enough. However, there is a competitive instinct to not be the company with the lowest return in the corporate group. All of our companies have a number of benchmarks where we compare capitalization, returns and similar. We use it to highlight questions, if we notice that one company has a high capitalization it easier to pay attention to this if you are able to say that competitors have lower rates. Benchmarking between the companies is hard and for that reason it cannot be considered to be a synergy.

All nine of the companies have boards consisting of other managers within Latour. These people, often very operative in their daily work, get the opportunity to participate at a strategic level in another company. We think that it is useful to develop, get experiences and build a network. It forces these people to get out of the operations where they often work at a very detailed level. When we are at the board meetings it is more about overall steering, and you work much with strategically questions. The network and the knowledge exchange is useful.

In Latour we have an industrial experience; we can use us of this and also help other both formally and informally. At the same time we also get knowledge when we enter the companies and they teach us things that we are able to use in the next company. Every new company brings knowledge to Latour as a whole. This knowledge can we transfer to our stock exchange listed companies, we are active owners with many view points on strategies and steering. It is a very important part, and we probably intervene too much in our companies. We have nine companies and it is enough for us even if we do not have any operative responsibility, sometimes there is a feeling that we should participate even more in the companies, but at the same time we work very much with acquisitions within the subsidiaries. Our goals are to build larger units, not so much to build more units. If a tenth subsidiary will enter it requires very much of that company and that it can grow further. The goal for all of the nine subsidiaries is to make sure that they become large enough to make up an own business unit. The business units will in turn be so large one day that they become stock exchange listed. Our background include that we have driven a couple of companies
the whole way, we have some companies that are stock exchange listed today. If we could obtain another Assa Abloy it had been fantastic. We both have smaller and larger companies, but for an own business unit to emerge it requires that we do some additional acquisitions.

Because our companies grow it is much harder to measure synergies. If you buy and enter a well functioning, growing company the last thing you want to do is to throw out eight competent sales persons, you want to keep them. It is dangerous to intervene too much. There is a difference if you buy two stagnating businesses for pure synergy reasons where the purpose is to integrate them completely. We are rarely in companies where we want to increase our market shares through cost cutting, since they are entrepreneurial companies they are also growing. You should absolutely not pick off something that possibly can cash in later on.

**What more than growth potential is Latour Industries looking for?**

We work with a rather simple model where acquisitions are not any purpose of its own. We do an evaluation where the purpose is to judge if the business can grow to an own business unit in the long run. It does not mean that it needs to be nearby at all today, but there should be some opportunity. There must be a market that makes it possible, and we must have an idea about how the company will develop in the future.

We work with growth and split it into four areas; 1) increased market share – to gain market shares by pushing away competition, 2) geographical expansion – partly a whole new geographical area, partly to expand in a certain industry on the current market, 3) vertically – both forwards and backwards. For example, the buying of your resellers to get closer to the customer, or the buying of your suppliers to get a larger share of the market pie, 4) related products – new products close to the existing products. You can also grow organically, through partnership or through M&As. We evaluate the companies, the growth opportunities and which methods that suits the best. Depending on the company’s prerequisites we choose the growth strategy, and it is not always M&As have any purpose of its own. But if that is the case we do acquisition lists and look for potential acquisition candidates from without the company prerequisites.

In Latour we will grow 10 % annually, but all of the nine subsidiaries have their own growth goals. The growth plan tells how each company will grow. When companies are on sale on the market and the sale is driven by professional M&A advisors the process normally takes 4-6 months from initial contact to deal closure. In the case where we have contact with a company not wanting to sell at the moment, it perhaps takes two years until the deal is closed. You have to have many objects on your list, if it is incredibly important for us to have a certain type of company we must think about how many such companies there are and initiate contact with several of them. If no of the companies are for sales you have to build something on your own.

**How should the integration be done and which aspects are important?**

The acquisition process cannot be too long; it tends to gnaw on the companies when management is in an acquisition process, because it is both exciting and exhausting. You do not want to have an organization where everyone know that there will be an acquisition, because then people only think about who the buyer is and what will happen next. During the same day the acquisition is announced it is important to be at the acquired company, give them the news directly, and tell them about the new message and what the plans. It is better to bring bad news the first day than to stretch it; we do not want to have any specula-
tions. If all people are aware of the situation, the suffering is shortened and you avoid the negative aspects.

Especially on the accounting side the due diligence process gnaws much since it demands a lot of information to be retrieved. When it is done you should start with the integration plans directly, reports and similar, because it tends to throw problems otherwise. It is important to run the processes during a short period of time. If you have clear requirements there are no surprises and you can win much to avoid surprises.

You must have a very good information and communication plan to suppliers, customers and foremost employees. What you can tell at once you should tell at once; to inform and be prepared is important. The 100 days plan is about doing the required, necessary things and be able to report the numbers. Also to structure all the integration projects and handle management should be done at this stage. The integration projects can run during months and even during years. You can say that the integration consists of three parts; the very short perspective, the first 100 days and the longer perspective. To move a facility for example can take a very long time.

To have a well functioning integration you have to have a project organization with clear responsibilities, and the focus should be on the largest and most important synergies. Culture and leadership are important to get a well functioning structure, run changes and obtain a good coordination and good cooperation. Entrepreneurs must get the opportunity to be involved in this work.
5 Analysis

This section analyzes the results from the empirical findings and discusses similarities as well as differences between the organizations in the study. The aim of this section is to answer the study’s purpose.

Because the nature of synergies has been found to differ depending on type of acquisitions, the analyze will start out with explaining some general perceptions about the different companies’ acquisition strategies, in order to explain why the organizations have been grouped as they have. Further, found synergies will be described using a division of synergies created between independent subsidiaries within a corporate group, and synergies created when a corporate group integrates an acquired company.

Growth. What motivates all M&As is the incentives for growth, which if anything is applicable on the companies in this study. The majority of them have expressed that acquisition will represent at least 50% of their total growth goal, having made it to a part of their business model, and explicitly expressed that they make a living out of acquisitions. With this in mind, there is no question of what type of synergies that dominates in all of the acquisitions; revenue synergies. The growth, and thus the revenue synergies are what drive the acquisitions in the first place. The cost synergies are found to always walk into second place.

5.1 Walkthrough of Synergy Findings

<table>
<thead>
<tr>
<th>Low degree of decentralization/ High level of integration</th>
<th>High degree of decentralization/ Low level of integration</th>
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<tbody>
<tr>
<td>BE Group</td>
<td>Latour Industries</td>
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Figure 5-1. The figure describes the perceived degree of decentralization between the corporate groups and their subsidiaries (Sofie Eliasson, 2011).

5.1.1 Addtech

The company has done fourteen acquisitions in the last year and their acquisition strategy involves a high degree of autonomy and decentralization, where the subsidiaries are kept in their old format and are free to manage their businesses as long as they deliver what the corporate group requires. However, the subsidiaries’ autonomy is somewhat more limited than for Indutrade and Lagercrantz, as Addtech uses different cost synergies, mostly support functions that are integrated in the acquired subsidiaries. What the group convey to be their own success factor is the combination of the small firm’s flexibility, personality and efficiency, with the larger organization’s resources, networks and long sightedness.
5.1.2 Indutrade

With nine acquisitions during the last year, also Indutrade has a very high acquisition pace. What distinguishes Indutrade from Addtech and the other companies is the extremely high degree of decentralization that exists among the subsidiaries. The group’s watchwords: “Acquire. Strengthen. Refine” characterizes their view on acquisitions. The focus and importance of entrepreneurship is apparent and as their own apprehension is that the entrepreneurship is their largest success factor. Indutrade intervene very little in the subsidiaries, and from a first sight it can be thought that no synergies at all exist. Although the absence of univocal cost synergies is apparent, there do exist several revenue synergies as well as combinations of cost synergies and revenue synergies.

5.1.3 Lagercrantz Group

Lagercrantz did one acquisition during 2011, and since 2005 thirteen acquisitions in total have been done. If categorizing the companies according to degree of decentralization, Lagercrantz is perceived to land after Indutrade but before Addtech. While Indutrade does not even use the term synergy, and while Addtech works some with cost synergies, Lagercrantz walk the middle way as the corporate head gives the subsidiaries suggestions on possible synergies. However, Lagercrantz says that it is entirely up to the involved subsidiaries to approve upon these suggestions or not.

![Figure 5.1-1. The figure explains Indutrade’s, Addtech’s and Lagercrantz’ relations with their acquired subsidiaries (Sofie Eliasson, 2011).](image)

5.1.4 OEM International

OEM has done twelve acquisitions since 2005. If adding the company to the decentralization rating, the company lands on fourth place, after Indutrade, Lagercrantz and Addtech, where the step from third place to fourth place is large. The reason is that OEM uses two acquisition approaches; one approach similar to Indutrade, Lagercrantz and Addtech where the acquired subsidiaries keep their company name and their business model. In the other approach OEM uses the acquired subsidiaries are liquidated and completely absorbed by the corporate group. Thus it can be said that two approaches exists within the corporate group, and these approaches must be analyzed separately since they differ very much from each other.

What is said to be one important factor to whether OEM decide to keep the subsidiary “intact” or not is the subsidiary’s market position and the acquisition purpose; a company with a strong brand name, distinguishable market positions and a complimentary product range are not modified to the same extent as a subsidiary with a mediocre brand name and an av-
average market position. This seems logic when considering that it can be ravaging to destroy things in the acquired company if it already performs well; there are more to lose if it does not work out. This is in line with Indutrade’s, Addtech’s and Lagercrantz’ acquisitions strategies, focusing very much on finding acquisition objects that already possess strong market positions in their niches. However, OEM also acquires companies with less strong market positions and in these cases the integration and synergy approach differ very much from the more decentralized companies Indutrade, Addtech and Lagercrantz.

![Subsidiary](Diagram)

**Figure 5.1-2.** The figure explains how OEM International, BE Group and Latour Industries (only supplementary acquisitions) acquire companies and partly or fully integrate them in the existing business (Sofie Eliasson, 2011).

### 5.1.5 BE Group

BE, a distributor and reseller of steel whose business strategy and business model differs very much from the technical trading companies, is perceived to not really belong in this study. Since 2006, the company has done four acquisitions only. In hindsight, their acquisition strategy has little in common with that of Indutrade, Addtech and Lagercrantz. However, parallels can be drawn with especially OEM and Latour Industries since BE uses similar acquisition approaches as they do. Just as OEM, BE is integrating their acquired companies differently depending on the acquired company’s market position and the acquisition purpose.
Figure 5.1-3. The figure explains how two different acquisition approaches can be used within the same corporate group, applicable in OEM International, BE Group and Latour Industries (Sofie Eliasson, 2011).

5.1.6 Latour Industries

In contrast with the other companies in this study, Latour Industries is an investment company with a somewhat different modus operandi. With its nine subsidiaries, Latour Industries does not only acquire companies to be included in the corporate group but also acquire companies on behalf of its subsidiaries (from here on referred to as supplementary acquisitions), and thus have a much more active and operative involvement in their subsidiaries than Indutrade, Addtech and Lagercrantz have. This double way of conducting acquisitions does that synergies can be evaluated both in regards to the different subsidiaries and in regards to the supplementary acquisitions. Importantly, it must be kept in mind that Latour Industries does not solely have technical trading companies in their company portfolio; even if all of the subsidiaries are industrial firms, their businesses are different from each other, which makes a synergy such as benchmarking (used by Indutrade, Addtech, Lagercrantz and OEM) impossible to use. Still, many synergies are similar with these companies, for example the corporate group’s financial strength and the subsidiaries’ entrepreneurship. The synergies in the supplementary acquisitions are just as for OEM and BE dependent on each acquisition’s specific purposes.

5.2 Synergies between Independent Subsidiaries

Addtech, Indutrade, Lagercrantz and to a large extent also Latour Industries* (supplementary acquisitions not included) work similarly with acquisitions, and an analysis of their synergies related issues will be presented below.

* Because Latour Industries is not a pure technical trading company, many of the mentioned requirements mentioned above are not applicable in their case.
Knowledge, selection capacity and risk assessment. The acquisition evaluation and acquisition processes is perceived to be done very carefully and strictly in all of the organizations. The corporate heads use their deep knowledge and long experiences to perform throughout analysis, the demands on the acquisition objects are extremely high and are evaluated according to several desired criteria. The importance of these risk assessments are highlighted by Early (2004), stating it avoids problems later on. The acquisition objects should be profitable and well managed with strong earning capacities and a successful track record showing that they throughout the years have managed to do well. High levels of technical expertise, showing that they are knowledgeable and competent are required, as well as proof that this expertise is adding value to their customers. The firms must have strong relationships with their suppliers, and these relationships must be maintained also after the acquisitions since it is an essential and critical part of the companies’ business success. Sales should be made mainly through personal contacts with customers, as the problem solving skills and the technical expertise is what adds value to the customers. This added value should be strongly distinctive and contribute with superior performance for the customers. Key persons in the companies should be dedicated and hard working, and they must show a strong willingness to develop the firms within the corporate group. Importantly, the acquired companies should also be market leading in their niche markets, and unless market leading have the potential to become so.

To reduce the risk exposure, not too large weight should be on one or few customers and suppliers. Lastly, the acquired companies should be able to add growth and profitability to the corporate group. As can be understood, the initial demands on the acquired companies are very high. The requirements mean that the acquired firms must be very independent, self driven and autonomous before as well as after the actual acquisitions. They must be able to paddle their own canoes, which to a large extent explains why it is the revenue synergies that are coveted by the corporate groups. As well as the requirements on the subsidiaries are high, so is the corporate head’s ability to select and distinguish acquisition objects that are able to live up to the high standards. Since the corporate groups do several acquisitions yearly, the corporate head’s knowledge and experiences are crucial and vital parts for success. On the other hand, the high acquisition pace also contributes to that these knowledge and experiences are enhanced continuously.

Decentralization. As previously mentioned, the degree of decentralization and autonomy has been perceived to be an important and central factor in the contribution of successful acquisitions, and is therefore considered to be a highly important synergy impacting other aspects in positive directions. Which other synergies that have been found, how the companies work with synergies, and how the synergies matters for successful acquisitions are all features correlated with the decentralization.

Flexibility. All of the organizations have an attitude allowing flexibility and best practice deciding whether synergies should be used or not. The ability to adjust to current circumstances, not intervene too much and encourage the subsidiaries to find own synergies conveys freedom and openness that are appreciated by the subsidiaries’ owners.

Balancing revenue synergies and cost synergies. Because fore mostly revenue synergies are sought, the perception is that all of the organizations have realized that cutting too much in costs will lead to undesired losses of revenues as well, as suggest by Early (2004) and Perry (2004). The problem is simply solved by cutting as little as possible on the cost side.
Financial strength. Given that the acquired firms were successful even before the acquisitions, the main reason to why owners choose to sell their companies is found to be associated with the necessity in handling successions and safe the company’s future maintenance and wealth. Considering that the corporate heads are financially strong and dedicated owners with clear goals, they do use their financial strength to inject new muscles into the subsidiaries, in order to develop them further. This is also by Sudarsanam (2003) described as an advantage used in the consolidation of fragmented synergies. In short, the corporate head’s financial strength brings financial strength to the subsidiaries.

Development of business opportunities. The financial aspects give new opportunities for the subsidiaries to develop and prosper beyond their “normal” boundaries, and the fact that the corporate head choose to keep the acquired companies (nearly) intact is another factor appealing to the owners. Considering that the owners in the subsidiaries are entrepreneurs, their undeveloped ideas and businesses opportunities can be approached with new prerequisites and different views, as financial barriers are overridden with the larger actor’s possibility to allocate and distribute resources where it is found useful. Thus, the corporate head’s financial strength makes it possible for the subsidiaries to realize business opportunities that they otherwise would not have been able to.

Learning and knowledge transformation. The corporate heads’ industrial knowledge and experiences are useful to give feedback and suggest improvements to the subsidiaries and their business solutions. Simultaneously, the corporate heads gathers new and updated information, and in that way learn through a give-and-take exchange. The input from one subsidiary can be useful output in another subsidiary, and in this manner knowledge is transferred and shared across the corporate groups; both the subsidiaries and the corporate heads benefit from these learning effects.

Entrepreneurship and human capital. The human capital and more precisely the entrepreneurial aspect of the human capital is perceived to be one of the most important aspects for these companies, especially in Indutrade, Addtech and Lagercrantz working intensely with decentralized acquisitions. Several of the organizations have either said or implied that human capital is the solely most important feature for a successful acquisition, the same degree of importance of human capital in regards to consolidation of fragmented industries is supported by Sudarsanam (2003). What moves inside of the entrepreneurs’ heads seems to be the difference that matters; the willingness to work, learn, develop, compete, progress and survive does not come naturally for all kinds of people, and are neither capabilities that can be acquired during a day or two. The entrepreneurial spirit in the subsidiaries has grown and emerged during all years the subsidiaries’ owners have looked after their own businesses, and this motivation for continued success is crucial for the corporate heads’ way of steering and monitoring. Because of the acquired companies’ in general smaller firm sizes, the human capital is in many ways tied to key persons. In large organizations with a large number of employees, the dependence on single employees are not as expressed as in small organizations where only a few number of employees adders to the company’s success. The risk associated with key persons increases with firm size; the smaller the acquired company is, the more will it depend on key persons, and the larger is the risk. Because the key persons often are the owners or the ones who have ruled the company, they have been crucial for the past success and hence know what works best. Even if the acquirer should have gained extensive insight in the acquisition object when the deal is settled, the key persons’ company specific experiences and know-how are still superior. Considering that the subsidiaries’ all work on very delimited and narrow markets where consulting elements rep-
resent a large part of subsidiaries’ competitive advantages, it is to no surprise that the people and the entrepreneurship are making the determining differences.

**Financial goals.** The clear goals for growth and profitability the corporate heads set up work as tools for control, in line with Sudarsanam’s (2003) description of the corporate heads’ importance in the consolidation of fragmented industries. The goals are necessary for securing long run success for both the corporate heads and the subsidiaries, and work as incentives and triggering factors for continued improvements and increased achievements. With the corporate heads’ knowledge and industry experience the goals are adjusted to realistic prerequisites, as the corporate heads are able to overlook general business standards and market conditions with their insight in many different subsidiaries.

**Benchmarking.** The benefits of having realistic financial goals lead into synergies associated with benchmarking. It is possible for the corporate head to compare and make measurements between subsidiaries as well as form and develop best standards for different measures. Since the subsidiaries often are of similar nature it is convenient to make comparisons between firms. For example can different financial measures be used as comparisons, and also work as triggers to motivate and encourage performance improvements. Also processes and activities can be benchmarked, possibly bringing innovative implications since the subsidiaries are able to share knowledge, information and experiences, which will strengthen their market positions and further increase their competitiveness. The entrepreneurial owners in the subsidiaries, found to be competitive by nature and triggered by the competition benchmarking brings, work harder to improve and be better than their equals. This results in better results, ascendant spirals and increased standards for what is considered to be lowest acceptable levels. Normally it is very hard to acquire the type of information used in benchmarking, due to the fact that competitors are not willing to share information. Because it is possible to retrieve and use information within the corporate groups, it contributes to both competitive advantages and developments. (“Benchmarking is a performance level which is known as the best for an activity process (best-in-class), and which can be used as a reference for comparison” (Andersen & Pettersen, 1995)).

**Networking.** The broad network among the subsidiaries is another substantial synergy, although less formal than the others. The corporate heads arrange different conventions where the subsidiary representatives meet formally and are able to develop informal networks. The representatives can share ideas and contacts, discuss business related questions and obtain updates about topicalities from peers in the same industry. Because this synergy is not imperative, it is likely to be used more by the subsidiaries recognizing the value and the usefulness with networking. If handled in a well-reasoned way, networking can lead to new business relations, knowledge, co-operation, extended business opportunities etc.

**Board work.** The subsidiaries within the corporate groups meet to variegating extent, but in the cases where the subsidiaries’ CEOs are included in each others’ board of directors they do not only get the opportunities to learn and build a network, they also acquire formal and strategic experiences from board work. Considering that the CEOs often have operative roles in their companies, the board work is instructive in many ways.

**Career opportunities.** In a small firm there are limited opportunities for career advancements but the corporate groups’ larger sizes make it possible to get around this problem. To show ones forefeet in board work and other engagements creates further opportunities for increased responsibilities and the career developments that come with it. It is in the corporate groups’ interest to find capable and motivated employees; at the same time as it
is to the individual’s benefit, the corporate groups decrease the overall recruitment costs and a the costs associated with recruiting unsuitable persons.

**Traditional cost synergies.** Common cost synergies exist in all of the corporate groups except in Indutrade where these functions are limited to financial reporting. While Addtech uses cost synergies to the largest extent, Lagercrantz’ policy says that it is up to each respective subsidiary to approve and abet on the synergies the corporate group finds and suggests, and in Latour Industries’ case cost synergies are not always possible to attain due to substantial differences between their subsidiaries. The cost synergies do exist, however they are few and not over represented, as suggested by Sudarsanam’ (2003) walkthrough of synergies in the consolidation of fragmented industries.

The reason to why all of the subsidiaries have the same routines for financial reporting is connected to financial reporting requirements on stock exchange listed organizations. Addtech also has a common controller for each business unit, but there is no such thing in the other corporate groups. However, Addtech in general acquires smaller subsidiaries than the others, making it economically feasible to share such resources among subsidiaries, it would not be economically defensible for a very small firm to have an own CFO. Several subsidiaries in Addtech are also using the same IT system and have other common support functions. In addition, Addtech has in several cases common purchasing and logistics functions, which also can be found in Lagercrantz to some extent. Common agreements, for instance factory insurances and travel agreements are used to variegating extent in all of the organizations, although the perception is that the subsidiaries in many cases are able to find better deals on their own. Referring to the synergies with networking described earlier, cost synergies do not only come as a direct result of the corporate heads’ interventions, the networking also lets the subsidiaries to discover and realize common synergies on their own.

**Risk spread.** In today’s volatile market, where the economic situation is very unpredictable and the business cycles are covered at an increased speed, the importance of risk spread becomes a vital part of each organization’s business. To have several subsidiaries with similar, but diverse business ideas under the same corporate umbrella minimizes potential losses; whereas one business prosper another business knees, however no panic need to break out because losses can be balanced with gains. If one subsidiary does not perform well, this affect can be offset by the positive gains in other firms, avoiding haste in turnover and adding stability to the corporate group. With the subsidiaries presence on different niche markets the corporate head has both extended its businesses and spread it risks. As new subsidiaries bring new customers and new suppliers, the corporate group as a whole broadens its business continuously and benefit from forwarded and strengthened market positions, at the same time as the risks are spread.

**Brand name and reputation.** The subsidiaries as well as the corporate head benefit from the strong brand names, reputation and goodwill associated with the corporate heads’ name. The subsidiaries make profits from being a part of the corporate groups as the positive implications rub off to the rest of the group. This enhances the organizations’ businesses and strengthens the relations towards customers and suppliers, which adds revenue enhancements to both subsidiaries and corporate groups. It give the corporate groups the opportunity to walk off with greater market shares, as there are gains associated with ‘big is better’, both in terms of reputation and financial strength. The brand name and the reputations are also advantages when the corporate group is competing for potential acquisitions, as an attractive owner entices attractive sellers.
Less integration, less problems. More obstacles are encountered when more integration take place. Because a more extensive integration requires more work and more matters, there are also more things that possibly could go wrong. Because Addtech, Indutrade and Lagercrantz integrate very little they automatically avoid the traditional synergy and integration problems described in the theoretical framework.

Long acquisition processes. It is not only the low integration that contributes with an absence of synergy related problems. In addition, the long acquisition processes (where likings arise over time), characterizing all of the three organizations mean that both parties acquaint and become familiarized with each other during a longer period of time, sometimes several years. This implies that problems and other obstacles are discovered and handled along the way, before the actual acquisitions take place. If it does not work, no acquisition is done. In the shorter acquisition processes where M&A advisors often are involved, the problem is still mitigated by the fact the corporate heads have extensive knowledge and experiences of acquisitions.

Negative synergies. So far only positive synergies have been discussed. When it comes to negative synergies it has been found hard to bring out this information, both through the company web sites and in the interviews. The reason for this is thought to be because the concept of negative synergies is not as widespread and commonly used as “positive” synergies, when referring to synergies people in general associate it with something positive. Secondly, negatives and disadvantages are not things that are expressed and discussed openly in the same manner as positive aspects are exposed. Thirdly, there are some synergies, considered to be positive in the long run, that during a shorter commission period give negative consequences, in similarity what Shaver (2004) refers to as the capacity effect. For example, the subsidiaries increased demands on economic reporting give the subsidiaries additional workloads before they have become familiar with the tasks and realized the benefits with increased economical control. Another such example includes environmental demands and quality requirements, involving some work efforts before the positive outcomes are discovered.

Unequal distribution of resources. The risk spread discussed earlier implies that resources are distributed across the corporate groups, and if distributed to what some subsidiaries would consider being unequal, suspiciousness is likely to arise. If professionally handled by the corporate groups, this inequality will not be apparent to all subsidiaries, but if doubts and rumors regarding this issue occur, the subsidiaries could start to question the corporate head’s steering.

Competitive overlaps. Another negative synergy, closely connected to what has been described above, is associated with possible overlaps between subsidiaries. Although the subsidiaries in general operate in niche markets, they do to some extent have similar customers and similar suppliers, which could create negative reactions if for example one subsidiary is negatively affected by the corporate head’s expansion plans in one business area. However, competition to some extent is positive and triggers the subsidiaries to perform better, and for that reason this issue has an upside as well. The more subsidiaries, the more substantial will this problem be as the risks for overlaps increase.

Too many irons in the fire. As the number of subsidiaries increase, the level of complexity associated with handling and monitoring increases. The organizational integrations can create difficulties for the corporate head as there are many firms to deal with simultaneously. This complexity issue is also supported by Sudarsanam (2003), pointing at the fact that problems can arise if this is not well managed. Although no full integration exists in this
type of M&As, the struggle is about keeping the local, small firm identity in the acquired companies, at the same time as the subsidiaries are supposed to be a part of a large corporate group. To maintain and keep this balance is a feat crucial for success, but with an increased number of subsidiaries there is a risk that all of them do not obtain the needed attention.

**Bureaucracy and entrepreneurship.** To some extent, found to be less apparent for the corporate groups with much decentralized acquisition strategies, is the negative synergy associated with increased bureaucracy emerging in the acquired companies when they come from being a small player to belong to a large actor. Increased bureaucracy is mentioned as a negative synergy by Johnson et al. (2004), however not in combination with the entrepreneurship. On the other hand, Larsson & Finkelstein (1999) argued that all organizational changes creates some sort of resistance, and the increased bureaucracy can be seen as such. Among the corporate groups in this study, the entrepreneurship adds upsides as well as downsides. Inherent in entrepreneurial persons are a drive, stubbornness and a willingness to succeed. The entrepreneur takes its own lines and are not always used to take orders from others. Being a part of a corporate group means that the entrepreneur must be able to handle such situations, listen and sometimes compromise. Fatal frictions and disagreements will occur if the subsidiaries’ owners do not have the desired attitude, in the long run it will destroy value instead of creating it. This aspect also explains why it is favorable and important to have the right people in the subsidiaries.

**Too much decentralization.** The high degree of decentralization and the absence of integration and intervening can be criticized to some extent, especially in Indutrade. The absence of vigorous efforts when things go wrong can hurt more than it harms. Presumably, some subsidiaries would be better off and add more value to the corporate group if they were treated differently. The decentralization approach has its advantages, however a 100 % dedication to the concept also mean that some opportunities are lost. Not all subsidiaries can on their own do well all the time.

**Synergies do exist.** What has been found to be somewhat peculiar is that neither Addtech, nor Indutrade or Lagercrantz work with synergy valuation or similar. Although there obviously are several synergies, the word synergy is if used at all, used to a very limited extent. The premium price, otherwise associated with the valuation of synergies in M&As, is instead tied to expectations about future results and is often used to secure the key persons future engagements in the subsidiaries. The problems with valuation described for example by Perry (2004) and Early (2004) is thus not applicable on the subsidiaries in these organizations. As mainly revenue synergies have been found the intangible problems with the valuation of these, mentioned for example by Harding & Rovert (2004) and Sirower (2006), is of no importance since no valuations are done. Why the word synergy barely is used is assumed to be due to two reasons; synergies are expensive; if synergies are found and valued before the acquisitions the deals will be more expensive. Secondly, synergies are associated with savings in cost; because cost synergies are more concrete and easier to estimate, people in general think of synergies as cost synergies (which are not redundant among these companies). However, the above walk through and table 5.2-1 below shows that there indeed are several synergies between the subsidiaries. The synergies that in the table are characterized as either revenue synergies or cost synergies are somewhat “traditional” synergies found in “normal” M&As, whereas many of the synergies among these organizations have been found to be combinations of revenue synergies and cost synergies (hereon referred to as combination synergies) and they tend to be more unique in a sense.
Non disposable synergies. Unlike traditional cost synergies the synergies found among these companies often have a considerably longer life time because of their variability. For example, acquiring a company and reaping of the benefits with a shared facility implies that some cost savings can be done, but after the synergy is realized there is not much more to walk off with because the facility is a fixed cost. This synergy will only be a synergy until the new organization has reached its new status quo; when status quo is reached, the common warehouse in the new constellation is the new norm. In these organizations, the dynamic and continuous additions of new subsidiaries and new opportunities make the question of for example networking to be a “never ending” synergy contributing with new benefits all the time. Although considerably harder to value and put a price on, the networking has no caps or floors when it comes to the additional revenues or the decreased costs it can bring. Overall, the synergies mentioned in this section are more of the variable nature while traditional synergies are more of the fixed kind. In that sense, parallels with Schilling’s (2005) explanation of learning effects can be found, stating that knowledge increases over time. However, it is not entirely the same thing, as the continuous exchanges/benefits are not as obvious as for the non-disposable synergies.

This non disposability can also be seen as a reason to why human capital and entrepreneurship is considered to be the most important aspects. Because the people will not only make it work at the first day after the acquisition or at the hundred day only. The people will make the business evolve over time and will make it work every day until infinity, and for that reason the long run success is dependent on reliable persons. It is hard to argue for the importance of similar long run dependencies for cost synergies implemented once only.

On the safe side. The synergy associated with balancing revenue synergies and cost synergies, drawing on the fact that costs should not be cut because it is unknown how the cost cutting affects the revenues, summarizes these companies’ overall view on synergies rather well. Instead of intervening in things that possibly could cut costs and save money, they choose to not intervene. One the other hand, they neither know what they are losing, but on the other hand, they nor risk to lose what they already have.

Absence of coherent theoretical framework. What is more to add regarding synergies between subsidiaries is connected with what already has been written in the methodological part of this study, namely that there has been an absence of relevant theory in regards to the kinds of acquisitions where no integration takes place. This can be further supported by the fact that during interviews with BE, OEM and Latour Industries, several of the problems with synergies and synergy realization mentioned in theoretical framework were brought up. The reasons to this are assumed to be associated with the levels of integration. Common M&A literature does focus on synergies in M&As where the acquirer completely, or almost completely, integrate the acquired company into the business, and for that reason more parallels between the found literature and BE’s, OEM’s and Latour Industries’ supplementary acquisitions have been found, whereas there exists more gaps between the theoretical framework and Addtech’s, Indutrade’s, Lagercrantz’ and Latour Industries’ acquisitions and synergies.
### POSITIVE SYNERGIES

<table>
<thead>
<tr>
<th>Synergy</th>
<th>Revenue synergy</th>
<th>Cost synergy</th>
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<tbody>
<tr>
<td>Reputation and brand name</td>
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<tr>
<td>Market positioning</td>
<td>X</td>
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<tr>
<td>Purchasing</td>
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<td>X</td>
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<td>Logistics</td>
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<tr>
<td>IT</td>
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<td>X</td>
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<tr>
<td>Various support functions</td>
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<tr>
<td>Economy</td>
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<td>Law</td>
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<td>Education</td>
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<tr>
<td>Entrepreneurship and human capital</td>
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<tr>
<td>Benchmarking</td>
<td>X</td>
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<tr>
<td>Risk spread</td>
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<td>Financial goals</td>
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</tr>
<tr>
<td>Learning and knowledge transformation</td>
<td>X</td>
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<tr>
<td>Flexibility</td>
<td>X</td>
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</tr>
<tr>
<td>Balance of revenue and cost synergies</td>
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<tr>
<td>Decentralization</td>
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</tr>
<tr>
<td>Development of business opportunities</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Table 5.2-1.** The table summarizes all the synergies found between the independent subsidiaries in this study. The synergies are either classified as revenue synergies, cost synergies or a combination of these two (Sofie Eliasson, 2011).

### NEGATIVE SYNERGIES

- Unequal distribution of resources
- Competitive overlaps
- Increased bureaucracy
- Too many irons in the fire

**Table 5.2-2.** A summary of the negative synergies found between the independent subsidiaries (Sofie Eliasson, 2011).
5.3 **Synergies where A Partly or Complete Integration is Taking Place**

Whereas Addtech, Indutrade and Lagercrantz work very little with synergies, the concept is more used by OEM, BE and Latour Industries (note that this section treats Latour Industries’ supplementary acquisitions). The cost synergies and the revenue synergies respectively in the last mentioned companies do not necessarily differ very much from the ones in the first mentioned companies. However, it is rather the extended focus on integration and cost synergies in OEM’s, BE’s and Latour Industries’ cases that makes their acquisitions different from the other companies’ acquisitions. What kind of synergies that are sought and found are closely correlated to type of acquisition, because in opposition to Addtech’s, Indutrade’s and Lagercrantz’ equal treatment of subsidiaries, OEM, BE and Latour Industries integrate them to a smaller or larger extent depending on several different factors that will be discussed further. What is interesting to notice in regards to this is that independently on type of acquisition and degree of decentralization, the driving force are the same for all companies in this study; to reach revenue synergies through growth. This does not mean that cost synergies are not important for OEM, BE and Latour Industries, because cost synergies are significant in these organizations, and more important when extended integrations take place. However, cost synergies always land on second place when talking about synergies in general. Simplified it can be said that the more integration that takes place, the more expressed and articulated is the synergy talk. As the other organizations barely are talking about synergies, OEM, BE and Latour Industries consider synergies to be an obvious part of an acquisition, and are even estimating the synergies’ values where it is possible.

**OEM International.** OEM distinguishes itself from the other organizations in more than the sense that they do not work as intensely with acquisitions as the other do. During the last six years, the company has done twelve acquisitions which does not differ much from Lagercrantz’ twelve acquisitions. However they still have a different acquisition strategy than Lagercrantz, Indutrade and Addtech have. In the recent years they have done both the type of acquisitions that characterize Addtech, Indutrade and Lagercrantz (and in these cases the same or very similar synergies have been found), and the acquisitions where complete integration takes place. Although several parallels can be drawn with Addtech, Indutrade and Lagercrantz, OEM works less decentralized than they do and for that reason OEM has been positioned among BE and Latour Industries. Where complete integration has been conducted considerably more cost synergies have been involved. For example, in the case where a comprehensive liquidation of an acquired company was done, the company became entirely absorbed by and stopped to exist. Thus, cost synergies were found at all levels; logistics, warehouse, economy, production, employees, administration, purchasing, suppliers, customers etc., and there is no such thing as decentralization involved because the acquired company belongs to history. In the cases where acquired companies have kept their old identity, several parallels can be drawn with Indutrade, Addtech and Lagercrantz. Strong market positions, strong brand names and product bases complementing OEM’s existing business are reasons to why the acquired companies keep their old identity, although considerably more intervening takes place in comparison with Indutrade, Addtech and Lagercrantz. An area such as sales is something OEM centralizes much more than the other companies do, for example by using a common platform for e-business. In general, OEM uses considerably more cost synergies in regards to the acquisitions, even if the purpose is to keep the acquired company nearly intact. For example, integration of IT systems takes place in all acquisitions, no matter of integration degree. Logistic synergies are used as
long as no renounces on customer service occur, in similarity with Addtech’s way of working with this.

**BE Group.** BE is as previously mentioned somewhat of an exception in this study, and not only their operations but also their acquisition strategy. In the last five years, they have done four acquisitions only, in comparison with Addtech’s fourteen acquisitions during the last year and Indutrade’s eight acquisitions during the year the differences are large. Still, the overall driving force for BE seems to be the same as for the other companies; growth and revenue synergies. If doing rough generalizations of BE’s acquisitions, they can precisely as in OEM’s case be divided in two; two of the acquisitions were aimed at complementing the current business. In one of these two acquisitions the acquired company was kept as it was and the degree of decentralization was high, in similarity with Indutrade’s, Addtech’ and Lagercrantz’ acquisitions. Just as was found for OEM, this had to do with the acquired company’s strong market position, its complementary product range and its overall stability. Although the second acquisition was aimed at complementing the business, the acquired company had been liquidated prior to the acquisition and the deal price was very low. In this case, there was no market position to talk about, and the earning power was equal to zero, which further supports the perception that the degree of decentralization depends on the acquired company’s market strength.

Although the aim in the other two acquisitions was to move forward the market positions and gain larger market shares the prerequisites were somewhat different from the other organization’s acquisition approaches. While it can be said that the others in general expand little by little and are very careful in acquiring companies in markets where they have limited experiences, BE splashed out to gain a substantial market share in a short period of time by the two acquisitions done in Czechia. In that sense, and in combination with that BE operates in a different industry, these acquisitions are in many ways different from the others in this study.

**Latour Industries.** As Latour Industries is not a refined technical trading company not all acquisition related aspect are comparable with the other companies in this study. Latour Industries pursues an active strategy work in all of the acquisitions their subsidiaries do, and the level of integration in these subsidiaries differs very much depending on circumstances, just as OEM’s and BE’s acquisitions do. Although Latour Industries works actively with finding and realizing synergies using a project based approach, the driving forces for the acquisitions are also in their cases related to growth and revenue synergies. Similar or same types of cost synergies were found as for OEM and BE. What was perceived to be distinguishable for Latour Industries was the combination of high degree of decentralizations and the corporate group’s high involvement in the subsidiaries. Indutrade, Addtech and Lagercrantz do all have a high degree of decentralization; however they also have a low degree of involvement in their subsidiaries’ operations, while the case is the opposite for Latour Industries. Considering that Latour Industries consists of nine subsidiaries only, and considering that Indutrade, Addtech and Lagercrantz have many more subsidiaries in their stables, it explains the latter organizations’ absence of involvement in their subsidiaries. Because of Latour Industries’ higher involvement in the subsidiaries, parallels can be drawn with OEM that are using a similar strategy. What differ the two is that OEM works more with synergies between their subsidiaries (dependently on type of acquisition) and Latour Industries works more with synergies within their subsidiaries’ subsidiaries. However, this can be explained by the fact that Latour Industries’ nine subsidiaries’ operates in different industries, while OEM’s subsidiaries all are in the same industry.
Market position matters. Having found that OEM, BE and Latour Industries all integrate the acquired companies differently similar patterns where discovered. Why do they bother to differentiate the acquisitions when Addtech, Indutrade and Lagercrantz roughly treat all subsidiaries in the same way? Although there is no straightforward answer to the question, a large part of the answer is connected to the acquired companies’ market positions, earning power and product ranges (complementary or not complementary). In an acquired company where all of these factors are crucial, it hurts more than it is harms to intervene too much. In addition, there is no point in ambulating in things already working well, which partly explains why all of the three organizations integrate more in some acquired firms than in others. In the cases where they choose to integrate less, many of the same combination synergies found for Indutrade, Addtech and Lagercrantz are encountered. Thus, which type of synergies that occur depends on the level of integration and the level of decentralization, which in turn is affected by the market position.

Adoptability. While Addtech, Indutrade and Lagercrantz show consistencies in their acquisition strategies, OEM, BE and Latour Industries adopt their acquisition strategies to the acquired companies. Instead of rejecting acquisition objects because they do not fulfill certain predefined criteria (of course within reasonable boundaries); they adopt their integration strategies according to the needs.

Coherent theoretical framework. In contrast to the analysis of Addtech, Indutrade and Lagercrantz, the analysis of OEM, BE and Latour Industries has found several similarities between these organizations’ synergy implications and the theoretical framework’s synergy implications.

Time. OEM, BE and Latour Industries all mentions timing and time frame to be crucial factors; they say that the integration usually takes longer time than was thought initially, and also highlights the importance of doing the essential integration activities as soon as possible after the acquisition in order to realize the synergies in the best possible way, as supported by for example Boeh & Beamish (2007) and Fiery et al. (2007).

Synergies evolve over time. What is more to add concerning the timing and the integration is that all of the companies mention that not all synergies are visible at once. As the two organizations integrate and become adjusted to each other, new synergies are discovered that was not seen from start. The same findings have been affirmed by Larsson & Finkelstein (1999) and Schriber (2009).

Involving the right people. Having the right people involved in the integration phase is another crucial aspect discussed by (Perry, 2004). However, what also has been highlighted among these companies is that only management should be involved in the due diligence phase. The employees implementing the synergies should be included at a later stage to avoid the uncertainties and misinterpretations that otherwise are likely to arise.

Culture differences. The integration is very important for the realization of synergies because this is when thoughts are translated into action, as been outlined by Cartwright & Cooper (1996). The more integration that is supposed to take place, the more important the cultural aspects become, as pointed out by Johnson et al. (2004). The companies also expressed concerns about the human capital and the culture differences that arise in regards to an acquisition. Not only differences between nationalities were brought up, also the differences between organizational cultures and ways of doing and perceiving things. As these companies acquire smaller organizations, the culture differences between company sizes were mentioned as an obstacle and a negative synergy. While a larger organization
has a higher degree of hierarchy with more bureaucracy and formalities, the smaller organization is used to a flat organizational structure where the way from decision to action is shorter and faster than in larger organizations.

**Entrepreneurship and human capital.** Also among these organizations the entrepreneurship and the human capital were expressed to be the number one factors for successful acquisitions and realization of synergies. However, it was found that this aspects matter more in the cases where the acquirer is dependent on the former owners/key persons for continued success. Where absorptive acquisitions takes place, the old company stops to exist and this ascendency decreases the dependency on specific individuals.

**Communication.** In order to avoid barriers such as culture differences, communication has been mentioned as an important aspect. As Allen & Renjen (2009) discusses, it is significant to communicate information to employees about what is happening, what will happen, and how it will happen. This in order to erase assumed uncertainties among the people involved and leave a positive impression on the acquisition and the synergy realization.

**Knowledge, selection capacity and risk assessment.** As mentioned in previous section, the importance of the corporate head’s selection capacity when it comes to acquisition objects is crucial, and is also in these companies’ cases done throughout. With a long history of acquisitions the corporate heads know what works and what does not.

**Balance of revenue and cost synergies.** Yet another aspect already mentioned. The focus on growth and revenue synergies contributes with that cost synergies yield to revenue synergies. Because that is the case, it does that all of the companies keep a healthy balance between these two, contributing to the best possibilities outcomes.

**Valuation of synergies.** An additional feature that distinguishes OEM, BE and Latour Industries from the other companies is the valuation of synergies. Whereas the others barely uses the word synergy, and even less are trying to do any valuation of these, both OEM, BE and Latour Industries work with valuation of revenue synergies (where they find it to be possible, for example: implications of widened product ranges, larger product portfolios, extended market positions) as well as cost synergies. They all expressed that cost synergies are considerably easier to evalute because of their measurability than revenue synergies are with their intangibility problems, supported by Harding & Rovert (2004), Sirower (2006), Ficery et al. (2007) etc. The intangibility was not mentioned to be the only problem with revenue synergies; also the fact that the valuation very soon can be outdated due to changed market conditions was brought up, coherent with Perry’s (2004) findings. The handling of premium prices is as for the other organizations associated with expectations on future results instead of synergy values, helping to avoid the problems with inflated deal values discussed by for example Sevenius (2003).

What is more found to be interesting regarding the valuation is the fact that BE did not estimate the synergies’ values in the acquisitions done to complement the existing business. As a complementary business in this case means no integration, parallels with Addtech’s, Indutrade’s and Lagercrantz’ decentralized acquisition strategies can be drawn. Hence, the interpretation is that valuation of synergies become more important in the cases where extended integration is done.

**The more integration, the more work.** Generally speaking, it can be said that the more integration that is supposed to take place, the more work it takes to realize the synergies, also found by Sevenius (2003). The reason for this is simply that more things can go wrong
when more changes will be made. The rationales for why many of the aspects/problems discussed in this section have not been brought up to the same extent during interviews with Addtech, Indutrade and Lagercrantz is assumed to be because of the lower level of integration that takes place.

**Negative synergies.** Also among these companies the negative synergies were hard to bring out. Besides the transposition from being a small player to be a part of a large organization, the found negatives were largely associated with temporarily restrictions (the capacity affects), later leading to positive synergies. For example, increased demands on reporting, quality, environment, human resource functions, etc., aspects that these smaller players are not used to, can all be considered to be negative synergies before they have become natural parts of the company.

### 5.4 Conclusion

**Growth, revenue synergies and acquisitions as business model.** Although the analysis points at several synergy differences dependently on acquisition strategy, there are several aspects that all of the organizations have in common. The most distinguishable is found to be the focus on growth and revenue synergies; the driving force for continued acquisitions, also discussed by Schriber (2009). Because this fundamental is the same, it has been used as starting point, making it possible to find several similarities concerning synergy related issues. Reoccurring and touched upon several times, is the fact that an acquisition alone is of less importance for these organizations because acquisitions are a natural part of their growth strategy, inherent in their business models. Like any other company makes money and distinguishes itself from competitors by producing a superior product or delivering a preeminent service, these companies’ core competences are associated with their ability to do successful acquisitions. Because it is an everyday part of their works, their business models are continuously improved, refined and adopted to current circumstances, which also explains why they are able to avoid the most common pitfalls in association with M&As, and which also make their knowledge and experiences to superior features.

**Knowledge and experience.** The importance of the corporate head’s knowledge and experiences about the market and the companies is another recurring synergy important in all sorts of acquisitions. If the acquirers do not know what they are buying and are not prepared for what is due, they will neither be able to handle the acquisitions nor the unanticipated changes that are likely to occur. To buy a pig in a poke is not desirable. The synergies will not be realized and the deals will instead destroy value for all parties.

**Entrepreneurship.** The entrepreneurship and the retention of devoted key persons in the acquired companies is one of the most important features. However, it has been found that the more integration, the less critical is this aspect, because when more integration takes place the dependency on specific persons are not as large. Acquired companies with already strong market positions will be more dependent on key persons, because of the absence of the corporate heads’ intentions to change too much.

**Balance of revenue and cost synergies.** Another common success factor is the wealthy balance between revenue synergies and cost synergies, emerging from the growth orientation and focus on revenue synergies. Although more focus is put on revenue synergies at Indutrade, Addtech and Lagercrantz, the other companies still prioritize these synergies. All companies have realized that intervening too much in the subsidiaries’ businesses might
lead to undesired interventions also concerning the revenues, with potential revenue losses as a consequence. Cutting too heavily on the cost side can lead to lost revenues, and as the balance and the boundaries are subtle and very hard to define, it is more convenient to intrude very little, or to not intrude at all. In situations where there exists potential revenue synergies, but where these revenue synergies are not as distinct and directly connected to the acquired company’s market position or brand name, the underlying reasoning depicts that there are less values to destroy. For that reason it is less harmful to steer on the cost side.

**Level of integration and diversification.** Other than these four aspects, the level of decentralization and integration among the subsidiaries have been found determining for what kind of synergies that are developed and how these are prioritized, but also how the acquired company is related to the acquirer (as outlined by Lynch (2006)). Latour Industries constitutes an interesting feature in this study because they have a mix of different types of acquisitions. Given that Latour Industries consists of nine subsidiaries that in turn are doing own acquisitions, synergies are not only found between the subsidiaries but also within the acquisitions the subsidiaries are making. The organization’s synergy work is more elaborated within their independent subsidiaries (related diversifications and high levels of integration) than between their nine subsidiaries (unrelated diversifications and low levels of integration). Indutrade’s, Addtech’s and Lagercrantz’ acquisitions can be considered as a mix of Latour Industries’ acquisitions; they all do related diversifications that are within their current value systems (described by De Wit & Meyer (2005)), but with low levels of integration. OEM does related diversifications and uses both high and low levels of integration dependently on the acquired companies. Dependently on where in the matrix below the organization’s acquisitions are positioned, the synergies take different forms.

![Diversification Matrix](image)

**Figure 5.4-1.** The figure summarizes the different acquisition strategies the organizations pursue (Sofie Eliasson, 2011).

Which synergies are find in which cases? Separating low integration from high integration, considerably more cost synergies have been discovered in the cases where high integration takes place. The opposite is consistent where low integration dominates, and then more revenue synergies exist. What also can be concluded is that there in total are less synergies in the unrelated diversifications than in the related diversifications.
The success factors in acquisitions differ greatly depending on the level of integration. Where no or little integration takes place the success factors are associated with high level of decentralization, entrepreneurship and flexibility that let the subsidiaries live their own lives. In acquisitions where extended or complete integration takes place, the success lies in avoiding the traditional synergy pitfalls, many of them treated in the theoretical framework; human capital, culture differences, communication, time aspects, valuation etc. However, the major aspects found important in all type of acquisitions, independently on organization or business was the corporate groups’ knowledge and the human capital.

**Referring to purpose.** The purpose of this study has been to analyze synergies in regards to M&As in technical trading companies to learn about success factors.

Synergies have been analyzed and success factors have been found, no doubt about it. What could be questioned is if the findings are representable for technical trading companies only, as not all of the companies concerned in this study are technical trading companies. However, the contrasting elements between them and the non technical trading companies have made it possible to find distinguishable synergy features that otherwise could have been taken for granted. In that sense it could even be considered as an advantage that not all of the companies in the study are peers. The contrasting elements raises implications associated with the found success factors. Are these only applicable on technical trading companies? Could other types of organizations benefit using a similar business model? The found success factors such as knowledge and experience, entrepreneurship and decentralization, are when separated neither unique nor tied to a certain type of acquisitions, or to a certain type of companies. Thus, it could be said that the same or similar business model can be transferred and applied on other fragmented industries where the markets are consisting of many small niche players, provided that prevailing circumstances allow it.
Figure 5.4-3. A simplified and remodeled figure of Chesbrough’s & Rosenbloom’s (2002) business model, demonstrating how acquisitions constitute a part of the organization’s business model.
6 Conclusion

This section will conclude the study in order to distinguish and highlight the most important results. The research questions have been used for this purpose.

- How do the organizations find potential acquisition objects and potential synergies?

There are exclusively two different approaches the organizations use to find potential acquisition objects; 1) either through their current network; contacts with customers and suppliers where they either contact suitable candidates or where the candidates contact them, 2) or through M&A advisors that either contact them or that they contact to find acquisition objects.

- Which criteria do the organizations use to analyze the potential acquisition objects?

In general, the acquisition objects are evaluated on the following criteria: market position, specialty/niche, level of added value to customers, level of technical expertise, level of dependency on one or few customers and suppliers, kept relationship with customers and suppliers after acquisition, suitable owners/key persons, track record of profitability and growth, potentials for future growth and profitability.

- Which synergies are prominent and denoting?

These companies urge for growth make that the driving forces are associated with revenue synergies, giving little or no focus on cost synergies. However, the focus on revenue enhancements contribute with what in this study is called “combined synergies”. The combined synergies contributes with a wealthy balance between revenue synergies and cost synergies, contributing with long lasting values and continuous improvements evolving over time.

The combined synergies (adding both revenue enhancements and cost savings) were found to deviate from traditional synergies; entrepreneurship and human capital, benchmarking, risk spread, networking, board work, career opportunities, financial goals, learning and knowledge transformation, flexibility, decentralization, financial strength, the corporate head’s knowledge, experience and selection capability, and development of business opportunities. The entrepreneurship and human capital in combination with the corporate head’s knowledge, experience and selection capability were perceived as the strongest synergies.

- How do they integrate the acquired organizations into their own organization?

The degree of integration differs in all of the organizations. While Indutrade, Addtech and Lagercrantz Group are extremely decentralized organizations they do have as policy to integrate with caution, and to a very large extent let the subsidiaries be as they were before the acquisition. The predominant factor deciding the level of integration in OEM International, BE Group and Latour Industries is adapted to each specific acquisition and its purpose. In general, it can be said that the stronger companies (strong market position, strong brand name, strong financials) are less integrated than their opposites.

- Which are the most important success factors?

The three most important success factors were found to be; the entrepreneurship and human capital, the corporate head’s knowledge, experience and selection capability, and the inclusion of acquisitions (developed from the urge for growth) in the business model.
7 Further Research

*This section will discuss suggestions on further research in regards to the purpose and the field of study.*

During the compilation of data several interesting aspects were encountered, many of them were connected to other aspects of the M&A process.

The high degree of decentralization found in Addtech, Indutrade and Lagercrantz were found to be very fascinating. The fact that these companies by knowledge and corporate steering are able to find and gather successful subsidiaries within similar fields, and make profit out of it is interesting. In regards to this, the subsidiaries characterized as small and family owned companies with an entrepreneurial spirit, were found to make the difference. Limited research has been conducted in the area of M&As and small and medium sized enterprises (SMEs), and much less in the area where corporate heads deal with decentralized acquisitions of SMEs. Because entrepreneurship often is associated with SMEs, it would be of interest to study the relationships between entrepreneurship, SMEs and decentralized M&As.

Another interesting area for further research would be to study the acquired companies’ view on these types of M&As. In this study, only the managerial implications concerning the corporate groups’ views and opinions have been considered. By instead reversing the angle of incidence and interview the acquired companies and their CEOs would be interesting, since their viewpoints presumably differ very much from that of the corporate heads. By combining these findings with this study’s findings would lead to interesting results showing two sides of the same coin.

A third suggestion includes the comparison of the acquired companies’ perceptions before and after the acquisition in a sort of pros and cons deployment, where several parameters could be evaluated and analyzed both in pre- and post states. Ultimately, this could be used as a sort of benchmarking tool, helping the corporate heads to adjust and improve areas where their subsidiaries are less satisfied.
Appendix

List of References

Books


Orrbeck, M., 2006, *Företagsförvärv i praktiken*, Denmark: Studentlitteratur


Academic Articles and Journals


Appendix


Appendix


**Internet**


**The Organizations**

Addtech, www.addtech.com

BE Group, www.begroup.com

Indutrade, www.indutrade.com

Lagercrantz Group, www.lagercrantz.com


OEM International, www.oem.com
Appendix

We choose our own path.
Figure 0-1. Cutting from brochure produced by Indutrade (continuation from previous page). (Please note that the cutting is upside down in the brochure as well.)