Determining How Firms Identify Acquisition Targets To Purchase As A Market Entry Strategy

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Executive Summary

Purpose

Objective of this study is to show target selection screening as a process for a company entering a market that it is not already located in, geographical or otherwise. Companies utilize direct entry method to enter in to a new market that they have no connection to primarily, but acquisitions are becoming more common. To accommodate this change in entry modes, processes need to be developed for consultants to help foreign companies find groups of firms that best suit their acquisition needs. The objective of this report is to develop a strategy for finding acquisition targets for companies trying to enter a new market, which fit into the targeting firms needs in the new market.

Research Methods and Results

Research reported that acquisition decision criteria vary greatly on the needs and viewpoints of different acquisition firms. The objectives of this experiment was to recreate a screening process for recent acquisitions that netted a talent pool that included the eventual acquisition targets and to have as small of a target pool as possible. The experiment was limited to news articles and statements by the company's executives to find motivations for their respective acquisitions. Both events consisted of private firms; however, information on financial, knowledge, physical, and intangible assets relatedness were not available. Using obtained statements, screening criteria can be determined to eliminate firms from the target pool. Once criteria are determined, research using business information programs and market information can eliminate firms form the target pool.

Conclusions and Recommendations

In both experiments, the screening process produced reduced target pools that included the eventual targets, concluding that acquisition screening process works in finding target pools that match companies' needs. Though the experiment points toward successful screening process, it was limited by not knowing the full spectrum of motivational factors of an acquisition such as cultural, knowledge, and financial relatedness. These factors are not openly discussed in acquisition publications nor, can these factors be determined without intimate knowledge of the individual firms. Third party data collection provides little insight on these questions either. This missing information would lead to improving efficiency of target acquisition for a firm trying to enter a new market. In terms of developing acquisition screening as a consulting product, screening, through business listing and economic modeling programs, can be used to reduce the amount of companies that need to be reached out to for deeper analysis. The final rounds of screenings are based on investigating firms as they relate to the targeting firm. Firms new to a market should utilize this for consulting if they are reaching into markets where they lack cultural, regional or product knowledge needed to make the best decision.

Introduction

The decision to enter a foreign market is a major risk for any company. The company in question must choose the proper way to enter a market or suffer enormous consequences (Chang, S., Rosenzweig, P., 2001, P. 748). Although firms typically enter new markets organically through internal development, acquisitions are a common alternative (Lee, G., Lieberman, M., 2010, P. 140). Yip (1982) defines direct entry or greenfield entry as “When a firm, whether newborn or already existing, begins selling on an ongoing basis in an existing market from which it was previously absent” (p.335). Yip (1982) also defines acquisitions as “when an existing competitor in an existing market is acquired by a firm not previously competing in that market. The acquirer should have the intention to use the acquired business as a base for expansion and not merely hold it as a portfolio investment” (p.335). There are many benefits to using acquisition as a market entry strategy; however, increased risk is potentially jeopardizing a firm’s short term and the future is commonly associated. This paper will discuss the process of deciding on acquisition about other entry modes, the reasoning behind that decision and how companies can make the best decision regarding their acquisition. Finally, using the research collected, a tool will be developed to help a firm identify companies that will best meet their needs as a market entrant.

Entry Mode Selection Viewpoints

Resource-based view is a commonly used viewpoint that states that the relatedness of current on hand resources in the firm’s possession and resources needed to enter a market will determine the mode of entry for an entering a new market (Lee, G., Lieberman, M., 2010). Most view points build of the basic principles of this viewpoint. "a firm is likely to use internal development to entry markets whose requirements lie close to the firms existing set of resources

and capabilities, whereas the firm may turn to acquisitions to enter markets that are far from its current resources base" (Lee, G., Lieberman, M., 2010). This viewpoint is among the simplest to understand and apply but some argue that it does not take into account important factors.

The knowledge-based view sees human capital and company knowledge as an asset similar to physical or financial capital; making knowledge-based view a broader definition of resource-based view (Penrose, 1959). From this viewpoint, mode of entry is determined by how much of the knowledge-based resources needed to enter and compete in a foreign market a company already has in their possession. The lower the amount of compatible knowledge based resources a firm has; the more likely acquisition will be used to enter the new market over direct entry. Chang and Rosenzweig (2001) reported that gaining market knowledge is the goal for a firm acquisition or joint ventures are the best way to obtain the knowledge (p. 749). Ranft and March (2008) reported "entry into new geographic markets may require knowledge about specific customer requirements or channel characteristics; entry into new product markets may require knowledge-based resources related to research and development, technology, market characteristic, or demand characteristics" (P. 53-54). The amount of effect knowledge-based view should have on entry mode selections should depend on the market. Ranft and March (2008) explained that different markets have different levels of knowledge-based resources need to compete within the market and because of that knowledge-based views should have more affect in some markets over some others (p. 54).

Why would a company choose acquisition over internally developing into a market?

Lee and Liberman (2010) explained, the typical way for companies to enter a new market is through internally developing or greenfield entry. Burrows (2013) reported that the number of acquisition activity done in the United States has increased by 39% between 2008 and 2013.

Google's purchase of Motorola Mobility for $12.3 Billion, Dainippon Sumitomo's buying of Boston Biomedical for $2.63 billion, and IBM's purchase of Kenexa for $1.3 billion is a prime example of acquisition use (Yu, Umashankar, & Rao, 2015). Each of these purchases carries a great amount of risk beyond their massive price tags.

Yip (1982) evaluated choice between modes of entry for firms trying to enter diversification markets, which has been reported previously. In the study, Yip (1982) reported that direct entry might not be the best choice. Direct entry can be riskier due to a long beginning period of losses due to starting up due to investment cost to set up a successful and efficient business (Yip, 1982, p.333). Biggadike (1976) found, in his experiment of 40 internal development events, that it took an average of eight years for the entry to become profitable. Some companies cannot wait long periods of time to establish themselves in a market to gain profits. Yip (1982) argues that there are barriers to every market entry, caused by the market structure, and that an entrant's ability to meet these barriers will determine if an entrant chooses direct entry or acquisition. The higher the barriers to entry, the better off an entrant is with acquiring an established firm over trying to break through barriers in the market. Yip (1982) reported a number of market factors were significant to acquisition over direct entry choice. Yip (1982) concluded that acquisition is the associated method of entry in low growth markets due to smaller weaker company consolidation. Markets with market leaders who own a large portion of the market share can be difficult to enter, as these market leaders could possibly react violently against new entrants. Large market shareholders can force out a new entrant (Yip, 1982, p. 340). In this market condition, Yip (1982) suggests acquisition of an established firm over attempting a direct market entry (p. 336).

Purchasing Private Firms Vs Public Firms

The number of private firm acquisitions is higher than acquisitions of public firms: private firms make up 60-75% of acquisitions between 2000 and 2004 (Capron, L., Shen, J, 2007). Capron and Shen (2007) explain that the key difference between private and public firm acquisition is the quality of information available on private vs public targets (p. 893). The Sarbanes-Oxley Act requires companies to disclose information to the public for the investors' benefit. Public companies receive more media information and market projections and company value are easily determined from disclosed information. Private companies are not required to disclose the information public firms are and they are not the typical subject of media attention (Schwert, G., 1996). Public companies stock value is not public knowledge, nor is much time given to make business outlook projects for private firms. It could be argued that the lack of information available would discourage buyers from purchasing private firms but there are advantages to pursuing firms with low information and exposure. The acquirer wants to minimize media attention to an acquisition, pursuing a private firm is the best course of action. A bid or rumor of a bid on a public firm can become public knowledge and attract media attention and competing bids; all of which will be incorporated into the stock price (Schwert, G., 1996). Capron and Shen (2007) reported the similarities between buying public firms to an auction format ultimately drive the price higher. Private firms are bought and sold through negotiations based on voluntary exchange; however, they do reserve the right to contact outside sources (Capron, L., Shen, J, 2007).

Characteristics of Firms Potentially Seeking to be Acquired

Finding a firm, that is willing to be acquired, in a desired market can be difficult. Firms publicly announcing that they desire to merge or be acquired are highly uncommon (Anagnostopoulou, S., Tsekrekos, A., 2015). Companies might be worried that if they are

publicly trying to find a buyer, they might appear to be in desperate, or in a panic, and that bidders might undervalue the cost of the firm (Murdoch, M., Madura, J., 2011). On the other hand, publicly announcing that a firm is interested in seeking a buyer removes the need for intermediaries to contact possible bidders, and the bidder may face less resistance from the side of the target, making the deal more attractive for potential acquirers (Murdoch, M., Madura, J., 2011). Companies must understand the perception risk when publicly seeking a buyer. There are some business techniques that are most discrete than making a public announcement. Investment bank or financial institution are a viable option to reach out to potential buyers on the firm's behalf (Anagnostopoulou, S., Tsekrekos, A., 2015). Firms can minimize negative attention by utilizing investment banks or financial institutions while still contacting buyers (Anagnostopoulou, S., Tsekrekos, A., 2015).

Earnings management is the practice of increasing the attractiveness to buyers in the marketplace (Campa, D., Hajbaba, A., 2016). Earnings management is the manipulating of business activity to create a positive or negative perception of the company's performance, depending on the situation (Campa, D., Hajbaba, A., 2016). The result of earnings management is to cause the overvaluation of the firm and receive higher payment for the aquisiton (Campa, D., Hajbaba, A., 2016). Campa & Hajbaba (2016) reported the amount of incentive for this activity is depending on the type of acquisition that is expected for the transaction. In an equity funded acquisition, the acquiring and acquired stakeholders will face the consequences of the underperformance, stemming from the overvaluation of the firm in the pre-acquisition period. Contradictorily, if the acquisition is cash funded, only the acquiring firm faces the consequences of underperformance. So if an acquisition is predicted to be cash funded, the incentive to use earnings management practices are higher (P. 57 – 58).

Preforming Due Diligence on a Potential Target

Companies want to investigate each target deeper in order to minimize potential issues. Due diligence process has multiple stages used to eliminate less desirable targets with the ultimate goal of acquiring as much knowledge of a company as possible during a merger period (Ahammad, M. Glaister, K., 2013). Acquisitions are more successful when the acquiring firm can find a target that matches with the culture and strategic plan of the acquiring firm (Heller, 2000). Jemison & Sitkin (1986) defined strategic fit as "the degree to which the target firm augments or complements the parent's strategy and thus makes identifiable contribution to the financial and non-financial goals of the parent". Ahammad & Glaister (2013) addresses cultural relatedness as an important factor in determining the right acquisition target, especially in cross border acquisitions where national and organizational cultural differences will be present (p. 896). Lack of cultural fit may hurt the ability of firms to synergize (Weber, Y., Shenkar, O., and Raveh, A., 1996). Ahammad & Glaister's (2013) supported the argument that both the degree of strategic relatedness and cultural relatedness lead to acquiring firms more often properly valuating a target for acquisition (p. 901). Cultural compatibility can also be important in maximizing acquired knowledge-based resources. Integration into the acquired company's identity and social structure may result in the loss of knowledge based resources tied to those structures (Ranft, A., & Lord, M., 2002). Business alliance might be advised over an acquisition (Ranft, A., & Marsh, S., 2008).

Employee capabilities and business competences are crucial to understanding a target firm’s value. The resources Ahammad & Glaister (2013) explain resources including technology capabilities, management capabilities, firm reputation and market position are of the greatest interest to buyers (p. 897). One of the benefits of acquisition over a direct entry is instantly

having a preliminary workforce in place; but that benefit is for naught if the workforce is unable to meet the standard needed to compete in the market. Talent of a targets management as the single most important factor in creating value in an acquisition deal (Anslinger, P., Copeland, T., 1996).

Established firms have resources in place that have been used to run and support the company before the acquisition. These resources could possibly be the reason the acquirer is looking at the target as an option. An acquiring firm might need additional resources to compete in the market the acquirer desires to be in or to compete at the level the acquirer desires. Access to these resources could be a driver for an acquisition transaction (Shimizu et al. 2004). It may also be a case that an acquiring firm has a large resource base in place and is looking to acquire a firm with complementary resources to strengthen the parent’s firms position in the market (Ahammad, M., Glaister, K., 2013, p 897). During Ahammad & Glaister's study strategic and cultural factors were proven to be statistically significant to the acquisition selection process (p. 901).

Ahammad & Glaister's study studied two other factors that could be considered important to the due diligence process that their study did not support significance to. Even though it would be thought that understanding the current and predicated financial outlook of a target would be important to the performance of an acquisition, the experiment did not support it (P. 901). This goes against what has been the "cornerstone of the traditional due diligence" according to Ahammad & Glaister (P. 897). With that being said, there is other literature that argues the opposite. A study done by Donald Stevens (1973) showed that financial characteristics of the potentially acquired firm were important decision characteristics in acquisitions, despite the motive of the acquisition. The most significant financial characteristic for acquisition decisions

was capital structure or the amount debt relative to the company's assets (P. 157). It would be hard to argue that due diligence into the financial situation of a target does not factor into the decision of acquiring a certain target and the performance of the acquisition afterwards. The other factor in the experiment was legal, tax and IT capabilities. While it is certainly believable that legal and tax situations do not factor in as greatly as other factors; IT capabilities should be important considering the type of industry is involved. While IT capabilities are probably not important in simple manufacturing, IT capabilities and compatibility should be important to advanced manufacturing or high tech industries.

Sources to Identify Promising Acquisition Targets

The most important factor in finding acquisition targets is finding data on businesses that fit the parameters of what the parent firm is looking for. Source for information can be difficult to find, especially for private targets but there are some sources out there that can give you the most up to date data available. The information on public companies is easier to find but there are still some important pieces of data that will require some investigation work and possibly financial resources to collect.

There are some free sources to collect data on potential targets, especially public firms. Public companies are required by law to disclose important company information to the U.S. Securities and Exchange Commission (SEC). All information on publicly traded companies can be collected at the SEC's EDGAR database program found on the SEC's government website. The SEC requires public traded to submit a list of forms on a regular basis. Included in this list is an annual 10-K, which includes annual financial statements and discussion on the company's results over the past business year. A 10-Q is filed for the first 3 quarters of the month (the 10-K acts as the report for the final quarter), the report unaudited financial statements and information

about the company's business and results over the past three months and the business year to date. Anytime there is a major event that would be important to the shareholders of the companies, the company must disclose that information to the SEC through an 8-K form. Examples of events that would qualify for an 8-K disclosure include filing for bankruptcy, a change in leadership, or preliminary earning announcements. Other types of disclosures include important shareholder voting on corporate matters, proposed mergers, acquisitions and tender offers; securities transactions by company insiders, and beneficial ownership by any person or group that controls five percent or more of the outstanding shares. All this information can be useful in understanding if a public traded company is a potential target for acquisition. Other sources of free information could be regional or state industry/trade associations. Examples of these associations include; the Mississippi Manufacturers Association, the California Manufacturers & Technology Association, or the Virginia Ship Repair Association. Especially if your acquisition search is geographically driven, these associations can provide information on companies within a certain geographical region. Information these associations can usually provide includes number of association members in the region, individual members' locations in the region and number of employees, and there can be additional information collected on a case by case basis. All of this will depend on each associations' data collection, but when searching for acquisition targets, checking with the industry associations is always a good place to start. State or regional economic development departments might also be able to provide useful data. State agencies should also be able to give data on workforce development and special programs that could be useful to a new market entrant. Contacting these departments might be useful to build the relationships needed in the area to make the transition of the buyout smoother. As mentioned earlier, firms that are desiring to be purchased will sometimes use the services of

investment banks and other financial institutions that act as intermediaries for finding potential buyers (Anagnostopoulou & Tsekrekos, 2015). Contacting these types of institutions that have a reputation of conducting this type of business could lead to finding targets that are interested in being purchased. The targets found by this method might provide a willing target base, that will not require as much resources and effort to be acquired as firms who are not actively searching to be purchased.

While there are free sources that can provide helpful information in the hunt for acquisition targets, there are pay for information sources that can provide more in depth data on companies and help locate companies that fit the parameters of the search. EMSI is an economic data reporting program that collects data from nearly 100 sources to provide a large range of data that would be difficult to collect by a single entity. EMSI also uses algorithms to un-suppress county level data that the Bureau of Labor Statistics suppresses. EMSI can map a region and identify every company that relates to the acquisition by NAICS codes, which would be very useful if trying to enter a geographical market. EMSI can also help identify if there is a workforce available for expansions, if there is an educational pipeline to produce a workforce, and where the highest concentration of potential workforce is within a certain drive time. The negative aspect of EMSI is the price needed to pay if a company wants to use EMSI on a national acquisition search. The cost of data for the entire nation is around thirty thousand dollars which could be too large of an investment for some firms. There is a way to access EMSI data without buying a license to the program. Through universities that use the program, such as the University of Southern Mississippi, a company could buy EMSI reports on a case by case basis at a much lower price. It is a good idea for companies that might need this program to build relationships with universities that are already using this program. Another pay for data source is

Hoovers.com. Hoovers was designed for industry sales leads and industry research, which makes it a very useful tool when trying to find companies that meet acquisition search parameters. Hoovers has many reports and subscription packages to meet all needs of any company. All the reports and subscriptions are cheaper than an EMSI license, ranging from $29 to $300 depending on what report or data you want to access. Hoovers provides information on company location, size, number of employees, leadership, parent company information, payroll, profitability, and market share. All this information could be very important in the pursuit of acquisition targets.

Developing a Screening Process

Applying the characteristics found in the research a screening protocol can be developed to help a targeting firm locate targets that will be the best fit for accomplishing the goal of successfully entering a market. It should first be determined if acquisition is the proper mode of entry for the market entry. Following an algorithm that focuses on the characteristics of the targeting firm, the market the firm wishes to enter, and the goals of the firm once entered into the market. First, a target market should be identified. In this study, the target market is foreign to the targeting firm, either geographic or new product markets. The firm need to ask if it is dedicated to this market long term, if not joint venture should be the automatic choice for entry mode. Once a target markets is identified, the targeting firm can identify the barriers to entering the market. Barriers includes required assets such as financial, legal, knowledge, physical, and intangible; while also considering market conditions such as market growth, market concentration, and market competition. These barriers should be for any company wanting to enter the market to prevent the targeting firm from ignoring an important variable. Once all barriers are identified, it can be determined if the firm has the resources to overcome each barrier. If the firm has the ability to overcome every barrier of market entry with the resources on

hand, direct entry should be the mode of entry used. If the firm does not have the resources on hand to overcome the barriers, then the decision becomes more complex. Depending on if the targeting firm can internally develop the needed resources to overcome these barriers; the firm may continue to direct entry or pursue another entry mode such as acquisition or joint venture. If it will be cheaper to acquire established assets in the market than to develop them internally, acquisition is the correct choice. In the appendix, under Table 1, is the simple algorithm, based on business knowledge and the research done for this study.

Once the selection of acquisition has been made, the screening process can begin to determine the best target options to pursue for acquisition. In some cases, the firm might be targeting a specific product or brand; in which case the screening process is not needed and the acquisition process should go straight to negotiations with firms with the specific product or brand that needs to be obtained. The process begins with the assembling a pool of businesses that are in the market that is to be entered. This pool should be a collection of firms that qualify under NAICS codes that relate to the product the firm wants to produce. Firms NAICS codes can be found in EMSI, Hoovers.com, or from the NAICS Association; all of which will have to paid for. EMSI and Hoovers can provide you with all firms that apply to a NAICS code within a geographically region. These reports should be especially helpful if the acquisition is geographically driven. Firms looking for targets should call investment banks or financial institutions to ask about firms actively looking to be sold in the market that is being targeting. Firms looking to be acquired will be easier to negotiate with and possibly acquired cheaper than firms that are not seeking to be acquired. After the collection of primary potential targets, the targeting firm will need to select criteria that are important to their selection of a single acquisition target. From this list of criteria, the target pool should shrink to a small group of

potential targets that best match the goals of the targeting firm. At this point, the screening process is over and the acquisition process will now depend on reaching out to the targets and negotiating the final details of the acquisition. Acquirers should be wary of earnings management that will cause overpayment for the acquisition leading to a loss in value in the acquisition. Through the due diligence process a firm can select the best option possible based on the needs and desires for entering a new market.

Methodology

The goal of the experiment is to recreate the possible screening processes used in acquisitions based on drivers that can be deduced through publications and acquisition decisions. Examples of market entry acquisitions were found by searching through economic development magazines and publications. Examples had to be instances of firms acquiring another established firm in a market, geographical or product wise, that acquiring firm was not already in. Examples could not be a firm acquiring a firm to strengthen position in the market, an investing firm acquiring a firm to add diversity to a portfolio, or a firm acquiring a closed firm's facilities. Once examples were located, publications and company statements about each acquisition were used to find possible drivers for an acquisition. These projected drivers are the criteria used to screen companies to form a target pool that best fit the acquisition needs. Using business information and economic modeling programs combined with deductive reasoning, firms are screened out and the final target pool was formed. The desired result is to have as small of a target pool as possible, including the eventual acquisition target. By having the eventual acquisition target in the target pool, the experiment results point to an accurate recreation of the screening process.

Testing the Acquisition Process with Real World Examples

Impresa Aerospace, LLC designs, manufactures, and supplies precision sheet metal parts, CNC-machined components, and assemblies for commercial jets, regional and business aircraft, military aircraft, and civil/military helicopters. The company's services include sheet metal fabrication, hydroform pressing, brake forming, titanium hot brake forming, precision CNC machining, extrusion, integrated assembly, and metal finishing. Headquartered in Gardena, California, Impresa had facilities in the major aerospace hub Wichita, Kansas. In August of 2015, Impresa acquired Dynamic Solutions and its lowcountry manufacturing facility. Dynamic Solutions was a CNC milling facility located on the right outside of Charleston, South Carolina, in a small town call Goose Creek. Both companies are privately owned companies, so market share and internal information is limited. Limitations aside, from statements made by individuals involved in the acquisition, some aspects of the screening process can be seen. Impresa has a long standing relationship with The Boeing Company, the world's leading aircraft manufacturer, according to Area Development Magazine (2015). This relationship was more than likely the driving factor in Impresa's interest in entering the US East Coast market. In 2009, Boeing decided to produce the new 787 Dreamliner in North Charleston, instead of the reigning leading aerospace of Everett, Washington (McDermott, J., 2009). Having no presence on the east coast, Impresa was at a disadvantage over more local providers that would not have to pay the logistical cost of moving heavy materials halfway across the country or coast to coast depending on the product. Impresa needed to find a more local presence to compete for Boeing's new Tier 1 supplier business. In the acquisition memo on Impresa's website, the title of the memo states that the acquisition is a "Strategic move lands Impresa in the middle of emerging aerospace hub and close proximity to key customers" (2015). Also in the memo, CEO of Impresa Scott Smith states "This acquisition is in line with our strategic objectives of continually investing in our customers

and increased vertical integration. By strategically placing production in close proximity to our OEM and Tier One customers, and enhancing our existing machining capabilities, we move these key objectives forward." From these statements we can see that locating near a growing aerospace hub and the multiple potential customers was a key driver in the geographic criteria of the acquisition. The search was more than likely reduced to firms in regions that were near or directly logistically connected to the North Charleston area. Post-acquisition Impresa plans to hire 72 new high skilled workers to increase production and quality, according to Area Development Magazine (2015). It's also referenced in Impresa's acquisition memo. A facility that could take on increased production and an available local workforce were added criteria to reduce to pool of targets even further. Now that it can be determined from the statements that location to customers/Boeing, available workforce, ability to expand production were the main drivers in Impresa's acquisition of Dynamic Solutions; the basic screening process can be recreated. Impresa's NAICS code is 332322 which stands for sheet metal work manufacturing; while Dynamic Solutions NAICS code was 332710 which stands for metal machine shops. The NAICS codes have beginning 332 (Fabricated Metal Product Manufacturing) in common. Impresa used all firms that NAICS codes that began with 332 to build the initial pool of targets to pursue. Using EMSI, all firms that's NAICS codes begin with 332 can be mapped. According to EMSI, there are 58,543 firms in, the United States, that fit under the 332 code. Again the pool can be reduced to firms under 332 NAICS codes that best relate to Impresa's industry (332313, 332322, 332710) the number of firms reduces to 26,726 firms nationally. Geographically reducing the search area again to just South Carolina, the number of firms drops to 381. This reduction is assuming that Impresa desires to be in state with Boeing and ignoring that Atlanta, GA is a location that would allow trading with Boeing in North Charleston and Airbus in

Mobile, Al. Since Impresa's website does not mention Airbus in any form that potential relationship was not considered. Since it is known that Impresa's main product is sheet metal, it can be assumed that logistics cost will be very high due to the large amount of weight the product has. Knowing this, shipping distance will be important to Impresa and can be used to reduce the number of target further. By only targeting firms that are within a 2-hour drive of the Boeing plant, the target pool has dropped to 149 firms. Table 2 in the appendix shows the concentration of these businesses by county. Since Impresa is possibly planning to expand its acquisition's operations; a large workforce needed to have candidates to be available to hire. Table 3 shows which counties have a 1,000 jobs that are apply to the high skill needs that Impresa will need to hire additional talent. It can be seen that the primary talent bases are focused around Charleston and Columbia. Knowing we can reduce to geographic search to just these two regions, the search area is brought down to the counties of both regions and counties along interstate 26 that connects the regions. This region is comprised of 7 South Carolina counties; Berkeley County, Calhoun County, Charleston County, Dorchester County, Lexington County, Orangeburg County, and Richland County. By only listing firms in these counties, the target list is now down to 76 companies with only one large company that would not be a likely target. Dynamic Solutions is listed as a target option and is one of the points mapped in table 4. Following the screening method developed, we have screened down from a large number of possible targets nationally (58,543) to just 75 targets that can be vetted out by the Impresa acquisition staff. The rest of the acquisition process will be determined by the due diligence efforts of Impresa. The reasoning behind the final decision can be summed up in a quote to Area Development Magazine by Board Chair Anita Zucker of the Charleston Regional Development Alliance: "Impresa Aerospace, a company with a longstanding Boeing relationship, is a valued

addition to the Charleston region's growing aerospace sector. Their lightning fast speed-to-market and confidence in our available pool of highly-skilled labor further elevates our region's profile within the global aerospace community" (2015). To simplify Impresa's projected screening process, table 5 was developed to show the levels of elimination to move to the final target pool.

Bull Moose Industries is a tube steel producer based out of St. Louis, Missouri. Since the 1960's Bull Moose has tube steel to multiple industries including; Agriculture & Farm, Architectural & Construction, Fire Protection, Health & Fitness, Industrial Equipment, Lawn & Garden Equipment, Military and Transportation. Common products that feature tube steel include, fire sprinklers systems, weight lifting equipment, bicycles, and harvester combine plows. One product that most people see every single day that features tube steel is truck trailers. Besides the axels and some other minor parts, a standard trailer of any size is made almost completely of tube steel. Understand that the trailer manufacturing market is a major customer of the tube steel industry, Bull Moose sought to enter this market to acquire these vertically integrate a customer to its tube steel product line. In the overall truck trailer industry, the top 50 suppliers control 85% of the market share, according to a Hoovers.com industry report excerpt. With market conditions not welcoming to new entrants, acquisition was the best way for Bull Moose to enter the market and secure customers for its tube steel production. XL Specialized Trailers is a leading manufacturer of customized heavy-haul trailers for the commercial, construction and agricultural markets, according to Area Development Magazine (2016). These products are not the typical 18-wheeler trailers most are used to seeing; XL produces customized trailers designed to carry heavier loads that are abnormal, such as the massive blades needed for wind turbines. Heavy machinery trailers, bulk agriculture trailers, and extreme load trailers are

some of the products XL Specialized Trailers features. According to the article in Area Development Magazine, XL Specialized Trailers owns the 2nd largest market share in the specialized truck trailer market. In a very competitive and concentration market that market share is very important. The customized trailer industry is designated under NAICS Code 336212, which is the code for all truck trailer manufacturers and retailers. Not having a direct NAICS code for customized truck trailers does make the screening process more difficult, but that can be overcame with additional research. According to EMSI business listing tool, there are 235 firms that are designated under the 336212 NAICS codes. This is the point where Bull Moose would have started their acquisition search to enter the customized trailer manufacturer market. Customized Trailers would be a product that industries outside the typical shipping and logistics industry will demand. After combing through the NAICS code index and taking in consideration the industries XL Specialized Trailers serves, 52 industries were designated as the customer base for the customized trailer industry (Table 6). These industries form a customer base that can be mapped through industry mapping. Table 7 in the appendix shows that the regions that are experiencing the largest amount of growth in the customer base are the US West Coast and the Upper Midwest. Acquisition targets should be reduced to firms that can easily serve one or both of these regions. We can eliminate the US West Coast as a region, due to Bull Moose Tube having no production facilities in the region while there being multiple located in the Midwest (Table 8). This region features a 7% growth rate in the customer base, with 4 states that have grown 10% or more in the customer base as shown in Table 9. In the designated region, there are 47 firms designated under the 336212 NAICS code. After researching the firms, 12 firms can be eliminated from the target pool due to only being retail locations and not manufacturing facilities. The target pool is reduced to 35 firms located around Bull Moose Tube's production

facilities and in growing customer markets. XL Specialized Trailers is included in the final list and is one of the points mapped on Table 10. The projected screening process again works to reduce the target pool to a small group of targets that fit with the desires of the targeting firm and includes the eventual final acquisition target. To simply the process Bull Moose Industries used to screen targets to a final target pool, Table 11 is provided.

Results

In both examples, the study was able to reduce the potential target pool to a small group of targets that fit each targeting firm's needs. The first test removed 99% of firms from the initial target pool and the second test removed 85% of firms from its initial target pool. This displays how analytics can reduce the amount of firms that need to be reached out to when finding an acquisition target.

Limitations

Statements by company representatives provided only insight that could be provided on each acquisition motivation and possible drivers. These tests are done almost completely on third party information without knowledge of the internal situations of the acquiring firms or their potential targets. The experiment could not take into account acquirer and targets relatedness for financial, cultural, and knowledge assets. Access to those types of information could have further reduced the target pool and likely led to the single acquisition target. Since all firms involved were private companies, they did not have to disclose any of that information. Due to the limited access to funds to obtain data, most research was collected through EMSI Inc.'s modeling program that they provided free. The level of research data that can be collected is limited to the

budget. Having access to other pay for data programs, especially Hoovers.com would have greatly improved this study.

Conclusions

In conclusion, a screening process does work to reduce the pool of acquisition targets that fit the needs of the acquiring company. This is great news for consulting companies who want to sell acquisition-consulting services to foreign companies entering new markets. The issue is that there are a number of different factors and motivations drive acquisitions. Factors for acquisition include market conditions, available firm types, relatedness between acquirer and target, and customer and supplier relationships. Since each factor has different value based on the acquisition, there is no standard screening criteria that fits every acquisition. What can be determined from this study is that a screening process for determining the best targets for a market industry acquisition depends on having a clear understand of the targeting firm's desires and investment limitations while understand the target markets conditions to make the best possible pool of targets. Each screening protocol needs to be customized based on those values, and rarely will two acquisition screenings mimic each other. Once the customized screening protocol is in place, the process simply depends on good market research and obtaining the data to eliminate less desirable targets from the pool.

Recommendations

Developing a screening protocol as part of an acquisition consulting service will reduce the amount of man hours needed reaching out to target firms to locate the best fit for the acquisition. After understanding the market to be entered, barriers to that market, the capabilities of the acquiring company, and the goals for the acquisition, criteria for screening can be

determined. Using economic modeling programs combined with business information programs can quickly reduce the target pool, usually with a few hours of research. The most reduced target pool could be sold to the acquiring firm for the firm to reach out to these targets themselves and find their eventual target. The consultant could also offer to act as an intermediary between the acquirer and the targets and help locate the eventual acquisition target on the targeting firm's behalf. Having two product options will allow the services to be more available to more firms. Important resources that should be obtained before starting acquisition consulting services include access to pay for data services such as EMSI or Hoovers.com, relationships with intermediaries that regularly represent firms desiring to be acquired, and relationships with industry associations all over the United States. These tools will be the best ways to get information on firms that could be the best targets for an acquisition or find firms that want to be purchased that could speed up the acquisition process saving man hours needed searching for acquisition targets. In conclusion, the screening process demonstrated in this experiment can make acquisition consulting a viable product to sell as a service to foreign companies desiring to enter a market.

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Appendix

Table 1: Mode of Entry Algorithm

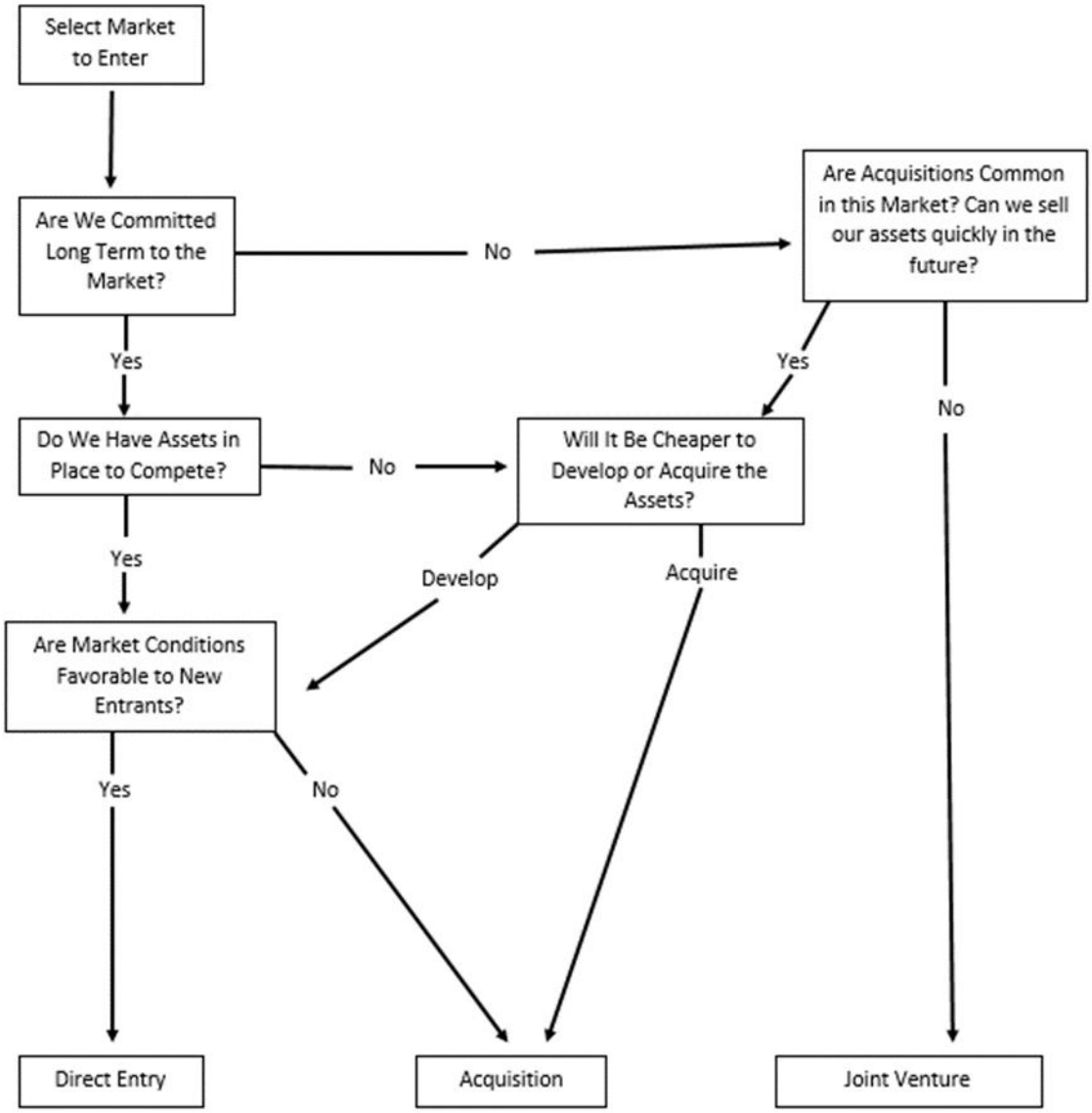
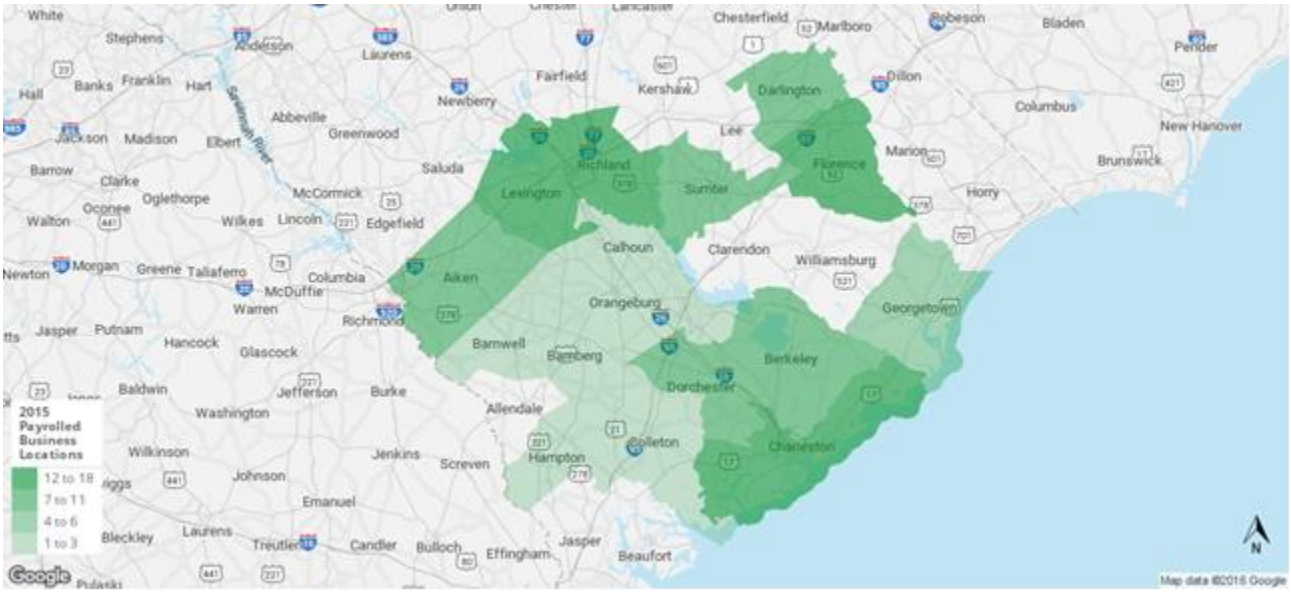


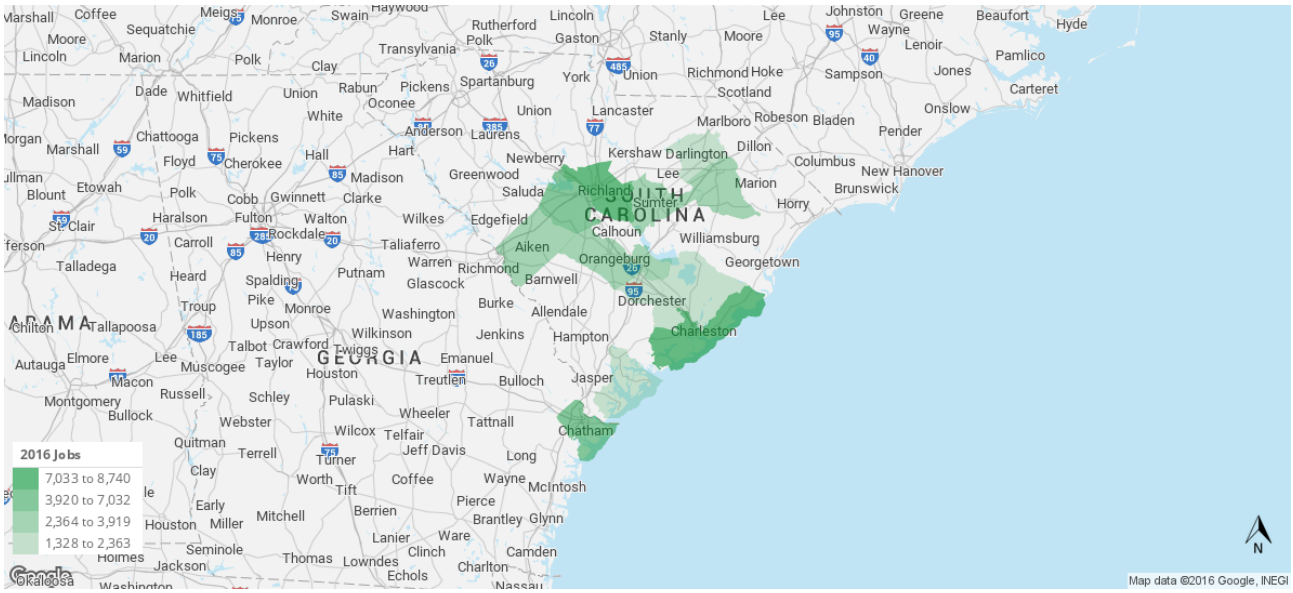
Table 2: Related Industry Concentration by South Carolina Counties within a 2-Hour Drive Time of Boeing North Charleston Plant



Industries Mapped

Code	Description
332313	Plate Work Manufacturing
332322	Sheet Metal Work Manufacturing
332710	Machine Shops

Table 3: South Carolina Counties with workforce over 1,000 in 332 NAICS Code High Skilled Occupations



County	County Name	2016 Jobs	Median Hourly Earnings	Avg. Hourly Earnings
45019	Charleston County, SC	8,740	$29.09	$31.62
45079	Richland County, SC	7,634	$27.03	$29.74
13051	Chatham County, GA	6,007	$29.62	$33.26
45063	Lexington County, SC	5,753	$22.94	$24.90
45003	Aiken County, SC	3,724	$20.26	$22.42
45041	Florence County, SC	2,913	$22.21	$24.37
45085	Sumter County, SC	2,841	$21.48	$22.38
45075	Orangeburg County, SC	2,505	$17.92	$19.05
45015	Berkeley County, SC	2,137	$28.47	$30.73
45035	Dorchester County, SC	2,109	$23.81	$25.36
45031	Darlington County, SC	1,353	$22.44	$24.45
45013	Beaufort County, SC	1,328	$33.26	$38.87
		47,042	$25.41	$27.81

High Skilled Occupations Employed by 332 NAICS Code Firms

Code	Description
11-1021	General and Operations Managers
51-1011	First-Line Supervisors of Production and Operating Workers
51-2041	Structural Metal Fabricators and Fitters
51-2092	Team Assemblers
51-4011	Computer-Controlled Machine Tool Operators, Metal and Plastic
51-4031	Cutting, Punching, and Press Machine Setters, Operators, and Tenders, Metal and Plastic
51-4033	Grinding, Lapping, Polishing, and Buffing Machine Tool Setters, Operators, and Tenders, Metal and Plastic
51-4041	Machinists
51-4121	Welders, Cutters, Solderers, and Brazers
51-9061	Inspectors, Testers, Sorters, Samplers, and Weighers

Table 4: Locations of Final Pool of Potential Targets for Impresa Aerospace's US East Coast Market Entry

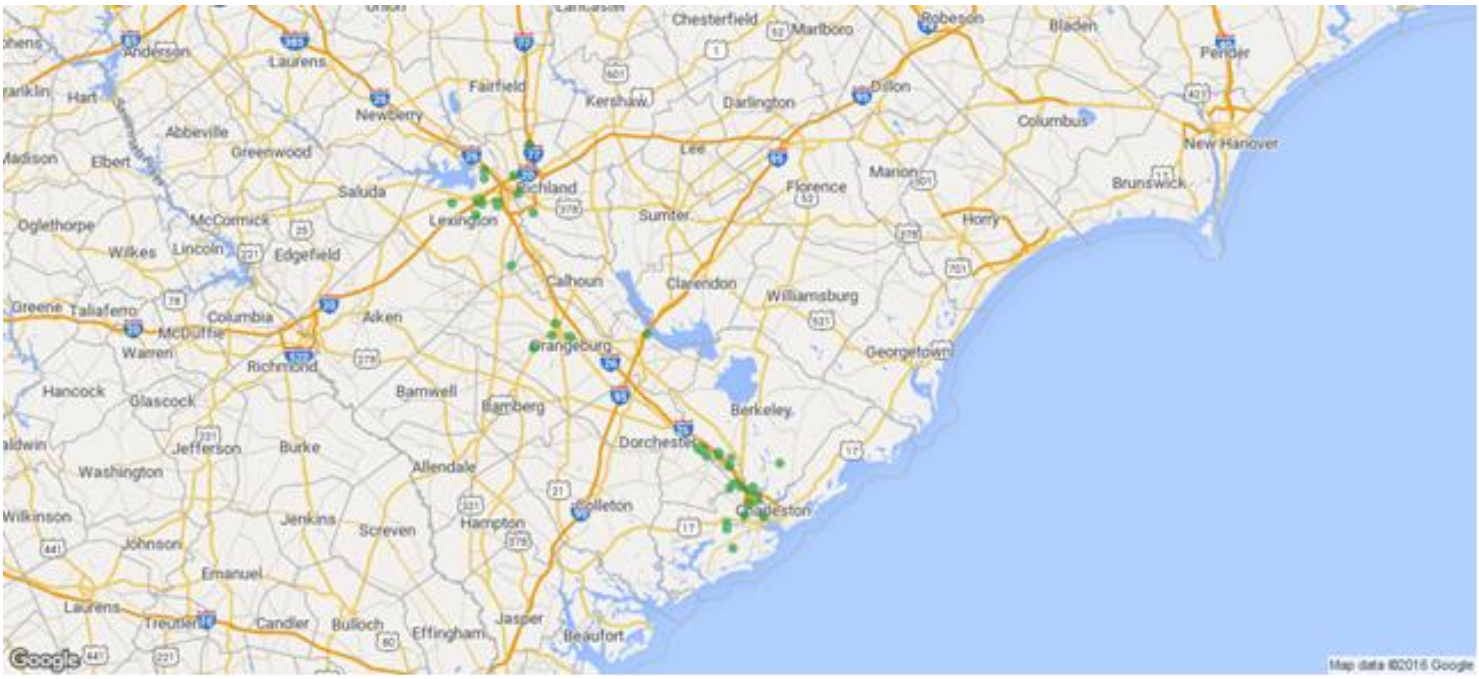


Table 5: Impresa Aerospace's Projected Screening Process to Developing Target Pool for US East Coast Entry

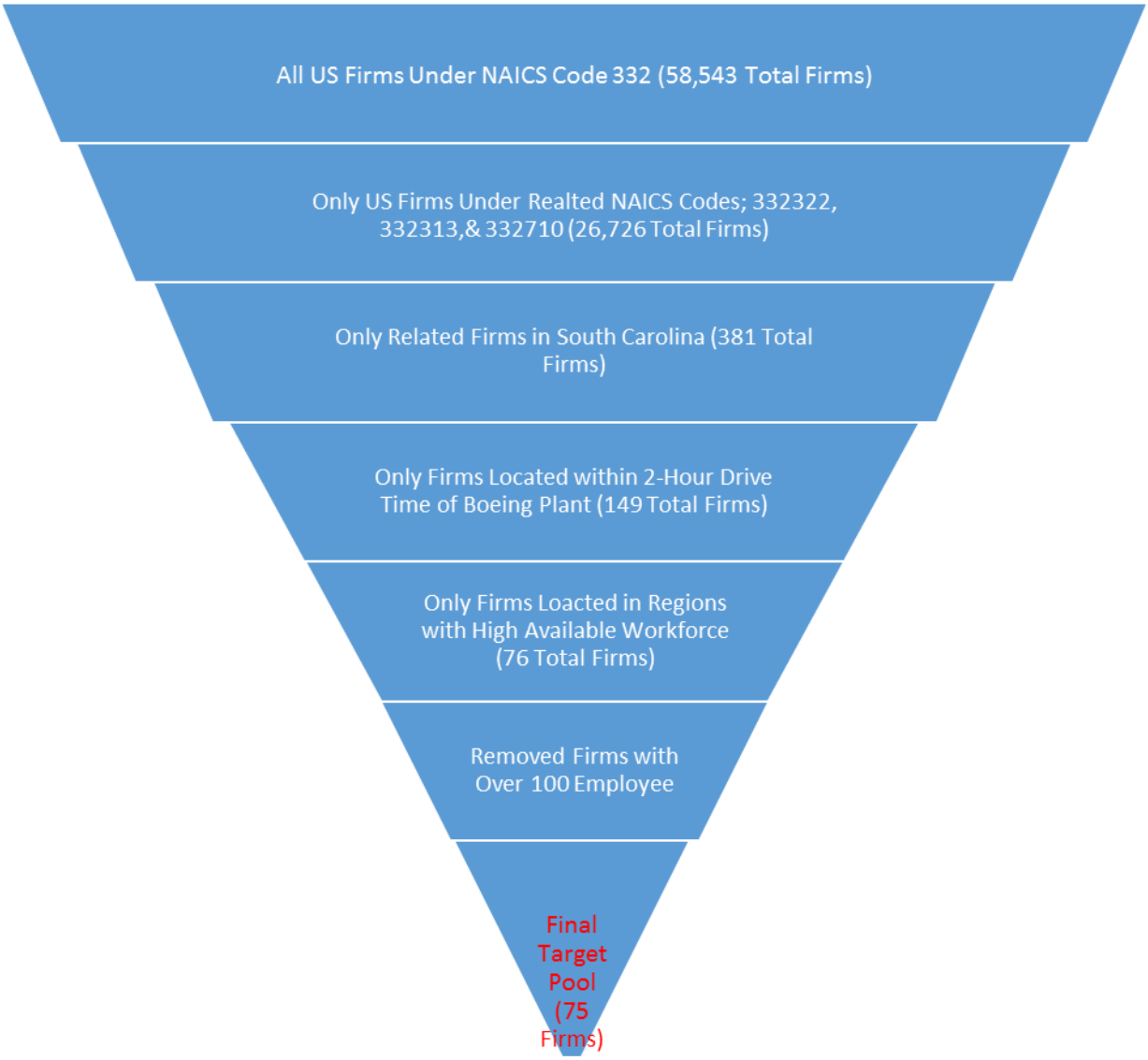


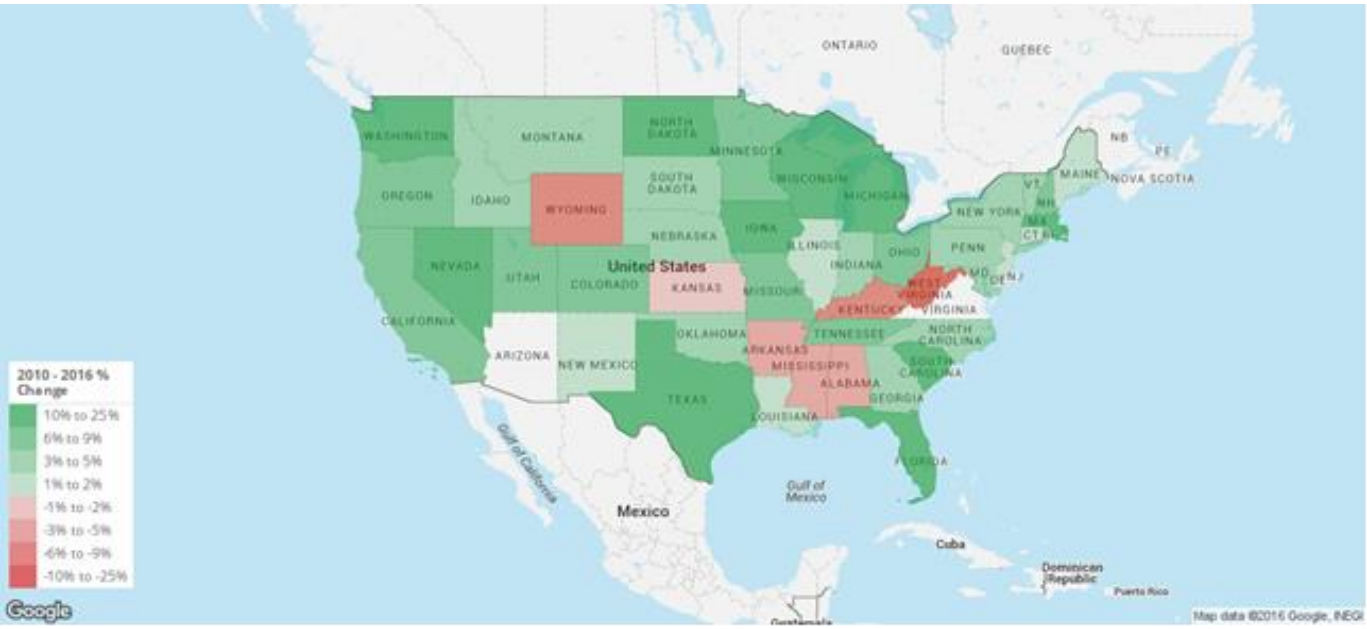
Table 6: Primary Customer Industries to the Customized Trailer Industry

Code	Description
111000	Crop Production
211111	Crude Petroleum and Natural Gas Extraction
211112	Natural Gas Liquid Extraction
212111	Bituminous Coal and Lignite Surface Mining
212112	Bituminous Coal Underground Mining
212113	Anthracite Mining
212210	Iron Ore Mining
212221	Gold Ore Mining
212222	Silver Ore Mining
212231	Lead Ore and Zinc Ore Mining
212234	Copper Ore and Nickel Ore Mining
212291	Uranium-Radium-Vanadium Ore Mining
212299	All Other Metal Ore Mining
212311	Dimension Stone Mining and Quarrying
212312	Crushed and Broken Limestone Mining and Quarrying
212313	Crushed and Broken Granite Mining and Quarrying
212319	Other Crushed and Broken Stone Mining and Quarrying
212321	Construction Sand and Gravel Mining
212322	Industrial Sand Mining
212324	Kaolin and Ball Clay Mining
212325	Clay and Ceramic and Refractory Minerals Mining
212392	Phosphate Rock Mining
212393	Other Chemical and Fertilizer Mineral Mining
212399	All Other Nonmetallic Mineral Mining
213111	Drilling Oil and Gas Wells
213112	Support Activities for Oil and Gas Operations
213113	Support Activities for Coal Mining
213115	Support Activities for Nonmetallic Minerals (except Fuels) Mining

Code	Description
221115	Wind Electric Power Generation
236115	New Single-Family Housing Construction (except For-Sale Builders)
236116	New Multifamily Housing Construction (except For-Sale Builders)
236210	Industrial Building Construction
236220	Commercial and Institutional Building Construction
237110	Water and Sewer Line and Related Structures Construction
237120	Oil and Gas Pipeline and Related Structures Construction
237130	Power and Communication Line and Related Structures Construction
237310	Highway, Street, and Bridge Construction
237990	Other Heavy and Civil Engineering Construction
324110	Petroleum Refineries
325120	Industrial Gas Manufacturing
331110	Iron and Steel Mills and Ferroalloy Manufacturing
333111	Farm Machinery and Equipment Manufacturing
333120	Construction Machinery Manufacturing
333131	Mining Machinery and Equipment Manufacturing
336411	Aircraft Manufacturing
423320	Brick, Stone, and Related Construction Material Merchant Wholesalers
423810	Construction and Mining (except Oil Well) Machinery and Equipment Merchant Wholesalers
425120	Wholesale Trade Agents and Brokers
484110	General Freight Trucking, Local
484121	General Freight Trucking, Long-Distance, Truckload
484122	General Freight Trucking, Long-Distance, Less Than Truckload
484220	Specialized Freight (except Used Goods) Trucking, Local
486210	Pipeline Transportation of Natural Gas
532412	Construction, Mining, and Forestry Machinery and Equipment Rental and Leasing
532490	Other Commercial and Industrial Machinery and Equipment Rental and Leasing

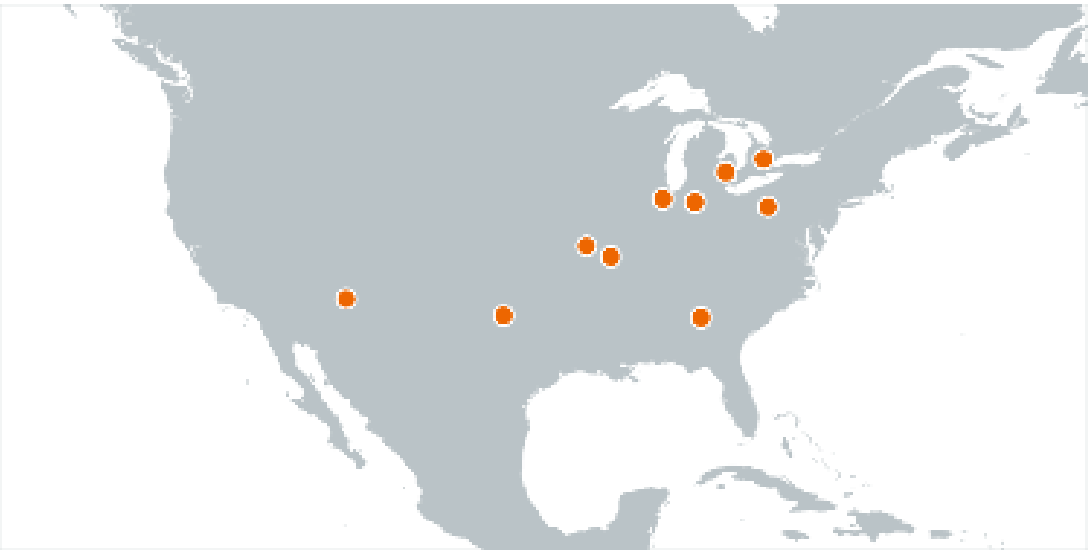
Code	Description
562111	Solid Waste Collection
811310	Commercial and Industrial Machinery and Equipment (except Automotive and Electronic) Repair and Maintenance
901199	Federal Government, Civilian, Excluding Postal Service
901200	Federal Government, Military

Table 7: National Growth in Customized Trailer Industry Customer Base Industry



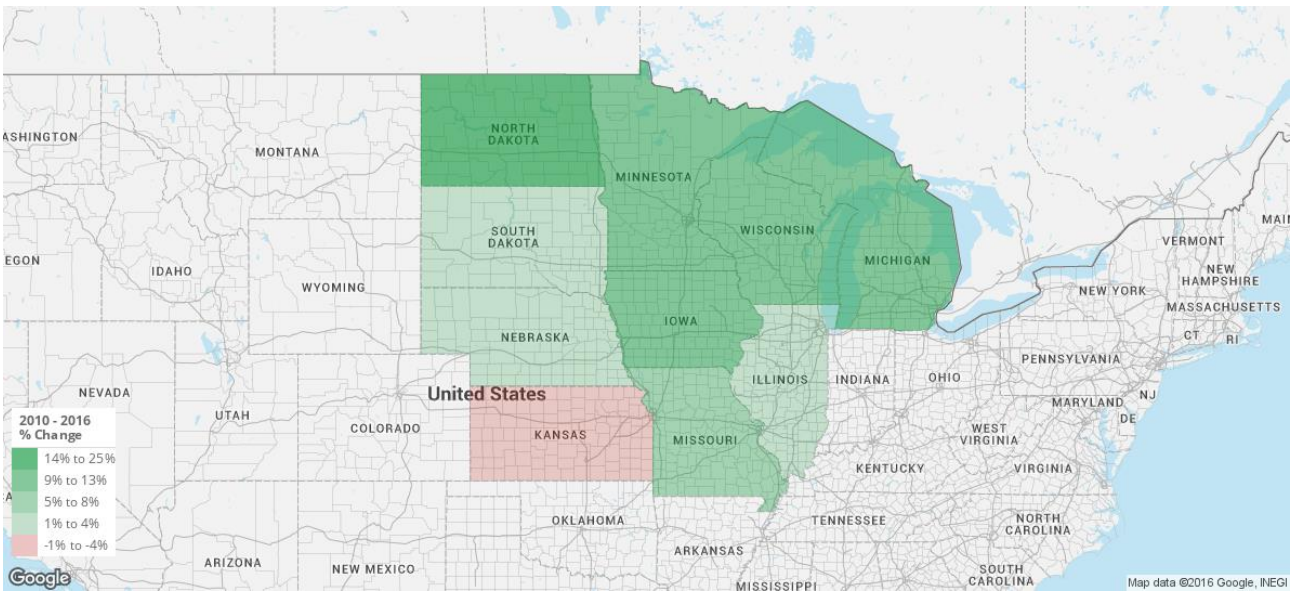
***Notice Growth Regions on the West Coast and the Upper Midwest and Great Lakes Region.**

Table 8: Locations of Bull Moose Tube Production Facilities



Burlington Bull Moose Tube Company 2170 Queensway Drive Burlington, Ontario L7R 3T1 Canada 905-637-8261	Casa Grande Bull Moose Tube Company 1001 North Jefferson Avenue Casa Grande, AZ 85122 520-836-3455	Chicago Heights Bull Moose Tube Company 555 E 16th Street Chicago Heights, IL 60411 708-757-7700
Dallas Bull Moose Tube Company 3201 North Sylvania Ave Fort Worth, Texas 76111 800-325-4467	Elkhart Bull Moose Tube Company 29851 County Road 20 West Elkhart, IN 46517 574-295-8070	Gerald Bull Moose Tube Company 406 E Industrial Drive/Hwy. 50 Gerald, MO 63037 573-764-3315
Livonia d/b/a Bull Moose Engineering 13060 Merriman Road Livonia, MI 48150 734-513-2859	Masury Bull Moose Tube Company 1433 Standard Ave. SE Masury, OH 44438 330-448-4878	St. Louis Corporate Office Bull Moose Tube Company 1819 Clarkson Road Chesterfield, MO 63017 636-537-2600, x284
Trenton Bull Moose Tube Company 195 North Industrial Drive Trenton, GA 30752 706-657-3900		

Table 9: Midwest Customer Base Growth 2010 – 2016



State	State Name	2015 Payrolled Business Locations	2010 Jobs	2016 Jobs	2010 - 2016 Change	2010 - 2016 % Change
38	North Dakota	5,711	67,133	83,908	16,775	25%
19	Iowa	10,481	137,615	154,789	17,174	12%
55	Wisconsin	13,032	161,140	178,076	16,936	11%
26	Michigan	15,845	204,733	224,314	19,581	10%
27	Minnesota	14,047	171,902	187,200	15,298	9%
29	Missouri	16,050	219,481	232,588	13,107	6%
46	South Dakota	3,902	49,211	51,109	1,898	4%
31	Nebraska	6,549	97,357	100,847	3,490	4%
17	Illinois	36,810	364,991	372,152	7,161	2%
20	Kansas	10,639	166,123	164,534	-1,589	-1%
		133,066	1,639,685	1,749,516	109,831	7%

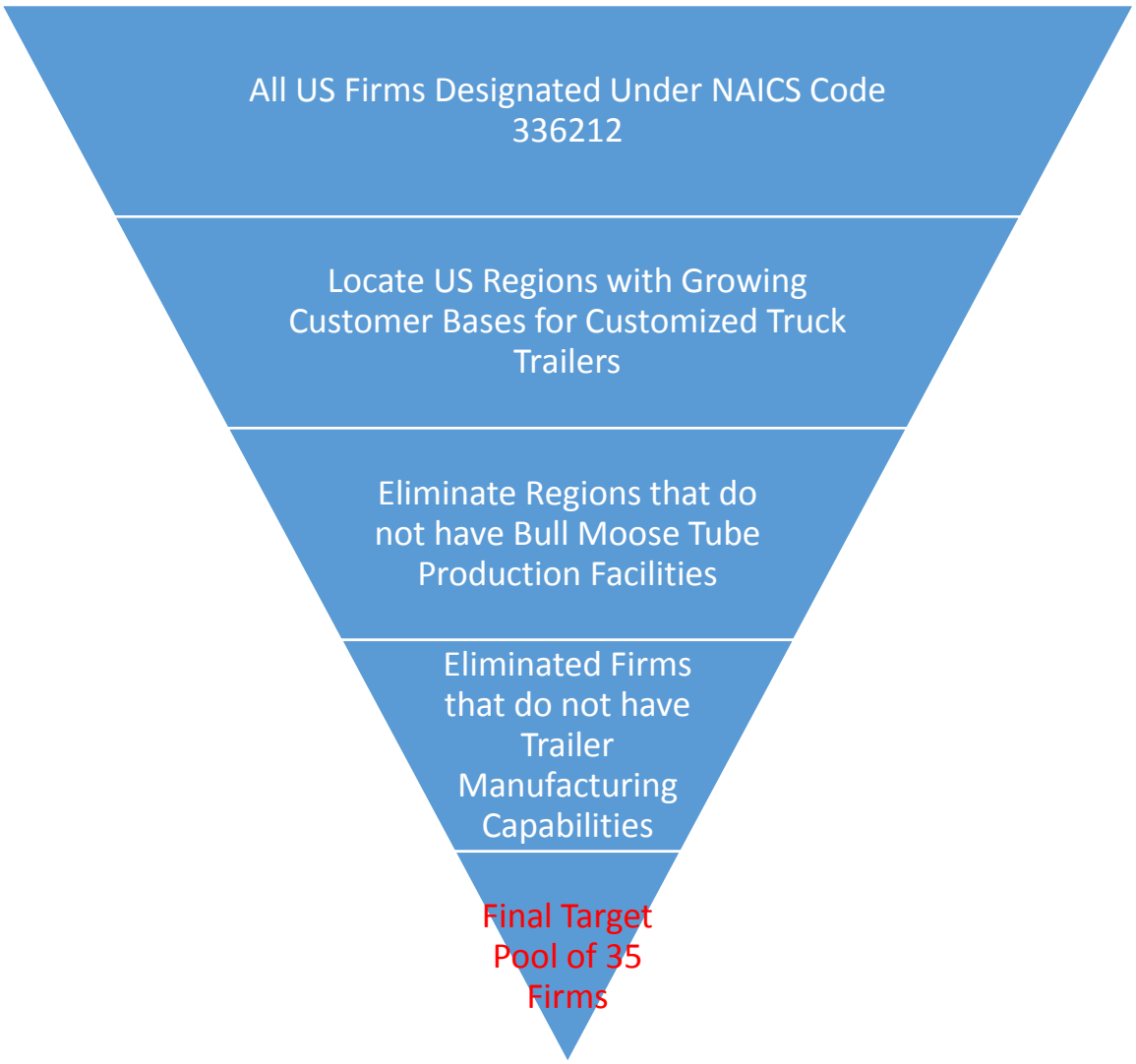
Table 10: Final Target List and Target Map for Bull Moose Industires Acquisition of a Customized Trailer Manufacturer for Vertical Product Information

Business Name	Primary NAICS Code	Industry Name	City, State	Business Size
Stoughton Trailers	336212	Truck Trailer Manufacturing	Evansville, WI	Large (250+)
Wilson Trailer Co	336212	Truck Trailer Manufacturing	Sioux City, IA	Large (250+)
Polar Tank Trailer Llc	336212	Truck Trailer Manufacturing	Holdingford, MN	Large (250+)
Polar Tank Trailer Llc	336212	Truck Trailer Manufacturing	Springfield, MO	Medium (50-249)
Timpte Industries Inc	336212	Truck Trailer Manufacturing	David City, NE	Medium (50-249)
Xl Specialized Trailers Inc	336212	Truck Trailer Manufacturing	Manchester, IA	Medium (50-249)
Doonan Specialized Trailer Llc	336212	Truck Trailer Manufacturing	Great Bend, KS	Medium (50-249)
Carry-on Trailer Inc	336212	Truck Trailer Manufacturing	Missouri Valley, IA	Medium (50-249)

Business Name	Primary NAICS Code	Industry Name	City, State	Business Size
Dakota Trailer Mfg	336212	Truck Trailer Manufacturing	Yankton, SD	Medium (50-249)
Truck Equipment Svc Co	336212	Truck Trailer Manufacturing	Lincoln, NE	Medium (50-249)
Acro Trailer Co	336212	Truck Trailer Manufacturing	Springfield, MO	Medium (50-249)
Hillsboro Industries	336212	Truck Trailer Manufacturing	Hillsboro, KS	Medium (50-249)
Jarco Inc	336212	Truck Trailer Manufacturing	Salem, IL	Medium (50-249)
Smithco	336212	Truck Trailer Manufacturing	Le Mars, IA	Medium (50-249)
Trellies Trailers	336212	Truck Trailer Manufacturing	Corsica, SD	Small (0-49)
Semo Tank/baker Equipment Co	336212	Truck Trailer Manufacturing	Perryville, MO	Small (0-49)
All Points Equipment	336212	Truck Trailer Manufacturing	Dearborn, MI	Small (0-49)
Novi Manufacturing Co	336212	Truck Trailer Manufacturing	Novi, MI	Small (0-49)
Midwest Utility Inc	336212	Truck Trailer Manufacturing	Burr Ridge, IL	Small (0-49)
Fargo Trailer Ctr	336212	Truck Trailer Manufacturing	West Fargo, ND	Small (0-49)
Redi Haul Trailers Inc	336212	Truck Trailer Manufacturing	Fairmont, MN	Small (0-49)
Coose Trailers	336212	Truck Trailer Manufacturing	Lockwood, MO	Small (0-49)
Side Dump Industries	336212	Truck Trailer Manufacturing	South Sioux City, NE	Small (0-49)
Chilton Manufacturing Corp	336212	Truck Trailer Manufacturing	Chilton, WI	Small (0-49)

Business Name	Primary NAICS Code	Industry Name	City, State	Business Size
Banta's Midwest Trailers	336212	Truck Trailer Manufacturing	Atalissa, IA	Small (0-49)
Systems Transportation Equip	336212	Truck Trailer Manufacturing	Bellwood, IL	Small (0-49)
Rupp Manufacturing Co Inc	336212	Truck Trailer Manufacturing	Cherokee, IA	Small (0-49)
American Truck Trailer	336212	Truck Trailer Manufacturing	Council Bluffs, IA	Small (0-49)
Robert Davis & Son	336212	Truck Trailer Manufacturing	Milford, IL	Small (0-49)
Polar Corp	336212	Truck Trailer Manufacturing	Hopkins, MN	Small (0-49)
Farris Manufacturing	336212	Truck Trailer Manufacturing	Goodland, KS	Small (0-49)
Gerdes Fabricating Inc	336212	Truck Trailer Manufacturing	Black River Falls, WI	Small (0-49)
2g Trailer Co	336212	Truck Trailer Manufacturing	Miller, MO	Small (0-49)
Green To Gold Tech Llc	336212	Truck Trailer Manufacturing	Fargo, ND	Small (0-49)
R B Mfg Co	336212	Truck Trailer Manufacturing	Olathe, KS	Small (0-49)
Maverick Custom Paint	336212	Truck Trailer Manufacturing	Murdock, KS	Small (0-49)

Table 11: Bull Moose Industries Screening Process


All US Firms Designated Under NAICS Code 336212
Locate US Regions with Growing Customer Bases for Customized Truck Trailers
Eliminate Regions that do not have Bull Moose Tube Production Facilities
Eliminated Firms that do not have Trailer Manufacturing Capabilities
Final Target Pool of 35 Firms