

Acquisition Support for Market Value Leadership Strategies

ACQUISITION can serve as both a primary and a support strategy for growth. As a primary strategy, acquisition can bring a business with growth potential into a corporation. When acquisition is used as a primary strategy, it is important to know that the acquired business has the technology and marketing capability to be the long-term market value leader of its strategic markets.

As a support strategy, an acquisition can bring missing pieces into a corporation to help augment a developed market value leadership strategy. When acquisition is used as a support strategy, it is still important to know that your business has the technology and marketing capability to be the long-term market value leader of its strategic markets.

For either acquisition strategy, market value leadership is required for success.

Rational Arguments for Success

The best strategies are based on a compilation of rational arguments that prove beyond a reasonable doubt that specific puzzles have been solved and that the business' goals will be achieved with certainty. This is especially true

for an acquisition strategy.

Yes, every puzzle ought to be solved in advance before requesting significant funds. Anything less is a gamble that management shouldn't be asked to take. This type of thorough thinking can be achieved with knowledge blocks and market value models. Knowledge blocks and market models are particularly important for acquisition strategies.

An opportunity is an important puzzle that a team of people have solved by means of,

- Deciding their form of argument,
- Identifying the required knowledge blocks,
- Creating the knowledge blocks that have been identified,
- Proving their argument, and
- Presenting their solution in the form of a proposal.

Acquisitions of missing pieces to support a market value leadership strategy can be this type of opportunity.

Case History

A plastics manufacturer had been attempting to revitalize a specialty polymer business for several years. The business, which had been a star, was losing market share and profitability in a number of markets. The business was still the leader but nothing they did improved their position. The parent corporation continued to

support the business, largely because other businesses had exceeded their plans. This year management asked the specialty polymer business to increase its contribution to earnings because the corporation had experienced downturns in other businesses.

The specialty polymer business team believed that they were losing share because their price was too high. Some said that they didn't even understand why their customers continued to buy their products.

Although the business team believed that their products might be better than competitive products, they were worried that they would continue to lose their position at a time when management expected the business to improve.

They had tried to improve their position through internal development but their product improvements did not produce dividends. Since they had the most experience in the market, they decided to harness their reasoning ability to again become the market value leader. Acquisition was the furthest thing from their mind when they launched their knowledge block effort. **Figure 1** summarizes what they learned about one of their markets.

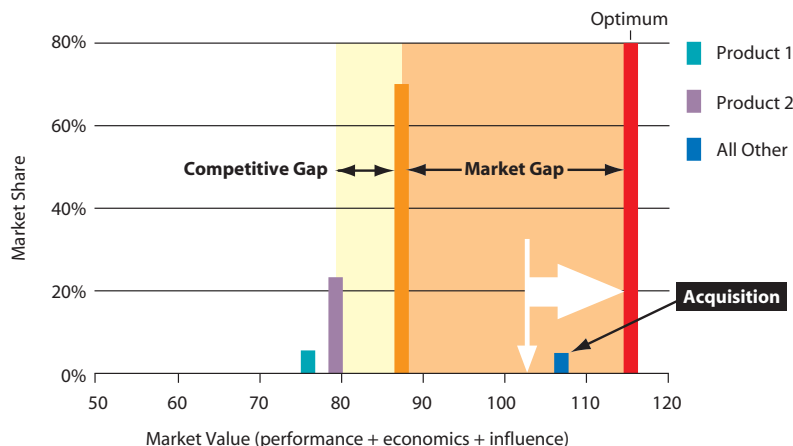
The specialty polymer business is the leader of this 3-player market but its competitive advantage is slipping. However, the market value model surprisingly showed that optimum market value was 20 points higher than their best products. This was both a threat and an opportunity.

It was a threat because their competitors could have forced them out of this market if they discovered the answer to optimum market value.

When they used their market model to evaluate alternative technologies they discovered that a small company that was not serving this market had the missing technology that could enable the specialty polymer business to achieve optimum market value for this market.

They licensed the technology and initiated negotiations to acquire the company. As a direct result of their market model, knowledge blocks and acquisition support strategy, this business is on track to deliver increased earnings just when the increase is most needed by the parent corporation. ■

Figure 1: Market Share



Market Value Portfolio

The next step was to see whether the specialty polymer business could achieve a significant market value advantage in other markets.

Figure 2 below illustrates the market value portfolio analysis that the specialty polymer company was able to do with its market model and knowledge blocks.

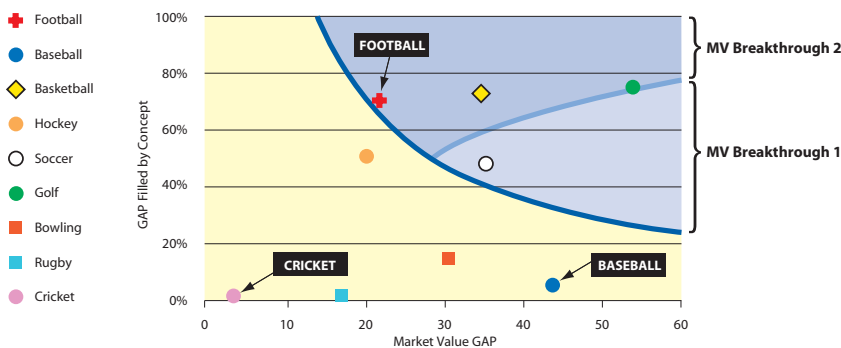
The **yellow area** of this chart is the area where only incremental improvements are feasible. Previously, some of these markets were the focus for new business targets.

The **light blue area** of the chart is an area where a breakthrough is feasible as is the **dark**

blue area. The difference between the two blue areas is that a breakthrough is still feasible in the light blue area; whereas, breakthroughs are no longer feasible in the dark blue area.

The football market, which was previously not an area of focus became a strategic focus. Resources working on the cricket market were reassigned to the football market. The baseball market showed a breakthrough potential but the business' existing technology could not improve its product. However, the technology that the specialty polymer business licensed was all that was needed to revitalize the baseball market. ■

Figure 2: Portfolio



Technical Levers

TechnoMarket Performance (TMP) Value is a knowledge block that links all of a product's properties/features together and correlates them with functional value for a product's use in a specific application. TMP Value is the product. This is what customer's purchase and not the specific widget that embodies the properties.

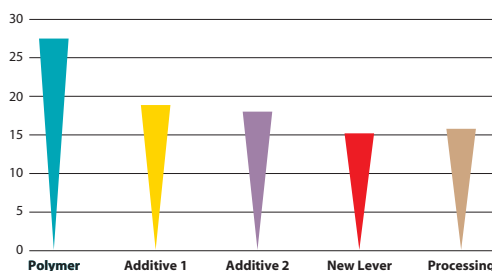
The specialty polymer business team created a TMP Value knowledge block that correlated 77 properties with market needs. The TMP Value knowledge block also contained data that showed how each of the 77 properties could be improved.

The specialty polymer business focused on

the TMP Value gaps that had to be overcome to achieve optimum market value. Then the business used the knowledge block's technical lever feature to identify the technology it needed to overcome the TMP Value gaps.

Technology is analogous to technical levers or controls that can be used to improve properties. **Figure 3** below shows the type of data that the specialty polymer business developed to identify the right technical levers. Similar data was developed for all 77 properties. This is the data that identified the licensing/acquisition target, which the business used to support its market value leadership strategy. ■

Figure 3: Technical Lever Contribution to TMP Value



CONCLUSIONS

1. Tools are available that can enable companies to create new knowledge in the form of tangible knowledge blocks.

2. Knowledge blocks and market models can be used to dramatically increase the probability of success of acquisition support for market value leadership strategies.

3. Knowledge blocks and market models are required to envision future market value.

4. Knowledge blocks and market models are frequently the only way that many complex business, technical or market puzzles can be solved.

5. Knowledge blocks and market models dramatically improve the productivity of individuals and knowledge blocks enhance the worth of experience. ■

breakthroughs

in knowledge management

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