Bidvest Group Limited review

Bidvest Group Limited is based in South Africa as a services, trading, and distribution company. The Group was established in 1988 by Brian Joffe and Mervyn Chipkin. This South African company will gain a new customer base and get more business from the government if it manages to buy pharmaceutical group Adcock Ingram.

Adcock Ingram is a leading South African pharmaceutical manufacturer that manufactures markets and distributes a wide range of healthcare products. The company is a leading supplier to both the private and public sectors. Adcock has 10% of South Africa’s pharmaceutical market share. Although Adcock has recently allocated a 14%share of a tender to provide anti-retroviral to HIV/AIDS patients and that was some relief despite the failure to get on key HIV/AIDS tenders before but it still reflected in company’s weak earnings and Aspen was the best in capitalisation.

Aspen Pharmacare Holdings Limited is a multinational South African pharmaceutical and the largest drug company in Africa. In 2003 after complaints of anticompetitive activates by Boehringer Ingelhim and GlaxoSmithKline, Aspen was granted licenses from companies to create generic versions of antiretroviral (ARV) for use in the portion of Africa. At the time Aspen was already the largest generic medicine distributor in South Africa. The company’s efforts led to expanding access to affordable treatments for HIV/AIDS.

Bidvest initiate a bid valued at R 6.2bn for 60% of Adcock as a result, the market welcomed the bid and Adcock went up by 9.2% to R 61.40 and Bidvest falling. Mr Joffe’s move into pharmaceuticals is not surprising as he knew that Adcock sells various fast-moving consumer goods such as pain killer Panado said the analyst. Mr Joffe showed obvious interest in Adcock Ingram and it’s pharmaceuticals trading’s when he deviated from his main business interests in food and freight distributions, his decision was based on Adcock’s existing distribution networks to move the pharmaceuticals around. Tiger Brands left Adcock when it was in its weakened state in 2008 and Bidvest saw an opportunity that it would do more business with the state when it owned Adcock. Mr Joffe knew that Adcock’s management lacks political connections of Aspen pharmacare and he was fully aware that Bidvest have a strong foothold in selling to the state which is the two biggest invertors, Government Employees Pension Fund and Public Corporation.

Mr Jeffe is a very strategic business man it’s evident in the report presented in the interim results, stating that his focus is on buying companies when they are at low, weakened state and keeping their management intact would not change soon, however Mr. Jeffe could not buy or bid for Aspen because it’s larger than Bidvest by market capitalisation so Adcock was the more feasible buy for him. After all Mr Joffe’s Strategic plans he ended up saying “doing business had become harder since he built Bidvest, because companies, labour and the state had difficulty working together. Perhaps this deal with Adcock is a step to get some players to listen to one another”.

After an organisation has analysed its external and internal environments, facilitated by the network of strategic decision enablers, it needs to develop and formulate its strategies.

(Professor Jan Meyers: Cranefield M4 study guide)

Diversification is the Strategy Used by Bidvest:

Bidvest has entered into a new market and industry in which the business doesn't currently operate, while also creating a new product for that new market. Bidvest has acquired companies with good potential and strong customer base but at a lifecycle stage where these companies are struggling and share prices are near the bottom end of the cycle. Adcock is a prime example, Tiger Brands unbundled Adcock in 2008, taking most of the logistics infrastructure and some of the stronger brands with it. This left Adcock in a weakened state and made it an attractive proposition for Bidvest. To understand why Bidvest saw value in Adcock or rather more specifically in the Pharmaceutical industry, we can look at the macroenvironment from a Bidvest point of view back in 2013.

“The macroenvironment includes political, legal, economic, socio-cultural, technological demographic and ecological forces at the global level and/or within a country. These forces, whether global, or related to a specific country, originate beyond and are usually irrespective of any single organisation’s operating situation.” (Ireland, Hoskisson & Hitt, 2009:34) In terms of a macroenvironment analysis, Bidvest would have focused on two of the forces indicated in Figure 1 above, namely socio-cultural and demographic.

In Bidvest’s strategy the bid for Adcock Ingram could be called “Growth strategy - which has a mixed nature of both friendly and hostile approach”.

“Growth strategies are viable when opportunities exist and the organisation is in a position to exploit them and growth strategies can be divided into organic growth such as market penetration, and market development, product development and innovation. Organic growth strategies focus on growth in the internal environment of the organisation. The first option for an organic growth strategy is concentrated growth or market penetration” (Professor Jan Meyers: Cranefield M4 study guide) As succinctly put (by Dr Lew: Ivey case study: “Adcock Ingram: Decisions and Motives that Steer Acquisitions”) “Making use of the power of partnership with the Community Investment Holding, Bidvest then stepped in with an intention to buy a 34.5% stake in Adcock for cash. With this they offered support for BEE and local ownership and launched legal action against CFR, and shortly after the PIC raised their own share in Adcock from 18.9% to 22.3%. As the PIC seemingly valued South African ownership and cash in this case and Bidvest values acquisitive growth, the fact that the CFR subsequently raised their offer with about a US$1.23 billion did very little to sway the outcome of events. Bidvest took hold of more than 30% of Adcock to put CFR out of the game… ”

While Bidvest put up a friendly face to rally stakeholders in favour of their course to acquire into Adcock, they also used hostility in the form of legal battles to wrestle with their competitors. Yes - Bidvest was successful in their endeavours to acquire into Adcock Ingram – as they finally bought over 30% stake in the company.

Companies merge or acquire other companies because:

Adhock may not be a typically Bidvest company however Mr Joffe may have seen the opportunity that exists with Mr Louw being president of the Pharmaceutical Industry Association.

Some of the factors & enablers of successful growth associated with mergers & acquisitions transactions. “According to Rob Renaud’s article for Investopedia”

Synergy: The most used word in M&A is synergy, which is the idea that by combining business activities, performance will increase and costs will decrease. Essentially, a business will attempt to merge with another business that has complementary strengths and weaknesses.

Diversification / Sharpening Business Focus: These two conflicting goals have been used to describe thousands of M&A transactions. A company that merges to diversify may acquire another company in a seemingly unrelated industry in order to reduce the impact of a particular industry's performance on its profitability. Companies seeking to sharpen focus often merge with companies that have deeper market penetration in a key area of operations.

Growth and Market Share: Mergers can give the acquiring company an opportunity to grow market share without having to really earn it by doing the work themselves - instead, they buy a competitor's business for a price. Usually, these are called horizontal mergers. For example, a beer company may choose to buy out a smaller competing brewery, enabling the smaller company to make more beer and sell more to its brand-loyal customers.

Increase Supply-Chain Pricing Power: By buying out one of its suppliers or one of the distributors, a business can eliminate a level of costs. If a company buys out one of its suppliers, it is able to save on the margins that the supplier was previously adding to its costs; this is known as a vertical merger. If a company buys out a distributor, it may be able to ship its products at a lower cost.

Eliminate Competition: Many M&A deals allow the acquirer to eliminate future competition and gain a larger market share in its product's market. The downside of this is that a large premium is usually required to convince the target company's shareholders to accept the offer. It is not uncommon for the acquiring company's shareholders to sell their shares and push the price lower in response to the company paying too much for the target company.

Strategic Priorities: They explore how an acquirer must identify specific opportunities created by the deal, develop strategies to capture them, and set financial targets and accountability for growth. The remaining priorities address tactical- the steps required to achieve the deal goals and realise the potential of the acquisition based on the strategic priorities. The timing of the activities around these priorities varies by the acquirer, but successful acquirers generally focuses on these activities before the deal announcement, deploying “clean terms” as required to accelerate planning using completely sensitive data (see figure 4). They then develop clear short-and long-term plans around the initiatives that were most critical to driving growth and had the discipline to see these through to completion. Although unexpected Mr Joffe and the Snr team must have completed strategy definition and associated planning prior to the announcement and draw on some of the lessons learnt in some of the past acquisitions including some of the failed ones namely that of Brandcorp.

Reasons of some mergers and acquisitions fail:

The following are some of the reasons why mergers and acquisition fail (According to Shobhit Seth’s article for Investopedia.) Limited or no involvement from the owners: Appointing M&A

advisors at high costs for various services is almost mandatory for any mid to large size deal. But leaving everything to them just because they get a high fee is a clear sign leading to failure. Advisors usually have a limited role, till the deal is done. Following that, the new entity is the onus of the owner. Owners should be involved right from the start and rather drive and structure the deal on their own, letting advisors take the assistance role. Among others, the inherent benefit will be tremendous knowledge-gaining experience for the owner, which will be a lifelong benefit.

Theoretical valuation vs. the practical proposition of future benefits: The numbers and assets that look good on paper may not be the real winning factors once the deal is through. The failed case of Bank of America's acquisition of Countrywide is a typical example.

Lack of clarity and execution of the integration process: A major challenge for any M&A deal is the post-merger integration. A careful appraisal can help to identified key employees, crucial projects and products, sensitive processes and matters, impacting bottlenecks, etc. Using these identified critical areas, efficient processes for clear integration should be designed, aided by consulting, automation or even outsourcing options being fully explored.

Cultural integration issues: The Daimler Chrysler case is a study of the challenges inherent in cultural and integration issues. This factor is also quite evident in global M&A deals, and a proper strategy should be devised either to go for hard-decision forceful integration setting aside cultural differences, or allowing the regional/local businesses run their respective units, with clear targets and strategy on profit making.

Required capacity potential vs. current bandwidth: The deals with purpose of expansion require an assessment of current firm's capacity to integrate and build upon the larger business. Are your existing firm's resources already fully or over utilized, leaving no bandwidth for the future to make the deal a success? Have you allocated dedicated resources (including yourself) to fill in the necessary gaps, as per the need? Have you accounted for time, effort and money needed for unknown challenges which may be identified in the future?

Actual cost of a difficult integration & high cost of recovery: The Daimler Chrysler case also ran up high costs toward the expected integration attempts, which could not sail through. Keeping bandwidth and resources ready with correct strategies which can surpass the potential costs and challenges of integration could have helped. Investments today in a difficult integration spread over the next few years may be difficult to recover in the long run.

Negotiations errors: Cases of overpaying for an acquisition (with high advisory fee) are also rampant in executing M&A deals, leading to financial losses and hence failures. External factors and changes to the business environment: The Bank of America/Countrywide failure was also due to the overall financial sector collapsing, with mortgage companies being the worst hit. External factors may not be fully controllable, and the best approach in such situations is to look forward and cut further losses, which may include completely shutting down the business or taking similar hard decisions.

Assessment of alternatives: Instead of buying to expand with an aim to surpass competitors, is it worth considering being a sale target and exit with better returns to start something new? It helps to consider extreme options which may prove more profitable, instead of holding onto the traditional thoughts.

The reasons some mergers and acquisitions fail is because there is no clear objective of the merger/acquisition. The role players do not undertake the SWOT that would be involved in order to make informed decisions on the pros and cons of such a decision. The advantages need to outweigh the disadvantages of the merger to ensure that it is a success. There must be buy-in from both sides including on the stakeholders involved internally and externally. This implies that analysis of both environments should take place. It is also beneficial to benchmark with organisations that have done such through research and engagements with those corporations. Also, insufficiently detailed implementation plans and failure to identify key interdependencies between the many work-streams could bring the project to a halt, or require costly rework, may extend the integration timelines and cause much frustration.

Other reasons of failure:

- Flawed intentions
- Misgauging Strategic fit
- Getting the deal structure or pricing wrong
- Not focusing enough on customers and sales (vs. Cost Synergies)

Executive Summary:

An organisation’s strategic direction (Louw & Venter, 2013 :) informs and shapes how it defines itself and where it finds its unique strategic advantage. It requires organisations to ask themselves, ‘What is our fundamental purpose? In the case of Bidvest whose main business is in food and freight distribution the organization through its leader MR Joffe has seen the need to grow the business with a clear strategic intent. Strategic intent (Smith, 1994:68) envisions a desired leadership position and establishes the criterion the organization will use to chart its progress. Bidvets strategic intent is engraved in the leadership of Mr Joffe whose main interest is cantered on the cooperate social responsibility, which focuses on buying companies that are at low ebb and keeping their management intact, Mr Joffe is also interested in seeing bidvest get more business from the government and he will be the player to harmonise the relations between companies, labour and the state since these relations had made it difficult to do business. The merge with Adcock, which currently earns 13% of its revenue from doing business with hospitals, would work to bidvest advantage as it will aim to do more business with state hospitals. The decision to merge with Adcock was based on market research and with competitive intelligence revealing that Adcock had been weakened when tiger brands unbundled it, bidvest saw the opportunity to distribute as they already had a transport infrastructure to supermarkets and with 40% of Adcock revenue coming from over the counter drugs

Strategic decision makers rely on information to enable them to make strategic decisions. The information comes from examining and scanning the external environment which is then termed competitive intelligence and information from collecting data from within the organization termed business intelligence. Bidvest had competitive intelligence working for them as the company leader Mr Joffe was fully aware of the fact that business was difficult in the environment they were operating because companies, labour and state had difficulties working together. Adcock being the second pharmaceutical producer and Bidvest targeting to do more business with state hospitals Bidvest aimed to bridge the difference amongst the three parties and with the knowledge that Aspen Pharmacare had political connections and by virtue of bidvest having

30% of its shares owned by the state biggest investors they knew they could face the competition paused by Aspen Pharmacare. Primary information of the merge was gathered through the views of analyst opinions and when the bid was done the overall share value of the two companies increased. Bidvest also had knowledgeable fact that Adcock distribution infrastructure had been crippled and their business intelligence revealed their strength in freight and distribution. Competitive intelligence and Business intelligence assisted immensely in the decision to merge with Adcock.

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