

# HALL MARKS

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## Bowltech Rewrites the Script

**IT WAS A SURPRISE IN THE** U.S. when the Bowltech Group recently announced its intention to acquire QubicaAMF Worldwide. First, it is unusual for a distributor to acquire a major manufacturer. You would normally expect the reverse to be the case. Additionally, Bowltech, a European company, is not well known in the U.S.

One other surprising factor had to be the timing of the potential acquisition. Most of the financial news from Europe over the past year has been very negative, with interest rates on the national debt of Greece, Spain and Italy reaching very high levels. Everyone has been nervous about Europe's economy and stability. Additionally, the U.S. has not been impervious to these global economic factors.

So a bid from a European distributor to acquire QubicaAMF was very unexpected on those levels as well.

So far, representatives from both companies have shed little light on this question, other than to deny the acquisition was being "fast tracked" because one of the firms was in need of an infusion of cash.

Hans Krol, Bowltech founder, is a very smart businessman, so the acquisition might well be part of his strategic plan to grow his business.

To date, Bowltech's business activity has been mostly limited to Europe. Headquartered in Made, Netherlands, it has distribution centers in

Germany, Denmark, Sweden, Great Britain, France and Spain, and is the leading supplier of bowling products in Europe. It has built its business by offering a "one-stop shopping" mix of capital equipment, aftermarket supplies and consumer products.

So it appears that what Bowltech is attempting to do is to "vertically integrate" its business. When a firm owns its upstream suppliers and downstream buyers, it is known as a vertically integrated enterprise. This can have a major impact on a firm's position in its

upstream profit margins; 2. improve supply chain coordination; 3. provide more opportunities to differentiate because of increased control over inputs; 4. make the barriers to entry more difficult for potential new competition; 5. respond faster to service needs; 6. introduce new capital to bowling; and 7. become a global company.

The acquisition would afford Bowltech the opportunity to create economies of scale and reduce prices, improve its profit margins, or a combination of both. Should this acquisition get completed, it

acquisitions often depends on the new owner's skill in motivating management, as well as understanding the unique characteristics of the acquired business. Bowltech gets great marks on both points. It knows the existing QubicaAMF management team very well. On top of that, Krol already has announced that John Walker would serve as CEO of the combined company, with Pat Ciniello serving as President of the new company's U.S. subsidiary. These appointments should help the acquisition to be successful and gracefully maneuver through any transition.

This is likely to be the forerunner of other acquisitions to come as companies seek to find ways to create economies of scale in order to deal with markets that are

### **IF THERE IS ONE THING THAT MIGHT SUM UP THE REASON BEHIND BOWLTECH'S ATTEMPTED ACQUISITION OF QUBICAAMF, IT IS "VERTICAL INTEGRATION."**

industry when it comes to cost, differentiating itself, and other strategic issues.

In this case, should it acquire one of its major suppliers, Bowltech would achieve "backward integration." It also would give Bowltech the potential to: 1. capture

may have a profound impact on the industry, because if Bowltech is to maximize the acquisition's potential, it must grow not only its own business in Europe, but also QubicaAMF's business in the U.S. and elsewhere.

The success of most

suffering because of weak national economies and low gross domestic product.

It may be labelled as a "backward" integration of manufacturer into distributor, but Bowltech's intended acquisition of Qubica-AMF is very forward-looking, indeed.