

# Pushing your

**It is over 12 months since the credit crunch officially began. 9 August 2007 will go down in history as the day when simmering trouble in America's mortgage market spilt over into a full-blown global crisis, forcing the European Central Bank to inject billions of euros into money markets, and investment banks to review their exposure to US sub-prime mortgages. It's been a traumatic 12 months with more surprises than a magician's hat. Looking forward from the start of the new millennium, who would have thought that within a decade there would have been a run on a UK bank with thousands of savers queuing to withdraw their money, or that one of the world's most respected investment banks would file Chapter 11, or that the most laissez-faire of US administrations would effectively nationalise the country's two largest mortgage suppliers with a financial package running into \$trillions, and consider nationalising the whole banking system?**

As the credit crunch leads to an inevitable global downturn, corporate leaders have a choice - to pull in their horns and ride out the storm, or to look for opportunities that will help them grow and create future value for shareholders. If the past is anything to go by, more will follow the first course - which could be a mistake. Some, however, will embrace the opportunity and look to invest, albeit cautiously and only into areas they understand.

But what if the best opportunities are in areas just outside the comfort zone - new technology, new systems, new processes - or are just packaged slightly differently because new technology is being deployed? In a tough climate, these can still look too risky as it is not entirely clear what nasties are lurking in the shadows.

## **Driving sound investment decisions through technical due diligence**

In order to maximise deal value and capture the opportunities presented by a downturn of the economy coupled with volatile markets, sound investments should be driven by a thorough and comprehensive technical due diligence.

A technical analysis of a target company's internal and external operations provides investors with the detailed findings needed to understand and evaluate the risks that could affect the profitability of the prospect's business. Companies that manufacture and distribute consumer products present a unique set of challenges to investors because issues like product safety, inefficient production techniques or inadequate sourcing arrangements can substantially reduce the chances of a successful investment. To develop an accurate risk profile, investors need advice on product evaluation, product development, factory auditing, and industry regulations. Investors need technical due diligence.

## **Product assessment**

For a product to succeed in today's global markets, it must provide the quality, safety, and performance the user expects and, at the same time, satisfy stringent regulatory requirements and industry standards across many countries. Most companies' management, R&D and operations are too close to their own products to evaluate them objectively. For example, a target company may think it has a superior product, but does their product actually deliver? Is it safe, durable, and well made? Does it do what the company says it can do? Is it really "better than other products on the market"? Does it meet all regulatory requirements?

An independent product evaluation by technical due diligence consultants will provide investors with reliable, validated information that can help them gauge the product's market potential. By reverse engineering, the consultants' product-experienced practitioners and engineers can determine how quickly the target product might become technologically obsolete, how proprietary it is, how easy it would be to copy, how the product compares to the competition, and if alternative raw materials or components could be used to lower the product's production costs without sacrificing quality.

# comfort zone

## **Regulatory environment**

In the regulatory arena, product evaluations can uncover compliance issues that may prevent a product from being sold in another location. Once problems are identified, the assessment can provide accurate information to ensure the product is saleable in another market or country. Use of international factories for production and assembly can improve time to market and reduce costs, but only if the facilities perform at sufficient levels of quality and speed. With potential profits at stake, investors need to know that the products being manufactured will be safe and reliable and that production schedules will be met.

## **Supply chain & manufacturing**

Supply chain decisions - from the choice of raw materials to the transport of finished goods - can have serious consequences for earnings. Detailed risk assessments of supply chain operations to identify critical business interruption risks should be part of the overall assessment, as should an evaluation of the political and regulatory environment surrounding the manufacturing plants and inventory locations. Are these countries prone to political instability or government interference in business? Is their infrastructure sound? What authorisations are required and have the factories secured them? Do local building codes and zoning laws impose restrictions that may be difficult for factories to meet?

A review of the company's sourcing and routing arrangements can be conducted to determine whether raw materials used in manufacturing are highly specialised or available as a commodity all over the world. If the materials are sourced from a single supplier or location, what will happen if they suddenly become unavailable? How sound are the company's strategic contingency plans for moving to new manufacturing facilities and transportation modes?

So, some of the fastest growing companies have viewed the current downturn as a time to increase their leads and make acquisitions. They embrace the opportunities it creates with alacrity and minimise the risk by ensuring they gain a thorough understanding of the technical or breakthrough areas that are outside their comfort zone by commissioning due diligence insight from technical experts. A downturn in the economy could present opportunities for those who know which questions to ask.

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