

Proactive Acquisition Strategy For Leading Steel Container Manufacturer: Analyzing Market Niches For Potential Add-On Acquisitions

The Challenge: ContainerCo, a \$400M manufacturer of large commercial steel containers and related products, had an acquisition-driven growth strategy (spearheaded by its private equity investors and the CEO) targeting similar companies in its industry. Historically the company had acquired steel container companies to enhance its domestic distribution network; now ContainerCo wanted to investigate the investment potential of three complementary plastic product niches: small residential containers, large commercial containers, and commercial container lids. Gotham was brought in to rapidly determine whether these market niches would be good investment choices and which players would make attractive acquisition targets.

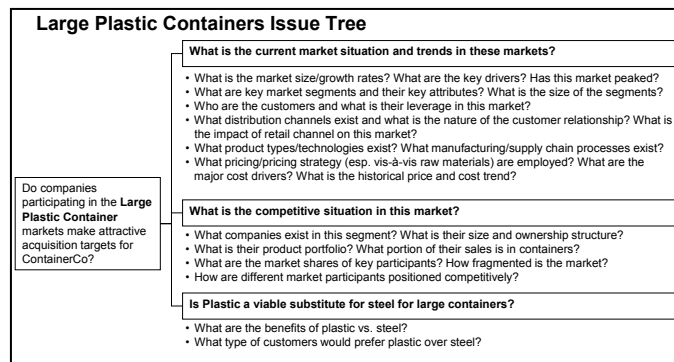
The Partnership:

Market Assessment Criteria: To ensure that the 3-week study was well targeted, Gotham first worked with the PE professionals and the company management team to better understand the company, the investment criteria, and agree on the focal areas of the study. In addition to ContainerCo's need to understand the current market and projected growth, and garner detailed information on the market players, Gotham identified specific issues that pertained to each market niche:

- For small residential plastic containers, an assessment of two competing manufacturing technologies was also critical.
- For commercial plastic containers, the viability of plastic versus steel was a key issue.
- For plastic commercial container lids, a key question was whether ContainerCo should acquire a manufacturer or continue its practice of sourcing lids from third parties.

Research And Modeling: We structured the market and player assessment around key issues for each market niche: the market situation, competitive dynamics, and product-specific questions.

We undertook a focused approach to collecting information and developing a robust picture of these market niches. Once establishing available sources and the scope of readily available information, we rapidly mined key data sources (e.g., industry publications and associations, newspapers and publications, third-party research resources, confidential industry data supplied by ContainerCo) and gained a top-level understanding of market dynamics; key market drivers; technology trends; and relative advantages, customer base, and key players. We supplemented our research with interviews of key industry participants, including customers, manufacturers, and experts.



After conducting thorough primary and secondary research, key information gaps still remained due to the small size of these niches and, hence, limited discussion in industry press about key market participants who were typically small independent players or small divisions of large companies. To overcome these gaps, we developed analytical models that triangulated from the available but incomplete data and leveraged our understanding of key market drivers to estimate market size, penetration, growth rates, market shares, etc. For example, to quantify the penetration of small residential plastic containers, we built a model that triangulated the estimated addressable housing units by region (based on publicly available housing data) and the installed base of specialized machinery that is used to handle these containers. To create a profitability picture of the market in light of soaring raw material costs, we leveraged our manufacturing knowledge, cost benchmarks from our operational work, and available company information. Thus, by being creative and drawing on our own knowledge, we were able to create a reasonable picture of the three market niches.

Input To Acquisition Strategy: Our next step was to evaluate the three market niche profiles against ContainerCo's business and acquisition criteria. Based on this assessment, we concluded that:

- The small residential plastic container market was an established market with an attractive growth rate and offered ContainerCo an opportunity to expand into a new market segment and leverage its existing customer relationships. Our evaluation of the players indicated that the largest (25% market share) made an attractive acquisition candidate as it was the only pure-play in this niche and had a good market reputation and installed base.
- The large commercial plastic container market was an early-stage market and raised intriguing possibilities for ContainerCo to develop it through its customer relationships and market-leading position in steel containers.
- The plastic lid market was very fragmented with many regionally-focused manufacturers, with acquisition of a player not appearing to offer any significant strategic benefits beyond allowing ContainerCo to lower its outsourcing costs.

The Results: Based on Gotham's recommendation, ContainerCo opened negotiations with the strongest player in the small residential plastic containers market. Due to the fragmented nature of the plastic commercial container lids markets, ContainerCo decided to use alliances to achieve growth. For commercial plastic containers, ContainerCo decided to take the "wait and see" approach to this early-stage market, and, then, based on how the product performs, make a determination whether or not to pursue an acquisition.