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Negotiating for success in Asia: adapting to a multipolar world

Stephen Grainger and Per Hintze wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In March 2018, Adi Widjaja, a software professional and entrepreneur operating out of Southeast Asia, received a phone call from an old friend and former business partner, George Maurice. Maurice and Widjaja had worked together in 2006 and 2012 on information technology (IT) projects in the region and had enjoyed a successful working relationship. Maurice had recently accepted a new position with a North American software company, SuperSoft Inc. (SuperSoft), and his call to Widjaja was to enquire about the possibility of collaborating in the acquisition of one or more established software companies in Indonesia.

Widjaja had spent more than 14 years working in IT in Asia Pacific and had experienced significant success with software projects in the region. Maurice’s call prompted Widjaja’s attention and sparked his interest. Widjaja had contacts in the Indonesian software industry and knew some companies that might be up for sale. As a seasoned professional, he knew Indonesia was among the largest and fastest-growing economies in the world and had noted the increasing interest from IT companies from the West and from China in establishing and consolidating their position there; this was clear from the interest shown in the Belt and Road Initiative. He also knew that operating successfully in this market required patience, flexibility, cultural sensitivity, and investing time in developing one’s business relationships.

Maurice had more than 20 years’ experience in IT projects throughout the world. He knew the Western IT industry well and had been headhunted by SuperSoft to target Asia for new acquisitions. He enjoyed working with Widjaja and knew he was knowledgeable. His employer, SuperSoft, specialized in acquiring and running mature software companies that focused on specific segments of the industry. Maurice described SuperSoft as a company that specialized in highly vertical IT structures and issues. Its software portfolio included glass manufacturers, financial aid processing software for higher education, utility software, and billing software for hospitals.

Maurice had not communicated with Widjaja for more than two years, and after reconnecting they sent each other the following five emails between February 28 and April 3, in their attempt to create a business opportunity.

Email 1: From Maurice to Widjaja

On January 8, 2018, Maurice wrote:

Dear Adi,

Hope you are well and it is good reconnecting with you after almost two years. I’ve recently joined a software group named SuperSoft. It’s a listed software company on the NYSE [New York Stock Exchange] and is basically comprised of 400 vertically focused software companies. The company’s footprint in Asia is still limited and we are trying to explore ways for us to expand by way of acquisitions. As we have enjoyed some success working together in the past, I wanted to contact you and discuss SuperSoft’s strategic direction with the aim that we may be able to help each other out again. To give you a broad idea of what we are targeting for acquisition, here is what we are looking for:

1. Vertically Managed Software Companies

Our primary target is the acquisition of companies in Asia that focus on highly specialized vertical issues. We never go for horizontal software. To give you a broader picture, we currently cover software for glass manufacturers, financial aid processing software for higher education, construction software, utility software, and billing software for hospitals and others. In some cases, a strong focus on a local market (e.g., Indonesian ERP[[1]](#footnote-1)) also works for us.

1. Mission-Critical Software

Mission-critical software refers to software that is critical for running the business. Examples include booking systems for airlines, accounting systems for banks, and software to generate invoices to customers (e.g., for billing, payment processing, and accounting). Broadly speaking, in these monetary transaction situations, if the software is down, the business comes to a standstill.

1. US$15 Million+

For new markets, such as Southeast Asia, we would look for reasonably sized companies, with up to US$15 million[[2]](#footnote-2) minimum in revenue, but ideally larger. Companies in the range of US$50 million are also fine.

SuperSoft prefers to acquire mature software companies. This means that they have an established market position and there is no need to spend money on marketing or R&D [research and development]. Our strategy is to target mature software companies that are able to generate considerable free cash flow that can be used for additional acquisitions.

Let me know if you'd like to discuss this further on the phone. Hope all is well otherwise!

George

Email 2: From Widjaja to Maurice

On January 17, 2018, Widjajawrote the following email:

Hello George,

Referring to your email regarding the acquisition of software companies in Indonesia on behalf of SuperSoft in Canada, your direction sounds interesting and I may be able to help. I’m interested and have identified several IT companies that may match your acquisition criteria.

First, I think there is some background I must provide you to set the context. As you may know, when you make an investment in Indonesia it is important that you follow all local laws. In addition to national laws, we are likely to have to consult the regional Banjar, who are generally a group of respected, elected people more at the regional or district level. We will need their approval to be successful in this environment where personal relationships are important. As a result, we will need to be sensitive in how we approach respective owners and their senior staff. As this is a cross-border investment, relevant government institutions will also need to give their approval.

To provide SuperSoft with quality end-to-end services when entering this market, I would best advise that we look for a partnership with an experienced and reputable law firm in Indonesia to successfully enhance this process. We’ve drawn this conclusion over many years and one company with these skills who we have worked successfully with on previous occasions is Sukarno and Partners. On previous projects, they have successfully provided us with a wide range of services, including matchmaking, representation, and helping us contact the company decision makers and the insiders we need to deal with.

We believe the most effective way forward is to work with the Sukarno and Partners network where we can do a comprehensive search for potential acquisition candidates. They will be able to provide advice on how to get the best structure for your investment and draft legal documents and contracts that are in alignment with current Indonesian law.

Before we can introduce any prospective companies to you, we need to think through the steps of the process. Once we decide which target companies to approach, then it would be best to request Sukarno and Partners assist us by using their business networks to contact the respective owner and advise them that we have instructions and a mandate from SuperSoft to engage with them.

So, we believe the best starting point of this project is for us to draft an agreement with you at SuperSoft to appoint Sukarno and Partners as our exclusive consultant to assist us in getting access to the Indonesian market. Naturally, if we choose to go down this path, we will also need to define the terms and conditions of the agreement and relevant compensation.

Let me know if the above proposal makes sense to you. If you agree, we can work with Sukarno and Partners to submit a proposal to you, which then can be the basis to structure an agreement between SuperSoft and Sukarno and Partners.

Kind regards,

Adi

Email 3: From Maurice to Widjaja

On January 21, 2018, Maurice wrote the following email:

Hi Adi,

Thank you for the initiative. Typically, we would go into a legal process much further down the line. We need to first see if the companies we talk to fulfill our criteria, define the various opportunities, and see if we can come to an agreeable valuation base for the businesses with the prospective target companies. Going into an agreement with a law firm would be very much putting the horse before the cart.

We have a lot of acquisitions that have been made in some very remote and emerging markets. In some cases, we’ve involved local lawyers, whilst in others we haven’t, but we need to determine the necessity for that once we know what qualified negotiations we will have.

Let me know your thoughts.

Thanks.

George

Email 4: From Widjaja to Maurice

On January 27, 2018, Widjaja wrote the following email:

Hi George,

Before we start with the acquisition process, I feel that there are a few things that you need to know about doing business in Indonesia compared with in the US.

Speaking as a local in Indonesia, I’ve found government agencies here are usually very weak in their research data and there is usually very little quality statistics or information collected about companies or markets. Furthermore, the validity of the information that is available in any such reports may be questionable or hasn’t been updated for [a] considerable [length of] time.

In this environment, to get the quality and authenticity of the research data and information required, we can’t limit ourselves to a desktop study. To be able to analyse companies and markets we will need to verify the information by doing fieldwork.

The strategy of successful domestic IT companies here is to keep a low profile. As an example, most private Indonesian companies do not advertise their location, don’t have web pages or publish information regarding owners, turnover, or customers. This makes accessing quality data about them difficult.

The only way of acquiring this information is via the owner. Furthermore, contacting the owner, especially if you are an outsider, can be quite difficult, making this process even more challenging. To be able to approach any owner, we would need introductions from insiders in his network, usually his “circle of power” or one or more of his trusted advisors.

Once the initial target company selections have been completed and we have some reliable quality information, then we will be able to proceed with the valuation. Accessing quality information and genuine research data here is difficult. We will also need to check in the market place that what the owner is telling us is true.

We need to listen to the local trusted experts who have access to quality information or we run the risk of the investment not being successful. It can be a potential minefield for false or misrepresented data.[[3]](#footnote-3)

Sukarno and Partners try to take a broad approach to research collection, in a similar way to big accounting firms, who do not limit their services to audit. We believe they also focus on uncovering quality data and conducting qualitative research.

I believe Sukarno and Partners can help to contact the owners as they have the experience, resources, relationships, reputation, and contacts we will need. If you check their website, you will see that they are not only lawyers but also merger and acquisition advisors. We have a good working relationship with them and have briefly discussed the possibility of them helping on this project. Although we are at an early stage, they have unofficially agreed to include myself and several other experts in their research team to insure integrity.

In conclusion, we are confident we know some companies that could fit your criteria. However, before we start the work with collecting data and confirming its validity, we need to draft an agreement with you regarding the terms and conditions of the project.

If you think this is a reasonable way of progressing your ambition to invest in Indonesia, we can send you a proposal describing how we would address this project and the scope of our services.

Regards,

Adi

Email 5: From Maurice to Widjaja

On February 3, 2018, Maurice wrote:

Hi Adi,

If we find a reasonably well-qualified prospect and if discussions are moving to the level that we need to get legal counsel, we should then include Sukarno and Partners. But I wouldn’t do it at this stage. We believe this would bring too much formality for too vague of an opportunity.

I understand that it may cause concern for you and that the environment may require your suggested approach; however, there are just too many other options that mean we would take a pass on your suggestions in this case. The reason is due to our experience in other markets where we are working with global sell-side merger and acquisitions agents and advisers that don’t require upfront fees or guarantees. Happy to work on a more opportunistic basis, case by case, if you like, should you come across any company you think may be a fit.

Hope all is well otherwise.

George

Further Background to The Case

In terms of acquisitions, SuperSoft targeted IT companies that were mature and had an established customer base. The companies targeted were well established and did not require large investments in marketing or product development. In this market, barriers to entry for new competitors were high, which allowed established companies to set high prices for support and maintenance. Their strategy was to generate good cash flow, which could then be used for acquiring additional companies.

To facilitate this acquisition strategy, Supersoft was organized into four divisions that evaluated and acquired potential new companies in the group. Maurice was an executive in one of the divisions, and he was hoping to work with Widjaja to find ways to expand in Asia by way of acquisitions.

When Widjaja received the initial inquiry, he had passed it on to his network of partners and friends in Indonesia. He received a positive reply from Sukarno and Partners, a business law firm that was active in Jakarta. Sukarno and Partners knew some software companies in central Java that were dominating the local market in traffic systems (i.e., Global Positioning System tracking systems for controlling buses in public transport). He also identified an additional service provider that provided legal advice and drew up agreements consistent with Indonesian law.

Widjaja knew that the challenge in a developing country such as Indonesia was a lack of quality public data regarding key performance indicators such as company turnover, costs, prices, and suppliers. In addition, he knew the established Indonesia IT companies knew who their customers were, so they did not need to advertise or market themselves, which made them even more difficult to find.

Widjaja knew the legal system in Indonesia was uncertain and that the implementation of the rule of law was sometimes flexible. For example, if an investor had the right connections and could provide the right level of financial support, just about anything could be done. In this environment, the most important currency was personal relationships and the associated trust. It was a different business environment from the one Maurice was used to operating under in North America.

Widjaja realized the key to success was having a long-term approach and developing a consistent and trusting relationship with members of the government, the head of the company, and any other members of the owner’s family that may be involved. These companies often had more than one generation involved in their management and ownership. He knew that in Indonesia it could be difficult to even find the location of a company’s offices, let alone the decision maker; sometimes, the only way to access reliable company data was to contact the owner of the company directly. To approach the owner, he knew he would need a mandate or letter of appointment from the principal, which in this situation was SuperSoft.

Widjaja knew that SuperSoft’s standard operating procedure (SOP) was to attempt to identify potential acquisition candidates by searching the Internet. Then, once the company had a short list of companies, SuperSoft would contact the owners directly and negotiate to determine whether the two companies had a fit in terms of their business culture and positioning. As SuperSoft implemented these searches on a regular basis, the company knew what criteria it was looking for.

Widjaja and Sukarno and Partners knew that for a global company to contact the decision maker directly would not work in an Indonesian business environment. The company owner would not talk directly with any potential takeover buyer, as the parties first needed to establish trust.

In this environment, Widjaja believed an effective method was to start by contacting a son or confidant who was part of the owner’s “circle of power”—i.e., someone the owner already knew and trusted. This contact person would have the potential to provide the introduction and act as the link between Sukarno and Partners and the owner.

The fundamental difference between the two business cultures was that in Western culture, the legal agreement between the two parties defined the terms of the deal, whereas in Indonesia the personal relationship and level of trust were critical. When no trust existed between the parties, the legal agreement had little or no value.

The challenge was how to best establish the relationship between the parties. The first step was usually to have a written mandate signed by the buyer to show the owner that the inquiry was genuine. When no such mandate was available, the process could not begin.

Widjaja sent several emails to Maurice and asked for an appointment letter that he could use for such introductions. Unfortunately, Maurice refused to change SuperSoft’s SOP by providing the appointment letter. A cultural disconnect seemed to be at play between Maurice and Widjaja. Why did the plan fail? Was it a missed opportunity? Could it be salvaged? If so, how?

Nearly three months passed before Widjaja received the sixth email, below.

Email 6: From Maurice to Widjaja

On April 17, 2018, Maurice wrote the following email:

Hi Adi,

At a recent meeting with our leadership team we decided we should take a closer look at Indonesia.

Can I call you next week to discuss what you think would be the best strategy to follow?

Regards,

George

Widjaja replied to confirm the call for the following Tuesday. How should Maurice change his approach to this meeting and his second attempt to do business?

1. ERP referred to enterprise resource planning software, which was usually sold as a perpetual licence that was stored on the user’s server. If it was standard software (e.g., enterprise resource planning, or ERP, or customer relationship management, or CRM), the competition was usually tough, and as a result, the selling price was low. To avoid price competition, SuperSoft focused on specific segments of the market. In addition to incurring the cost of the licence, the customer also had the option of paying an annual fee for upgrade and support. The more mission-critical the software was, the higher the likelihood that the customer would choose to use the company’s support services. SuperSoft’s strategy of focusing on narrow vertical markets enabled it to dominate the segment and be the price leader, both in terms of the licence price and the support fee. The more segmented the software was, the easier it was to sell and achieve a premium price. If the software was also mission-critical, the user was obliged to use SuperSoft’s support services. [↑](#footnote-ref-1)
2. All currency amounts are in US dollars unless otherwise indicated. [↑](#footnote-ref-2)
3. For other examples of corruption, see Simon Butt, “‘Unlawfulness’ and Corruption under Indonesian Law,” *Bulletin of Indonesian Economic Studies* 45, no. 2 (2009): 179–198. [↑](#footnote-ref-3)