IESE Business School
University of Navarra

ASN-29-E
Rev. 9/2006

Presscut (A)

José Luis: "What do you think of Acceso's offer to buy Presscut?"

Fernando: "It seems very good to me. It's about time the shareholders received some kind of remuneration. We'll have to ask them what they think."

José Luis: "They've already been asked and they've all given their approval – all of them, even Javier, who said that this time we've obviously done our homework, not like a couple of years ago when we had that other offer before there was any commitment from a real promoter or entrepreneur. So, what should we do? Sell up or carry on our own? The tax cost of selling now would be just 18% for all the shareholders. And we wouldn't have to worry about the whole copyright thing any more. Heaven knows how that's going to be sorted out..."

This was the exchange that took place between José Luis and Fernando, Presscut's general manager, towards the end of July 2001, not long after Acceso Group, Presscut's biggest competitor, had made an offer for the acquisition of Presscut, in which José Luis held a 60% stake.

Company Background

Presscut Service, S.A. was a clipping company that monitored press and television coverage of topics of interest to its clients. If a company, an institution or an individual needed to know what was being published in the media on a particular subject, Presscut would monitor that subject in more than 350 Spanish and international newspapers and magazines, and also on the 40 main television channels in Spain. If a news item that could be of interest to a

This case was prepared by Fernando Vázquez-Dodero, MBA 1998, under the supervision of Professor Marc Badia as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. October 2002. Revised in September 2006.

Last edited: 7/26/12
0-303-004

client was spotted – one that matched any of the topics listed in the client's profile – it was cut out, copied, stored in a folder and sent to the client. In the case of television clips, clients were first asked whether the news item was of any interest to them before it was "cut out."

Set up in October 1996 as a joint-stock company, Presscut Service started out by purchasing several client portfolios from existing, underperforming clipping agencies. The idea was to combine these portfolios, bring the small teams of workers together, organize and streamline production and administrative processes and, most important of all, make the company profitable. The press-clipping industry in Spain, which in 1995 had a turnover of no more than 5 million euros, comprised no fewer than 20 companies. The biggest had a turnover of around 1.5 million euros; the second biggest, about 1 million euros; and the third, 500,000 euros. These three operated more or less nationwide, although they tended to focus on Madrid and Barcelona. The other players were smaller: only two locally based companies had a turnover of around 500,000 euros. They tended to be family businesses, often with their roots in journalism (see **Exhibit 1**).

In 1998, the French company Sofres bought Documentación y Análisis (D+A), the market leader in Spain, and integrated it into its other communication-related activities. In 1998 Presscut had become number two in the industry, following the purchase of a portfolio called Media Reports; this acquisition had brought Presscut's turnover to almost 1.6 million euros. It was closely followed by Acceso, which was growing fast. Acceso focused mainly on television coverage and was strong technologically in this area. The fact that Presscut specialized in the printed media and had national coverage, with offices in Barcelona, Madrid and Vitoria, suggested that some form of collaboration or even merger with Acceso would be in both companies' interest. The idea of becoming the leader in a six-million-euro market, with a market share of at least 40%, had to be tempting for any other foreign company thinking of entering the Spanish market in what promised to be a period of economic growth. In the prevailing atmosphere of economic euphoria, Spain was starting to become an investment hotspot, and being able to offer a company for sale in such conditions seemed an excellent opportunity. According to the newspapers, in its acquisition of D+A, Sofres had paid almost twice its sales value.

Contacts with Acceso in 1997

The contacts with Acceso in spring 1997 were promising at first. Acceso was run by its owners, two young businessmen who were keenly dedicated to their company. They were forward-looking and technology-savvy, had good academic and business training and claimed to have been making money since the 1992 Olympics. Clearly, they had plenty of experience.

The first meeting, held over lunch, was attended by Ramón, Presscut's general manager, original founder, and then majority shareholder; José Luis, the chairman of Presscut's board of directors, a professor at a management school and Ramón's mentor in his dealings with the group of businessmen and friends who had decided to back him; and Javier, a member of Presscut's board and owner-manager of a successful construction and maintenance company. Representing Acceso were its highly qualified owners, Jordi and Daniel, and a member of

Acceso's board who was also a professor at a prestigious business school. The lunch lasted for a couple of hours, during which one of Acceso's owners persisted in singing his company's praises while attacking Ramón, Presscut's general manager, for the poor quality of Presscut's services and the frequent mistakes it made in the services it provided to Acceso (Acceso accounted for 10% of Presscut's total turnover at the time). He also dictated conditions for starting negotiations that amounted to outright surrender by Presscut. Acceso's independent board member had to step in to calm things down while the other Acceso owner said practically nothing the whole time. Following this encounter, Ramón voiced his excitement at the thought of running the biggest company in Spain in its field.

And it was true. Following the acquisition of Media Reports, a merger with Acceso would result in a company with a consolidated turnover of more than 2.3 million euros, almost one-third more than D+A, and with a market share of around 40%. Meanwhile, Javier and José Luis, who had 20 years' more experience than Ramón, merely muttered to one another, "Those two will soon be at each other's throats!" and "I bet they'll expect us to pay through the nose for the privilege of having them take Presscut off our hands!" But Ramón didn't seem to want to know; he carried on the business relationship with Acceso as before and brought the subject up regularly, though neither Javier nor José Luis paid much attention. Ramón's constant insistence was beginning to make José Luis feel uncomfortable.

1998

1998 was an extremely tough year for Presscut's shareholders, especially José Luis and Javier. Ramón, who José Luis had decided to trust, was not at all open about the company's affairs: the information he supplied was slanted and the prices he quoted were barely sufficient to cover direct costs, although they did generally cover variable costs. Also, certain other of his management practices fell well short of what the new shareholders, who by then had been with the company for almost two years, would have wished.

On February 12, José Luis discovered that the staff had not received their January paycheck. Surprised and somewhat offended that Ramón had not said anything to Javier or himself about this during any of their weekly meetings, José Luis confronted him about it. Ramón almost shouted, "Well, they should be thankful – before you arrived, they never got paid before the 15th." With Javier present, José Luis told Ramón that this must never happen again. He also said that it was unacceptable for the directors representing the new shareholders to be kept in the dark, payments to suppliers to be held back, the company to sell below cost, and overtime to be paid under the counter. These and other practices, he insisted, were unworthy of a good business leader, who should always respect the shareholders and everyone else involved in the company's activities. Ramón merely shrugged him off and carried on as before.

By March the situation had become intolerable and the weekly meetings of the executive committee were an ordeal for all three of them. Accordingly, José Luis decided to call a meeting of the board of directors, giving Ramón notice of his intention to demand a full explanation of his conduct and seek the opinions of the other shareholders and board members before things got any worse. At the meeting, Ramón defended himself by attacking