"Growing through Acquisition"

It has been proven in past economic downturns that companies that invest heavily in the right kinds of marketing and strategic planning are the ones that will capitalize the most on the situation and likely thrive when the market turns around. While a good marketing strategy will enable you to grow your business organically by increasing your market share, another way to accomplish this, and accelerate the growth curve, is to acquire the market share, products, services and employees of existing businesses. Now this is easier said than done, but right now everything is on sale at, sometimes, drastically reduced prices. While there are bargains to be had, the trick is making the right purchases that will benefit the long term success of the Company.

It is easier to talk about acquiring a company than actually doing it, which is why the majority of acquisitions are deemed unsuccessful, especially in the public markets. However, the ratio of successful vs. unsuccessful deals isn't down to buyers simply being unlucky but because they most likely executed at least one of the following common mistakes:

- Overestimation of the synergies that will come from the acquisition
- Underestimation of the time needed to integrate the combined operations
- Failure to appropriately plan for and manage the post-acquisition integration
- Overpaying for the business
- Overleveraging debt and working capital
- Lack of understanding of the business being purchased

Personal financial gains conflicting with suitable risk/reward analysis

While the overall economy has certainly had a hand in derailing, in some cases, good deals, the majority of failed transactions are a function of poor planning and bad execution.

Therefore, when considering an acquisition strategy, it is important to ensure that the associated risks are mitigated as much as possible by creating and following a comprehensive acquisition plan, which should include the following:

- Understand the business you are in and where you are headed
- Perform a detailed SWOT (Strengths, Weaknesses, Opportunities & Threats) analysis of your existing business
- Create a strategic plan, taking into account the SWOT analysis, to get from where you are today to where you want to be
- Involve all critical functions of the business and create an integration team (Sales, Operations, Production, Logistics, etc.)
- Define the ideal acquisition target (which will almost certainly not exist!)

"Growth through Acquisition" Continued

- Research potential targets and rate them using metrics created in the strategic plan
- Be very selective and patient throughout the acquisition process
- Undertake thorough due diligence and involve the integration team at all stages of the deal
- Understand your financial capabilities and required return on investment and stay within these limits

Following a comprehensive acquisition plan will certainly increase your chances of success. However, while detailed planning is critical, why would you want to grow through acquisition and take on additional risk in a time of uncertainty? Here are a few reasons:

- It's a buyer's market! Values are depressed, largely due to the contraction of the credit markets and stagnant or declining financial performance.
- Companies are being stress tested in a very bad market, so it is clearer to get an understanding of the likely 'worst-case' performance going forward. In addition, staffing cuts and efficiencies may already have been initiated.
- Excess capacity that you might have can be put to good use fully integrating an acquisition.
- Synergies created by the acquisition could increase the value of the combined operation by more than the sum of its parts.
- If you planned on selling in the next few years but just saw the value of your business drop significantly, this could be a way to quickly make back some of that lost value to ensure your original exit strategy stays on course.
- Potential targets that are not interested at first will almost certainly remember you when they eventually decide (or are forced) to sell, which could put you in a very strong position.
- Actively searching for acquisition targets will almost certainly guarantee a higher level of post-acquisition success than acting on deals that are presented to you by third parties.

In summary, growing through acquisition can drastically accelerate a business' growth plan, and right now there are bargains to be had, but the process needs to be well planned and executed to greatly enhance the outcome.

If you would like to discuss any of the information included above or have other specific questions please contact Austin Buckett at abuckett@biggskofford.com.