

# The Business Monthly

THE BUSINESS NEWSPAPER OF COLUMBIA, ELLICOTT CITY, LAUREL & BWI DISTRICT

## Grow Your Company By Acquisition

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Every company, big or small, that wants to remain viable and healthy constantly seeks to grow. In fact, a company seldom stands still for very long; it either grows or declines. Successful owners of small and

midsize businesses devote sufficient time to the critical planning process, and then implementation of those plans, to generate growth for their companies.

Business owners have various options available and need to develop plans that identify the best direction for their company's growth. Some of the options available include:

- Expand in their existing markets by increasing their share of existing business and getting a share of new business growth.
- Expand into new product and service lines that are compatible with existing lines
- Expand into new geographic markets
- Expand into unrelated business products and services

All of the methods of growth require planning, time and resources that include people, inventory, equipment and money. Typically,

the fastest and least expensive method of growth is to acquire a company already doing business in your target market; the probability of success is greater and the time needed to accomplish your goal is compressed.

### **Why Acquisition?**

Expanding through strategic acquisition has been a method frequently used by large closely held and publicly held companies. For many of the same reasons large companies buy existing businesses, small to midsize companies can often benefit from this practice. These reasons include:

### **Synergism With Your Existing Business**

Sales increase due to the combined marketing efforts. Profits can often increase through cost reduction as a result of reducing overhead as a percent of sales, greater purchasing power, combined operations and/or systems, and additional skilled employees.

### **Penetrate New Geographic Markets**

The acquisition of existing businesses in new geographic markets enables small to midsize companies to expand immediately into new markets by leapfrogging the normal two to five years for startup operations.

Additionally, it is usually cheaper to acquire a company already doing business in a target market than to attempt market diversification from your current local market. Another key benefit is that you avoid increasing the number of competitors.

**Diversification Of Products And Services** - Adding related lines of products that can be sold to your existing customers as well as to those of the acquired company can lead to significant sales growth. This can occur without adding significant overhead costs. Increasing sales to existing customers is much easier and more cost-effective than trying to attract new customers; and the added benefit is you can build a stronger customer relationship.

**Obtain Skilled Employees** - In the current economic climate, most small business owners find it challenging to retain and attract qualified employees. Obtaining skilled employees who are familiar with the operation of the business and the market in which it competes is a major benefit of any acquisition.

In addition to the strategic reasons cited above, other advantages exist when acquiring existing businesses. These include:

- Reviewing an existing company's track record as reflected in P & Ls, tax returns and other financial records can be very helpful in evaluating expansion plans. The financial impact and growth potential can be based on actual experience rather than conjecture associated with startup ventures.
- The need for additional working capital is reduced due to the immediate cash flow generated by the acquired company.
- Gaining established customers greatly reduces the time it would otherwise take to develop an adequate number of customers to support the overhead of a new operation.
- The number of competitors is reduced
- Sources of capital to purchase existing businesses are more readily available than for startup ventures. Often the owner of an acquired business finances part of the purchase price. Banks and other financial institutions prefer to loan money for existing operations

that have a proven track record (meaning: cash flow).

### **Reasons Owners Sell Profitable Businesses**

There is a general misconception that only businesses in trouble are for sale. The truth is that unprofitable businesses are difficult to sell. Most acquisitions involve profitable businesses where the owner is compelled to sell due to retirement, poor health, partnership problems, family problems, burnout, desire to pursue another opportunity, or lack of capital.

A key factor to acquiring an existing business successfully is that the company you purchase is mature and profitable. Mature, profitable companies are sold every day; you just need to know how to identify and acquire them.

### **The Acquisition Process**

The purchase of an existing business can be a complex and challenging process. A company considering an acquisition should always begin with an acquisition plan, identifying the specific objectives of the transaction and the criteria to be applied in screening and analyzing potential target companies.

Once the deal is consummated, the job is not finished. In order to maximize the value of a merger or acquisition, the buyer must coordinate a smooth and efficient post closing process. The blending of two distinct corporate cultures is often the most critical challenge. Integration of personnel, management information systems, accounting and financial practices, and related matters need to be addressed. Planning for these challenges during the acquisition process will help minimize potential problems. Effective communication before and after the closing is critical.

Growth through acquisition is a proven way to make a business grow.