

Growth through Acquisitions

By Eric T. Nass and Allen R. Stott, Executive Sounding Board, LLC

Every successful company needs to grow. In fact, a company seldom stands still for very long; it either grows or declines. Healthy businesses devote sufficient time and resources to develop and execute growth plans, while others merely hope to grow. The difference is significant. Successful companies are aggressive and proactive; they create their own opportunities. The rest are passive and merely react to opportunities that are presented to them.

Acquiring another company can be one of the best ways to expand, with the shortest path to success. The benefits of growth through acquisition include:

- Cost reduction/consolidation opportunities with your existing business (e.g. sales and marketing efficiencies, reduced administrative overhead, and greater purchasing power)
- Penetration of new geographic markets.
- Diversification of products and services.
- Acquisition of technologies and skilled employees.
- Access to new clients and accounts.

However, growth through acquisition is hard work, and most successful businesses recognize they need the expert assistance of a professional merger & acquisition (“M&A”) advisor. The most proactive growth companies utilize the services of an experienced M&A firm to guide them through the acquisition process.

These companies know that the best time to retain an M&A advisor is in the early stages, as the buyer’s strategic plan and acquisition criteria are being developed. The M&A professional’s knowledge of prevailing pricing, deal structure, and financing trends will help formulate a more realistic assessment of suitable acquisition candidates and access to capital to fund a transaction.

After refinement of acquisition objectives and criteria, the M&A professionals will often conduct a highly structured and focused search program which usually includes the following steps:

- Extensive research of the targeted industry sector.
- Identify a list of potential acquisition candidates (targets).
- Contact potential targets in order to gain information and generate interest.
- Screen targets and rank them as to suitability for the buyer.
- Coordinate the exchange of information and arrange meetings.
- Evaluate and analyze information on appropriate targets.
- Assist the buyer in structuring offers.
- Advise the buyer in negotiating definitive agreements.
- Assist in the due diligence process and closing of a transaction.

There are many benefits to hiring an M&A advisor to conduct a focused search program. Perhaps the biggest benefit is proprietary deal flow. The M&A firm identifies many acquisition candidates, most of whom are not on the market, and therefore are only considering a business combination with the buyer. Another benefit is the development of multiple target opportunities. The M&A advisor’s objective is to contact all potential candidates, and to present several alternatives to the buyer. Finally, lower valuation of a target company is a huge benefit. If a deal can be structured before competing buyers can bid up the price of a target company, the buyer has greatly increased the chance for a profitable acquisition.

By comparison, most of the headline-grabbing deals you read about are the ones that have been bid up to a pricing level that nearly assures they will not be successful for the buyer. Scenarios such as this are all too common.

Growth through acquisition is a proven method to expand a company, and the targeted search program executed by a professional M&A firm is the best way to identify and acquire a profitable business.