



Buying to Get Big

Think acquisitions are only for large corporations? Think again.

From: Inc.com By: Angus Loten

In recent years, the nation's soaring economy has put both the number and value of business acquisitions on the rise. In 2005, there were a total of 10,511 merger and acquisition (M&A) deals in the U.S. market alone, compared to 10,456 the previous year, according to FactSet Mergerstat, a Santa Monica-based agency that tracks the global M&A market.

While that's not a huge gain, the agency reported that the total value of those acquisitions hit \$1 trillion last year, up from \$781 billion in 2004, with the average size of growing to \$259 million. Yet, based on the median value of these deals -- those in the \$40 to \$60 million range -- small and medium-sized businesses likely accounted for more than half of that activity, says FactSet Mergerstat's Kurt Kunert.

"A lot of small companies have stayed away from M&A, because they think it's a big business strategy that's too risky for smaller businesses," says Roger Aguinaldo, the CEO of M&A Advisor, a New York-based information service for buyers and sellers in middle market companies. "But really, if you're buying a company with a proven business plan -- and you've done the due diligence -- it's less risky than starting up a business by yourself."

He says about a quarter of the 3,500 acquisitions M&A Advisor tracked last year were in the small-business range below \$10 million, a jump from previous years.

So what's behind the upswing? Kunert says when businesses are doing well -- and many are these days -- there's more money to expand, along with more lenders readily offering capital: "The private equity market has just exploded," Kunert adds. "The capital that's available out there is incredible. So far, it's been a strong 2006 and deals at all levels of the market have been up."

Over the past 10 years, banks and other financial institutions have warmed up to the idea of providing capital to business owners specifically to buy other businesses, Aguinaldo says.

There's also the potential benefits of good acquisitions. When they work, acquisitions can deliver thousands of new customers overnight, while opening up your business to new markets in different regions of the country, or around the world.



Whatever the goal, small business owners looking for a winning acquisition can't afford to be hasty, Kunert and other M&A experts say. Solid-looking acquisitions can go bad for a variety of reasons.

It may be that your existing customers or clients simply aren't interested in the new products or services brought about by an acquisition -- creating an unmanageable and costly un-integrated customer base or product line.

There's also the inevitable fallout of costumers loyal to the acquired business, which can either be insignificant or critical depending on how the purchase is handled. Worse still, you can unknowingly damage the competitive advantage of an acquired company in consolidating its sales, service and administrative divisions into your head office, losing whatever cost savings the purchase was meant to produce.

To avoid these and other pitfalls, M&A experts offered the following tips:

Know what your goals are.

Business acquisitions can increase your customer base, expand your products and services, and lower operating costs, among other benefits. Identifying the primary goals of an acquisition will help determine what kind of company you're looking for, what you're willing to pay for it, and how it will fit in with your existing company. "Before you consider any acquisition, you have to know your business and where you want it to go," Aguinaldo says.

Never risk more than you can afford.

Never risk more than you can afford. M&A experts say about one in three acquisitions will be winner. As such, it's important not to bet the farm on any one deal. And never buy a business simply to buy a business -- every acquisition should be part of a broader business strategy. "Determining the size of your acquisition target is very important," says John Burley, president of Burley & Associates, a business acquisitions services firm based in Washington, D.C. "A target that is too large may not integrate well with your company. For small businesses in most industries, a 'merger of equals' is often more difficult, because of clashing cultures and management teams," Burley says. Generally, companies that are smaller than your own are easiest to integrate, he adds.

Don't skimp on due diligence.

You can reduce the risk of acquisition by examining a target company's articles, bylaws and corporate minutes, making sure your impression of its business is sound. Also, get a list and check in with all the company's shareholders or partners, as well as every available financial document, from bank statements to financing agreements. "Leave no stone unturned," the National Federation of Independent Business advises.



Again, treat the acquisition as any other important operating strategy.

That means making sure good, experienced people are in place with an adequate budget to get the job done right. A financial expert should negotiate the business side of the deal, and a lawyer should look over the final agreement.

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