



5 steps to a successful acquisition

Acquiring a business is a complex process. Even experienced entrepreneurs often choose to use specialists as a guide for the different steps and to avoid the main pitfalls of such an endeavour.

Many studies have shown that acquisitions by large companies have a very high failure rate. KPMG examined 107 large mergers that took place between 1996 and 1998, and found that after the fact, 30% of the mergers did not make any difference and 53% of the companies actually lost value in the process.

Fortunately, the situation with small and medium-sized enterprises (SMEs) is better. The Boston Consulting Group estimates that 50% of the acquisitions by companies with sales of up to \$350 million were successful. Since the transactions and structures in question are not as complex, these companies can integrate more quickly.

However, the stakes are still very high: smaller businesses cannot absorb losses as easily as larger corporations, and failure of the acquisition may mean failure of the SME. To avoid this situation, the 5 steps below should be followed as rigorously as possible.

1. Develop an acquisition plan

Acquiring a business must be part of an overall strategic plan. Before initiating such an action, you must thoroughly analyze the risks involved. You must answer these questions: is your best option to acquire all at once the competencies or customers you lack? is your company ready? can you improve your position through internal development instead?

Your acquisition option should meet the following objectives:

- Increases your market share;
- Provides increased or missing know-how;
- Eliminates competition;
- Establishes presence in an export market;
- Complements your current situation or processes.

Your acquisition plan must define and align major success factors. For instance, the merging of business cultures and accounting/information systems are two factors often neglected.

Often the choice of acquisition is clear. However, an acquisition plan will enable you to confirm or select businesses that are consistent with your strategic orientation. If an interesting opportunity arises, you will be ready to react quickly by accurately evaluating its advantages, disadvantages, and chances for success.

2. Broaden the scope of due diligence

When acquisition of a company is the clear solution, the buyer normally agrees in principle to proceed with the transaction, provided due diligence shows that the reported facts are accurate. This involves examining the financial statements, legal status, inventories, etc., with in-house and outside experts in these areas. The objective is to ensure that every element has been covered.

The due diligence must not only confirm the vendor's good faith but also the soundness of the business, in terms of both its current situation and its development potential. For instance, if the majority of sales are generated by only a few customers, you should confirm that they intend to continue to do business with the company.

Although difficult to do, your due diligence must also take into account changes you intend to make to the company after acquisition. These changes may be essential, but their cost may substantially reduce the return on the capital invested.

3. Make changes quickly

Many mergers fail or partially fail because the buyer is slow to make changes in the acquired company. A prolonged transition is costly - not only because of duplicated processes. It can also destroy the initiative of the managers as they put off important decisions while waiting for clear instructions. Thus, the

acquired company can lose significant value in a short time.

Before the deal is signed, it is important to set up a strategic planning committee responsible for orchestrating the merger. If necessary, this committee can also form subcommittees comprised of representatives from both companies. Their job will be to integrate main operations as soon as possible once the deal is signed:

- procurement;
- production;
- sales;
- marketing;
- accounting;
- human resources;
- information systems.

4. Give human resources a central role

The presence of a human resources representative on the central merger committee is essential. In fact, many companies include an HR representative at the due diligence stage if the deal seems certain. His or her job is to measure employees' reaction to the sale of the company, identify key people who should be kept on, and communicate decisions that might affect employees.

Throughout the merger process, communication with employees of both companies is crucial. If you are considering layoffs, it is better to let the people concerned know as soon as possible. This will improve the morale of all employees; otherwise, they will feel threatened for an extended period of time.

Retaining senior managers increases a merger's chance for success. Even if they are the most likely to resist change, their presence and experience will have a positive impact because they represent continuity.

5. Integrate the best of the 2 cultures

Instead of automatically applying your way of doing things to the acquired company, it is suggested that you combine the best methods of both companies for an overall general improvement.

This is often a smart move in the case of information systems. The differences between the technologies are often too great to allow for successful integration. The wisest decision is to adopt the best systems, even if they are not yours.

In some situations the benefits of changing your methods or making the acquired company adopt yours are not sufficient to justify the resulting disadvantages. This is often the case when you acquire a company outside your initial market.

You should not have any objection in principle to the new unit keeping its own culture, at least in relation to procedures that will not hamper your efficiency. Corporate culture diversity is a reality that multinationals learned to deal with a long time ago.