PLANNING A SUCCESSFUL ACQUISITION

Why do so many acquisitions fail?

Acquiring another company can seem like a great way for your business to diversify, increase market share or acquire distribution channels, technology or talent. Unfortunately, many acquisitions fail to deliver the expected results.

In this issue of Executive Issues & Insights, we explore key insights drawn from the extensive C-suite and Board experiences of the NextLevel team on how to plan for and approach an acquisition that stacks the odds of success in your favor.

NextLevel Case Study

Global market share increases 12%

A family-owned international manufacturer and distributor wanted to enter the Italian market. But they did not have a distribution channel there. Nor did they have a full portfolio of products needed to set up a standalone company. Through a strategic planning process, they decided to acquire an established Italian company.

The acquiring company's CFO, now a NextLevel partner, was responsible for planning the acquisition. He established a cross-functional project team to identify an acquisition target, negotiate a purchase agreement, perform due diligence, and execute the acquisition.

They developed a list of potential targets based on attributes such as product mix, customer relationships, company culture, and potential for combined success. The project team then identified a best-fit company.

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NextLevel Insights

Know what you want and why

Before you start looking, ensure alignment with your strategic plan. It will help you clearly identify and justify what type of company you want to buy and what results you expect. A clear picture of your criteria gives you a guideline against which all potential targets can be measured.

Partner with your potential target in advance

If possible, find a way to partner with a potential target before pursuing an acquisition. A joint marketing venture is one good way to do this. Partnering gives you a great opportunity to learn about the other company and look for areas of potential synergy. What you learn may confirm that it would make a good acquisition, or it may not. Either way, you are better informed.

Scrutinize your key assumptions

Make sure due diligence goes well below the surface. Don't stop short because of time or other pressures. Assumptions you made about the deal may fall apart when examined further. Be prepared to justify any assumptions by scrutinizing the facts of the situation in minute detail. You can't afford not to with so much at stake.

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They established a purchase price by developing a five-year operational and financial model. They also identified operating and financial KPIs that would be used to track the new company's performance. The team developed a purchase agreement and performed due diligence, bringing in local advisors on legal and tax matters.

By the five-year mark, the acquisition met or exceeded all operational and financial targets. The acquiring company increased market share for existing products by at least 12 percent in years two to five. The acquired products' market share exceeded the plan by at least 6.5 percent each year. Gross margins exceeded the plan by 9 percent.

The company was so successful in expanding their global footprint that they used the same acquisition model in other markets where they needed distribution channels.

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Keep in mind the "how" as well as the "why"

Your planning should articulate not only why you are pursuing an acquisition, but also how you would integrate the acquired company. How will you combine separate missions, visions and values into one? How will you approach cultural or national differences while keeping customer relationships intact? Developing a comprehensive plan for integration long before any deal is signed greatly improves your chances of success. From the very earliest stages, designate someone whose primary responsibility is the planning and execution of the integration.

Be prepared to walk away

Have the discipline to walk away if your criteria for the deal aren't being met. If you've done your strategic planning, you know what kind of company you are looking for and have clear boundaries on what constitutes a good deal. If due diligence reveals something that doesn't meet your criteria, pull out. Avoid getting caught up in the emotion of the deal.

"Don't base your acquisition plan on 1 and 1 equaling 3."

It's easy to go into an acquisition with a great deal of optimism, and it's tempting to make plans based on an optimistic scenario. But to increase your odds of success, incorporate a healthy skepticism in developing your assumptions.

KEYS TO PLANNING A SUCCESSFUL ACQUISITION

- **Your criteria:** Can you articulate what you want and what results you expect?
- **Your target:** Can you find a way to partner with them to learn their business?
- **Your assumptions:** Can you justify them by thoroughly examining the facts?
- **Your integration strategy:** Can you articulate how you would integrate the acquisition?
- **Your boundaries:** Are you prepared to walk away if the deal doesn't fit?

More Information

To learn more about how NextLevel can help you plan a successful acquisition, call us at (800) 833-NEXT or email info@nlbev.com.

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