

COMPETING BY BUYING YOUR COMPETITION

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Most small businesses focus on growing through increased sales or by offering more products or services. While increased sales is a great way to increase the value of your business, it is not always fast enough to meet your goals. You may have growth/sales projections to meet or require a larger presence in your industry to compete effectively. If your overall industry is flat, it may be very difficult to increase sales. If you have several well-established competitors, it can be even tougher. It is very hard to maintain business momentum when your growth is flat.

It may be time to look outside the box. One of the smart growth strategies we have seen is buying the competition.

You may consider a company that directly competes with you or a company that sells different products to the same customers. While acquiring an established business may be an effective way to grow, the reality is that acquiring or merging is a lot of work. You have to know what you want, make a plan, focus on a few niches, do your homework, and even then you may have to go through a courtship with several different companies.

The process of looking for the right

acquisition or merger candidate starts with getting focused so you do not waste your time on endless possibilities. The first thing to do is narrow down what you are looking for.

Deal Criteria

When you are looking at acquiring or merging with another business, take the time to define your deal criteria. By defining these factors, you will keep the process manageable. Try to keep your outline to one page and answer the following:

- Would we like to merge with a like-size firm or acquire a smaller one?
- What kind of culture and reputation are we looking for?
- What type of management team would be an asset to us? What key talents should we look for?
- What mix of products or services would be an asset to us?
- How many locations do we want and can we effectively manage? What is our geographic reach?
- What kind of Intellectual Property or other intangibles would be of value to us?
- What are my options for financing this transaction?

Meeting Candidates

Most business owners are so busy running their business that they are not up on all their competition and related industries. In addition to a lot of basic homework, which can be done on the Internet, being active in your trade associations might help you hook up with candidates. Sometimes a trade association executive director may know companies that are looking for a succession plan or merger. Association executives may know the “inside scoop” of businesses such as which son or daughter is a poor replacement for the founder or which owner is looking to get out.

Another way to meet potential candidates is to seek out an M&A professional. Most M&A professionals have access to proprietary databases that narrow down your search criteria and shorten the time involved. If your search is more than your local area, this is essential because your network will not give you a field of all possible candidates.

The Approach

Discretion is critical. Although a direct but discrete phone call can work, a third party is often worth the investment to make a confidential first contact. It leaves everyone less vulnerable and can help you make disclosures at the appropriate time. Your “M&A matchmaker” can help you think through the best approach and timing to avoid the instinctive “I’m not interested.” Another alternative is to find someone who has a relationship with the candidate. Ask your board members and other leaders if they have an “in.” Use your network.

Confidentiality

Non-disclosure agreements are essential when exploring the possibility of mergers or acquisitions. Most mid-westerners are very private with financial information. A slow approach is usually best, with both parties “showing their cards” at the same time.

Price

Setting a price is the most difficult and sometimes the most emotional part of the deal, especially when founders are involved. A business valuation of the acquisition candidate is an investment that takes price out of the realm of wishful thinking and into reality. Look for a professional with specialized valuation credentials who has experience in merger and acquisition transactions.

Financing

Know what your financing abilities are before you begin the search process. Your financing may involve the usual trip to the bank or the seller may help finance the acquisition on an installment note as they leave the business. An experienced M&A professional can help you find venture capital, equity groups or other types of financing you may not have experience with.

Value

While organic sales growth usually leaves you more time to assimilate, buying or merging with a competitor gives you an enormous leg up in the industry, more leverage with your suppliers, and an instantly bigger footprint. It can be a great opportunity for visibility and PR and it can also add valuable talent with industry experience.

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Knowing When to Buy Your Competition:

- When the Market Fit is Right. If your market is not expanding enough to meet your growth goals or when being a “big player” has a huge advantage, consider buying.
- When the Culture Fit is Right. Talent is one of the biggest barriers to expansion. If a competitor has the right kind of talent and a similar culture, by buying your competition you can buy future leadership.
- When the Financial Fit Makes Sense. Does the deal provide additional cash flow? Does it pay for itself? Do the synergies add financial stability?