



A few cardinal rules for strategic expansion

An acquisition can help you achieve your family business goals. But the deal must be done on your terms, not the seller's.

FOR MANY family business owners, strategic growth—the acquisition of other operating businesses—is a key factor in reaching financial and personal goals. One third-generation chief executive, for example, wanted to ensure that when he passed on his company to his son, it would be stronger than it had been when it was handed to him. To achieve this goal, he sought greater critical mass to combat industry consolidation; diversification of revenues to reduce reliance on key products and customers; and enhanced in-house technical capabilities to better control quality and margins.

The right acquisition can help meet all of these objectives. Strategic growth often represents a faster, cost-effective and, in many ways, less risky path than continued busi-

ness-as-usual. When a company's momentum has slowed and larger competitors are tightening their hold on the market, there may not be time to rely on internal growth. Acquiring a proven leader in an industry niche, with an established customer base and predictable earnings, reduces the risk involved in taking the business in a new direction.

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Don't assume that smaller deals will be easier.

They often require greater effort to close.

greater uncertainty and less management infrastructure, and so they require greater effort to close. At the same time, purchases should add to the value you are providing your customers and have a noticeable positive effect on earnings. Negotiating and integrating an acquisition are extremely disruptive to operations and introduce a new element of risk. Make sure the payoff will be worth it.

Never bet the ranch. The corollary to the preceding point is that no deal is worth risking the base business. Avoid paying so much that debt service stifles ongoing operations, extending yourself so far that poor performance in the target's operations will mean the failure of the base business, or acquiring a platform so large and complex that integration consumes your entire organization. Similarly, remember not to neglect your core business. Without the help of experienced advisers, management teams can find themselves stretched to the limit. The rule should be *first do no harm*.

Culture is every bit as important as economics. Countless studies have shown cultural issues to be the most critical in business combinations. Ensure you fully understand the culture of the target and how it compares to that of your own company. Will your culture be able to carry the new operations forward? Family businesses bear the imprint of their owners in work practices, management-staff relationships and customer service. Your company is an extension of your personality and part of your identity; it's likely no different for the seller.

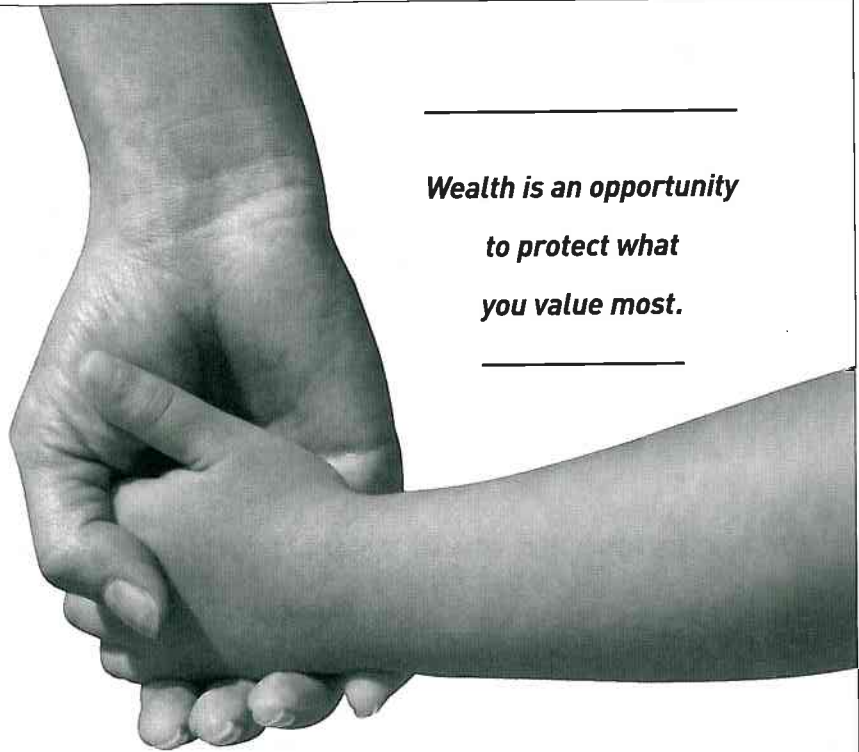
Sellers should share the pain. In structuring a deal, if possible make sure the former owner has something at stake as you move forward. This might take the form of a continuing minority ownership interest or seller debt that is assumed as part of the purchase price. Either way, there should be some future upside that depends on the performance of the business and would be at risk should things turn south. Imagine a

third party buying your company; wouldn't they be wise to keep you involved and motivated to help? How smoothly and quickly could you transition your industry knowledge or your relationships with employees, customers and suppliers? This approach also encourages the seller to be forthright in what he tells you about his business.

Don't expect smooth sailing. In our experience, every transaction will fall off the rails at least a

couple of times before closing. There are just too many moving parts for everything to work according to plan. Emotions run high during a transaction, and many sellers have a change of heart along the way. Due diligence is guaranteed to reveal something you didn't know about the target that must be dealt with before you move forward. Extraneous factors can also play a part, such as problems at key customer accounts, negative indus-


Continued on page 32



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Continued from page 27

try events or even natural disasters. The lesson is not to overreact but to have contingency plans at all times. Differentiate “deal killers” from bumps in the road, and maintain focus on the overall strategic goal of the transaction. This applies after closing, also; most acquisitions under-perform before improving.

Keep your options open. The best way to keep leverage on your side is always to be willing to walk away from an opportunity. It is easy to become smitten with a seemingly attractive target because it is familiar and available. But this shouldn't cloud your judgment when it comes to the details of the transaction. The right company can quickly become the wrong deal, based on the price and structure agreed upon. Remember, when you seek out acquisition candidates from a position of strength, you

don't need to swing at every pitch; maintain flexibility and wait for the *right* deal on the *right* terms.

Be proactive

As with so many other things in business and life, success in strategic expansion depends on taking the initiative, controlling the process and sticking to your goals. Sitting back and waiting for the right opportunity to come knocking is a risky and directionless alternative. How can you be sure the deal that falls in your lap is right for you and your company? Instead, determine the long-term vision for your company and establish what role acquisitions will play in achieving those objectives. Then, with the assistance of an experienced financial adviser, design a strategy that uses specific criteria to identify a select number of complementary targets. If appropriate,

construct a purchase structure that supports your goals and prepare for integration and post-purchase management of the acquired operations.

Your company is your most important asset and likely your future legacy. Acquisitions can play an important part in either building or detracting from shareholder value. These deals can strengthen the platform for future generations, provided you make such moves on your terms and as part of a carefully conceived strategic plan. The health of your business is too important to leave to chance. TB

Brad Bulkley is president of Bulkley Capital L.P., an investment banking and financial advisory firm that assists middle-market companies nationwide in strategies for building and realizing shareholder value (www.bulkleycapital.com).