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To Buy or Not to Buy? 5 Questions to Help You Decide Whether the Timing Is Right

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When executed properly, a successful growth-by-acquisition strategy can improve your company's shareholder value. An overly conservative holding pattern, however, may have the opposite effect.

So, when is it right for your company to consider this type of expansion?

Ask yourself the following five questions. If you answer yes to all of them, it might be a good time to pursue acquisitions.

1. Has your company's growth slowed?

In and of itself, a slowdown in sales is not an indication of a need to acquire another company, but even for the healthiest of businesses, some level of acquisition activity is often essential over a company's life in order to keep pace and achieve your desired strategic objectives. If industry trends are up – even by a modest amount – and your firm's volume is consistently flat in spite of sound management practices and best efforts, it might mean you are at a competitive disadvantage and losing market share.

In this case, an acquisition might make sense. However, the challenge of an acquisition may only exacerbate the situation at a company whose performance is lagging, so try to be objective in making the decision. Assessment of your current situation and your capacity for integrating another business are critical items to cover. Key items to consider include management bench strength, IT infrastructure and management reporting systems, and cash availability. If any of these areas require attention, it may be prudent to focus internally before beginning the acquisition search.

2. Are industry dynamics dictating change in order to remain competitive?

Consolidating industries can often result in the “eat or be eaten” dynamic. If you don't have the critical mass or distribution channels that your competitor does, you might find yourself unable to compete effectively in the market.

An acquisition can help you gain that critical mass in a shorter time than building from the ground up. Remember, however, that critical mass means more than incremental sales. Ideally, you should expect to gain other strategic benefits, such as entry to new markets, exploitable intellectual property, or high caliber management talent.

