

JOINING FORCES: MERGE OR ACQUIRE FOR SUCCESS

By Marilyn J. Holt, CMC

A merger can be wonderful for many types of companies... provide the economics of scale that the merging firms need to grow successfully... as the exit plan for one principal and the growth plan for the others.

Mergers and acquisitions seem to be the provenance of huge businesses such as AT&T and McCaw Cellular, or TimeWarner (a merged company) and AOL but even the smallest business can reap great benefits from joining forces. Many companies in various stages of development could be strong contenders in the marketplace if they banded together for the greater good. One of these companies could be yours.

The Benefits

Most funding sources, be they angels, venture capitalists, or banks will not become involved with a start-up business that has one product, one over-worked principal, and income source. Two or more compatible small businesses or start-ups can band together and slash overhead, development, and marketing costs, and share management, development, and sales duties. The gain can be immediate, for you suddenly have more to offer your customers.

A merger can be wonderful for many types of companies including professional firms. It can provide the economics of scale that the merging firms need to grow successfully. A merger can also serve as the exit plan for one principal and the growth plan for the others.

In the medical profession, it is common for a soon to retire doctor to either take in a young associate who buys the practice or sell the practice to another doctor. Small accounting firms, law practices, medical practices, and other types of professional service firms all can merge with like types of firms, but few do. All types of professional practices can be valued, and merged, with everyone staying on indefinitely or one or more parties leaving after a defined period of time.

How To Merge

When you start to plan for merging with another company, you need to assess your assets and liabilities. Most of these will be

in your financial plan, but your assets also include goodwill, your customer base, your databases, operating but depreciated equipment, business site, intellectual property and expertise.

The following actions help identify who would want to merge with your business.

- Identify the assets of your company.
- Identify *specific* companies or individuals, or *types* of companies or individuals, that could be interested in merging with (or buying) your company.
- Identify the type of merger would you want (strategic alliance, partnership, joint venture)?
- Ask, "What do I (your company) have to offer these companies?"
- Know what do you want to achieve.

There are many way to value an existing business. Capitalization of earnings and multiplication of gross revenues, often used together, are effective. Valuing start-up businesses is much harder. Start-up entrepreneurs who want to form a larger

company may want to skip valuation, and simply cut the pie evenly. After that founders stock can be earned on a defined schedule of milestones.

As with everything else in life, you need to exercise caution when merging your company with other company. Even a sole-proprietor has a company culture. Make sure that the ways you and your potential partner each do business are compatible. Any incompatibilities can be fatal to your future success. You will have to become flexible in any case, but a merger can be a fine experience for all.

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