

THREE KEY CONSIDERATIONS ABOUT THE VALUE OF A STRATEGIC ACQUISITION

By Marilyn J. Holt, CMC

Acquisitions should add value, whether to your company or to your portfolio of companies. The least expensive way to own a successful company is to buy, not build.

Most acquisitions go wrong. The buyer gets more liabilities than are recognized; customers leave, key personnel leave, or economies of scale are unrealized. Recognized liabilities are ones your attorney and accountant see, such as lawsuits and bad debts. The problems that destroy acquisitions and mergers are purely business management issues. Unrecognized liabilities include the position in the product lifecycle, customer demand, and company dysfunction. Customers and personnel can be enticed to stay with various appreciation programs. Economies of scale happen when there are common operational and sales areas that can take years to make fully functional.

When you consider an acquisition, pay particular attention to three areas that a strategic acquisition apart from any other type of acquisition of a business: customers, markets, and rapid-growth opportunities. While there are other factors, these three have to be in place, or you should walk away from the opportunity.

Customers

The value that the acquisition can provide in customer type and share to the Buyer may include adding new types or segments of customers that have not before been reached. Strengths that can add include: answering an objection that the Buyer has not yet been able to overcome; refocusing existing technology for a new use; or capturing a specific segment of customers not before reached by the Buyer. In addition, the acquired company may also have developed special relationships with a significant market segment through relationship selling, which is quite costly and time-consuming to establish.

Markets

Customers from the acquired company can also be valued in terms of the markets that they represent. For example, if the acquisition has a significant market share of new market, and with that some name

**HOLT
Capital**

recognition beyond the Buyer's customer base, value is added, and provides strategic market advantage. Brand loyalty to the acquisition can also add value.

Opportunities

The rapid-growth opportunities that the acquisition offers has to include current and projected new relationships for marketing or technology, and the value of the intellectual property that the acquisition brings. Often, a strategic acquisition facilitates rapid growth of market penetration, product development, or product distribution. Speed can be more important than initial cost. If the principals or key personnel in the acquisition provide

a special edge, use it, however do not base the acquisition on specific employees because they are transient. Job processes, technological improvement, quality training, and a history of stable employment provide real benefits.

Strategic Value

A strategic acquisition, merger, or a divestiture can provide you with very specific advantages and increase the value of your company. The strategic value of one of these to your company can be estimated by determining the key strategic areas or issues.

Opportunity/Obstacle	Strategic Issues suggested by this Opportunity/Obstacle



A strategic issue affects a company's mission, goals, values, services, customers, or management structure or style. Each strategic issue should be framed as a question with more than one answer regarding the opportunity or obstacle upon which the company has authority to act (that is it is within your mission and goals), and which may have important consequences for the business. The answers to these questions define strategies to deal with the issue. Fill out this work sheet once for the strategic opportunities available, and once for the strategic obstacles.

Copyright © 2001, 2007 Marilyn J. Holt

All rights reserved. No part of this work may be reproduced or distributed in any form or by any means, or stored in any database or retrieval system without prior and express written permission of the author and publisher. Contact Holt Capital for reprint permission. Portions of this article previous appeared in the *Venturer: the Journal of Entrepreneurship*, published by the Northwest Venture Group.

