FLYING TRUMPETS

# Ten Steps (and one top tip) to Successful Acquisitions

## 70 – 90% of acquisitions fail according to the latest research from HBR. Take these ten steps to ensure yours is the exception.

1. **Run your own business properly first**. Are you pursuing your organic opportunity, including NPD rigorously? If not, don't distract yourself from what's already in front of you. Get that right first.

2. **Be sure that 2+2 will equal at least 4.** If you believe non-organic or acquisition can help you, these are the conditions to satisfy:
a) your own business is growing anyway
b) the target is growing anyway
c) the target will help your own business grow more than it will by itself
d) your business will help the target grow more than it will by itself.

You are aiming in M&A to make 2+2 equal 5. In practise, equalling 4 (preserving both companies' pre-existing profit) is sometimes hard to achieve because of the dilutive spread of management and operational attention required. Outcomes of 3 or less are disturbingly common.

3. **Check the coherence**. Does this acquisition make the business more or less coherent? In other words, will customers understand very well why you do both things and be interested in buying them both? Will future potential owners / investors, see the combined business as clear, logical and strong, or will it require constant explaining?

4. **Assess quality of earnings**. Is this acquisition better, the same, or worse than yours in terms of quality of earnings? I.e. Is it growing faster and more or equally sustainably as the


## Summary

1. Run own business properly first.
2. Be sure that 2+2 will equal at least 4.
3. Avoid stakeholder confusion.
4. Understand the quality implications: for earnings and brand value.
5. Beware flight risks, complexity and the shiny new toy syndrome.
6. Calculate synergies carefully.
7. Don't buy too small – or too big.
8. Check there isn't an easier solution.
9. Run your DD with a *commercial* lead, not just finanical
10. Close with a 90-day plan

Top tip: make sure "***Together***" underscores your thinking and your comms.

existing business; does it repeat and renew annually as well or better than the existing business; does it have an equally low churn rate; does it generate or consume cash more or less favourably than your existing business? The answers will tell you whether you are concentrating or diluting your existing business with the proposed acquisition. A related question: is the target's product quality and standard at least of similar standing to your own? If not, you risk degrading your own brand by association.

5. **Beware:**

a. *One business or two?* You need to decide whether you will integrate the acquisition or run it standalone. The first requires more intervention and disruption to its past practices; the second risks you having at best no improving impact on it while depriving it of its independent drive which may slow it or cause it to lose its clarity of purpose.

b. *Flight risk.* Particularly where vendors work in the target as owners or directors and are paid out fully on its sale they may leave or compete against you if you don't expressly preclude that which may not be straight forward. Key previously loyal staff at lower levels may not want to be part of a bigger / different organisation and may take the change in status as the moment to go elsewhere.

c. *New toy syndrome.* An acquisition is exciting and will act as an attention magnet for you and your staff. They may neglect better money-making opportunities in the core business in favour of thinking of ways in which they can interact with and explore the new business.

d. *Increased complexity.* The old and the new business will have different practices, policies and procedures. That does bring opportunity: one has better product development cycles, one has a better GTM, one is better at enterprise sales, the other at customer retention etc. So moving both businesses to the better of the two practices may be ultimately beneficial but it can bring significant change management challenge to overcome. People issues around benefits and incentivisation will in particular provide alignment challenge - one standard or two systems? How do you justify the latter in a combined entity? You can't take terms down, their cost can only stay the same or rise. Assess the culture of the target. Is it truly a good marriage prospect with yours? Why do you think so?

6. **Calculate synergies carefully:**

a. *Revenue.* Be careful that you are not convincing yourself, contrary to the evidence, that customers will buy both companies' products and so you will become instantly more efficiently profitable through the acquisition. Customers used to dealing with specialist suppliers don't always take well to their water cooler vendor suddenly offering them an insurance product or a catering service. They don't transfer trust easily beyond where it has been established. If you cross buying lines within client organisations don't expect an easy cross sell. If there is one then anticipate client requests for discounts. It is hard to maintain the sum of the average order value, let alone increase it.

b. *Cost.* Be careful about assuming cost reductions are safe to make especially in client facing areas. Few businesses today are structurally over-staffed with people who have plenty of capacity to do more. Both your businesses - old and new - may actually need most or all the dedicated people they have unless you can automate practices that are invisible to the client.

7. **Goldilocks scale**. Don't buy too small or your wonderful acquisition will be a largely irrelevant offshoot to your core activity and is also more likely to be unimportant to the customer segment it serves. Consider how able and ready you would be in the event of a trading problem with your acquisition to have to fight a large fire in a small building. Ensure that the acquisition is worth the effort. It will certainly add work, so make sure it will deliver a return on your investment not only financially but also, critically on your own valuable expertise, energy, time and resources. You are probably busy already, where will your extra time come from? Will it make you smarter and quicker or just more tired? Think carefully before buying something so big that it already has its own embedded way of working, culture change is hard work. Unless of course you are happy to let it continue as is, but that means your business needs to change because if no one is changing, where's the synergy and the return?

8. **Explore alternative options**. Be sure that you have articulated clearly, at least to yourself, why you want to go the acquisition route:

- What is the growth driver that you are looking to acquire: people, product, processes, customers, channels, geographies?
    - Is there a simpler way to do this? E.g. Headhunt top people; hire advisors; pivot to a new strategy
    - Is there a cheaper way to do this?

9. **Include commercial leads in your DD team**. Finance teams are expert at modelling savings and producing hockey stick graphs. Be sure to include a senior commercial lead on your due diligence team, they are the ones who are going to have to make the magic happen.

10. **Finish with a 90-day plan**. Everyone has their press release ready and the TUPE plans in place, be sure before you transfer the money you have a full first 90 days plan prepared; know exactly who is going to be doing what, where and how

during the first 90 days across both businesses. Staff and clients will expect – and be open to – change. Seize the moment.

**And finally: move forward together.**

On, and post, acquisition ensure you think and communicate consistently using the language of collaboration. Successful acquisition is all about embrace, it's not about takeover. The pronoun of embrace is 'We'. Use it often and always to mean the new everybody, never again as a term meaning the acquiring business. Unless you want to alienate the people of your acquisition be careful you do not use language of subjugation and division. It's not "we have taken you over" or "we intend to do this (to you) or "you will be given" or "you will be changing". The easiest way to ensure you always use "We" sensitively is to check that you can follow it silently with the word "together". "We (together) can become"... "We (together) shall explore/aim/create..." "Over the next 90 days we (together) will share our.."
We is the essential start of Welcome.

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