

Merger and Acquisition - A Strategy for Corporate Growth

Two companies that are recognized as among the best at making successful acquisitions are General Electric and Cisco Systems. These companies have been star performers in growing shareholder value. The core principal that runs through almost every acquisition is integration. Over the past 10 years Cisco Systems has acquired 81 companies. Their stock price is up a remarkable 1300%. GE outperformed the S&P 500 index over the same period by 300%. There are several categories of strategic acquisition that can produce some outstanding results:

1. **ACQUIRE CUSTOMERS** - this is almost always a factor in strategic acquisitions. Some companies buy another that is in the same business in a different geography. They get to integrate market presence, brand awareness, and market momentum.
2. **OPERATING LEVERAGE** - the major focus in this type of acquisition is to improve profit margins through higher utilization rates for plant and equipment. A manufacturer of cardboard containers that is operating at 65% of capacity buys a smaller similar manufacturer. The acquired company's plant is sold, all but two machines are sold, the G&A staff are let go and the new customers are served more cost effectively.
3. **CAPITALIZE ON A COMPANY STRENGTH** - this is why Cisco and GE have been so successful with their acquisitions. They are so strong in so many areas, that the acquired company gets the benefit of many of those strengths. A very powerful business accelerator is to acquire a company that has a complementary product that is used by your installed customer base. Management depth and skill, production efficiency/ capacity, large base of installed accounts, developed sales and distribution channels, and brand recognition are examples of strengths that can power post acquisition performance.
4. **COVER A WEAKNESS** - This requires a good deal of objectivity from the acquiring company in recognizing and chinks in the corporate armor. Let me help you with some suggestions - 1. Customer concentration; 2. Product concentration; 3. Weak product pipeline; 4. Lack of management depth or technical expertise and 5. Great technology and products - poor sales and marketing.
5. **BUY A LOW COST SUPPLIER** - this integration strategy is typically aimed at improving profit margins rather than growing revenues. If your product is comprised of several manufactured components, one way to improve corporate profitability is to acquire one of those suppliers. You achieve greater control of overall costs, availability of supply, and greater value-add to your end product
6. **IMPROVING OR COMPLETING A PRODUCT LINE** - this approach has several elements from other acquisition strategies. Successfully adding new products to a line improves profitability and revenue growth. Giving a sales force more "arrows in their quiver" is a powerful growth strategy. You take advantage of your existing sales and distribution channel (strength). You may be able to improve your competitive position by simplifying the buying process - providing your customers one stop shopping.
7. **TECHNOLOGY - BUILD OR BUY?** This is a quandary for most companies, but is especially acute for technology companies. Acquiring technology through acquisition can be an excellent growth strategy. The R&D costs are generally lower for these smaller, agile, more narrowly focused companies than their larger, higher overhead acquirers. Time to market, window of opportunity, first mover advantage can have a huge impact on the ultimate success of a product. First one to establish their product as the "standard" is the big winner
8. **ACQUISITION TO PROVIDE SCALE AND ACCESS TO CAPITAL MARKETS** - In this area, bigger is better. Larger companies are considered safer investments. Larger companies command larger valuation multiples. Some companies make acquisitions in order to get big enough to attract public capital in the form of an IPO or investments from Private Equity Groups.
9. **PROTECT AND EXPAND MATURE PRODUCT LINES** - This has been very effectively done in the pharmaceutical sector where a new technology is acquired to repurpose and re patent drugs.
10. **PROTECT CUSTOMER BASE FROM COMPETITION** - The telephone companies have done studies that show that with each additional product or service that a customer uses, the likelihood of the customer defecting to a competitor drops exponentially. Get your customers to use local, long distance, cellular, cable, broadband, etc and you will not lose them. Multiple products and services provided to the same customer dramatically improve retention rates.
11. **ACQUISITION TO REMOVE BARRIERS TO ENTRY** - For example, a large commercial IT consulting firm acquires a technology consulting firm that specializes in the Federal Government. The larger IT consulting firm has valuable expertise that is easily transferable to government business if they could only break the code of the vendor approval process. After many fits and starts, they simply acquired a firm that had an established

presence. They were able to then bring their full capabilities from the commercial side to effectively increase their newly acquired government business.

Many larger firms have established business development offices to execute corporate growth strategies through acquisition. These experienced buyers search for companies that fit their well-defined acquisition criteria. In most cases they are attempting to buy companies that are not actively for sale. The win for the successful corporate acquirer is to target several candidates, buy them at financial valuation multiples, integrate to strength and achieve strategic performance.

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