How To Profitably Acquire and Launch an Acquisition

The 7 primary reasons for why acquisitions fail to create value

1. **(Financial)** Overpayment. It's common to overestimate the value of synergies and underestimate costs. Or the deal is structured poorly and makes it difficult to succeed.
2. **(Due-diligence)** Not having thoroughly checked the health or reputation of the company, the marketability of the product/service, customer response to a sale, integration challenges/incompatibilities, etc.
3. **(Integration)** Failure to identify incompatibilities. Facility changes, system changes, employee changes/lay-offs, leadership and management changes, policy changes, etc.
4. **(Integration)** Not understanding what makes a company successful or profitable and accidentally killing "what works" to pursue uniformity/ consistency.
5. **(Communication)** Employees (especially of the acquired company) are not communicated to or included in building the new vision. Employees in the acquired company aren't "won over." They don't see the larger context or the benefit to them of staying during a possibly scary change.
6. **(Communication)** The right information is not provided to the right people.
7. **(Leadership)** The integration isn't strongly led or it is too slow/timid. It lacks credibility. Doesn't deliver on promises.

The Three Stages to an Acquisition:

Selection & Acquisition > Integration > Value Building

Selection & Acquisition Summary

1. **Strategy:** Acquisitions work best when they are a clear part of the growth strategy for your corporation. You set yourself up for success when you strategically consider:
    - What the acquisition might require (in terms of funding, personnel, other resources)
    - What value it should be expected to provide.
2. **Buy well:** In most cases, you will make your money at the purchase. This includes the overall price as well as the terms.
    - **Only pay a good price.** If you pay too much (which is easy to do) you may struggle to ever become profitable. A good price is one where it will be relatively easy for you to get a return on your investment in a reasonable amount of time.
    - **Terms may be more important than price.** Price is only one point of negotiation. The terms of payment can be very creative. They can include items such as the nature of financing, the

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length and structure of a loan (if self-financed), they can consider real-estate or intellectual property, how clients/customers will be transitioned, transition assistance the seller will provide the buyer after the sale, non-competition clauses and so on.

A good price, with poor terms, could cause you to struggle with cash-flow, disrupt relationships with customers, increase your business competition or create other business challenges.

3. **Due Diligence:** Make sure you understand what you are buying. This includes but isn't limited to the integration investment, potential incompatibilities, your management and capital capacity, cultural fit, the reputation of the company, and the market potential.
4. **Stay Objective:** Business people like to pride themselves on objectivity. But acquisitions are notoriously emotional experiences. There is a high level of risk involved, either fear or ego or both can be involved, unrealistic levels of optimism may be experienced.
   - **Be willing to walk away:** It's important to be careful about emotionally committing to an opportunity. This is easy to do. But it makes it difficult to see warning signs, other opportunities or to recognize concerns of your board or partners.
   - **Get help:** Bring in outside advisors who aren't emotionally connected to the deal. They can help provide both expertise and objectivity.

The Five Principles of Successful Integration

1. **Prioritize:** The leadership and work of integration need to be prioritized to preserve value.
2. **Understand what creates value:** Make sure you understand that "special sauce" of the company you bought. Otherwise, you risk throwing the baby out with the bathwater when you integrate.
3. **Communicate:** These changes create huge uncertainty and can trigger high staff turnover and loss of institutional knowledge. Focus on building frequent and safe communication, allowing the "bought" company employees to freely communicate, listening and engaging concerns. Help them understand you, the context, the vision.
4. **Engage employees:** Build new vision, new strategy with the old employees. Consider their experience and "Why would they want to stay?"
5. **Customer Journey:** What attracted the customers to the old owners? What is the nature of their loyalty (or are there any poor reputation issues you need to be aware of?) Ensure that the customer experience improves and doesn't worsen. They won't feel loyal.

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How To Quickly Retain and Build The Value of Your Acquisition

In most cases, value building begins after key integration priorities have been identified and addressed.

You don't want to wait too long to begin your value-building process – but you do want to have achieved stability in your integration process.

I'll introduce one framework to think through what needs to be focused on and one strategy tool to help you focus on growth.

Value framework:

Great Leadership

- You have leaders that knows how to grow a business.
- Your senior staff are transparent & accountable to the board and take care of their employees.
- They grow the people that they lead. They grow leaders.
- They see and take advantage of opportunities.
- They can easily identify and prioritize what is truly important.

Great Culture

- Your values and vision are clear. Decisions and behaviors are consistent with them at all levels of the company.
- People feel valued and respected.
- There is a focus on growth and opportunity.
- The company has a positive reputation.

Great Habits and Tools

- Clear policies, procedures. (Habits)
- Well thought through systems (tools) for regular activities or decisions.
- The actual tools you use (equipment, IT, et.) is adequate for growth.
- Your habits and tools reflect, or at least don't contradict, your core values.
- Great habits and tools are understood and defined in such a way that anyone can be taught them.

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Great Product or Service

- You know your customers and what is important to them.
- You've built a trusting relationship with customers.
- You fill a real need or desire.
- You do so in a way that feels good to them and is easy to access.
- You are very clear on what the value is in your product or service. It might be price (Walmart / Costco) it might be speed (FedEx) it might be quality (Toyota) it might be luxury (Tiffany's)

Christian Muntean has helped hundreds of businesses rapidly grow, increase profitability and accomplish their goals. His clients include regional and village corporations as well as start-ups to Fortune 500 companies. Christian is the author of the book *Conflict and Leadership.* He is also a regular contributor to Forbes.com.

Christian grew up in Anchorage. His wife, Marta, was born and raised in Nome. Her mother's family is from Noorvik. They have three awesome children. In his spare time, he teaches a strength & conditioning class and practices Brazilian Jiu Jitsu.

Please contact me if you have any questions or would like help with:

- Selling, buying or rapidly building value in your company.
- Board advisory services and training.
- Executive leadership development, advisory and coaching.
- Strategy and organizational growth.

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