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TOOLBOX

Corporate Acquisitions

10 things to consider when you're buying a business

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Last year, LIBN ran a Toolbox article about preparing your business for sale. This is a follow-up article, positioned from the view of the buyer. Here are 10 items the buyer should consider when preparing, identifying, researching, closing and integrating the purchase of another company.

1 Thou shalt create a strategic plan. As the buyer, is your corporate strategy well thought out; is it clear; has it been communicated internally; is your market segment well-defined?

2 Thou shalt define the perfect seller. Working with your advisers, identify a finite target list of potential companies that match your strategic direction.

3 Thou shalt review the corporate culture, for once the deal is done, the buyer will be faced with the monumental task of integrating the two surviving teams. Do both companies really have a culture that welcomes change?

4 Thou shalt take an honest look at your technology. Do you really have any infrastructure to absorb an instantaneous addition of new employees? Are your e-mail, CRM or ERP systems ready for an upgrade? In some cases, a buyer selects a target company because they have more advanced technology.

5 Thou shalt review the policies and procedures. Does your company currently have P&Ps for your own internal processes? Can these procedures be easily modified to include the new company? If the answer to these is no, consider acquiring a company that is process-driven, in order to help the resulting businesses scale more easily.

6 Thou shalt analyze the competition. Simply put, what will your competitors think when they hear the news that you have purchased that company? Will they have an instant headache as they wonder why they didn't do it first, or will they laugh out loud because their competitor will be distracted for the next year while trying to integrate something that doesn't make sense?

7 Thou shalt review the product integration well in advance. Create a competitive "silver bullet" grid that identifies any potential shortfalls in your current product offering. Your grid should list features on one axis and the buyer's company in column A, the seller's company in column B and three competitors in columns C, D and E. Are potential customers willing to pay for both products? Is it possible that the combination of products from your company and the acquisition target now create a new set of competitors?

8 Thou shalt define and communicate the buying process. Now that you've identified a target company and may have generically discussed deal terms, it's time to organize your thoughts in the form of a letter of intent. Your adviser, lawyer and accountant should have lots of input on the precise deal structure to meet both your corporate and personal goals. Immediately following the LOI, the due diligence phase will begin in parallel with creating the definitive agreement, commonly known as an asset purchase agreement or stock purchase agreement. As your advisory team negotiates every detail of the APA/SPA, both parties identify a closing date. Once the documents have been signed at the closing table and your bank has confirmed that the money has been wired into the seller's account, the deal is officially closed.

9 Thou shalt manage due diligence. First, meet with your internal team to define your list of seller questions, better known as a DD checklist. Once the LOI has been signed, your adviser will guide you through this sequence of meetings and data requests. To manage expectations, the buyer should not require all DD items to be delivered at once. Second, the buyer will need to coordinate multiple on-site meetings covering topics such as technology, product management, finance and customer contract review. Don't schedule all these meetings to occur at once or you will quickly overwhelm both parties.

10 Thou shalt select the post-closing integration team. This is a critical step that starts during the DD phase and ends long after you have left the closing table. This team will be responsible for integrating two corporate cultures, technology infrastructures, corporate locations, product lines, sales and marketing teams, corporate messaging and so on. The team should consist of key individuals from both parties who are strong leaders and extremely flexible to ensure a smooth transition and ultimate success of the acquisition.

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