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To Buy or Not to Buy?

5 Questions to Help You Decide Whether the Timing is right for an Acquisition

When executed properly, a successful growth-by-acquisition strategy can improve your company's shareholder value. An overly conservative holding pattern, however, may have the opposite effect.

So, when is it right for your company to consider this type of expansion?

Ask yourself the following five questions. If you answer yes to all of them, it might be a good time to pursue acquisitions.

1. Has your company's growth slowed?

In and of itself, a slowdown in sales is not an indication of a need to acquire another company, but even for the healthiest of businesses, some level of acquisition activity is often essential over a company's life in order to keep pace and achieve your desired strategic objectives. If industry trends are up – even by a modest amount – and your firm's volume is consistently flat in spite of sound management practices and best efforts, it might mean you are at a competitive disadvantage and losing market share.

In this case, an acquisition might make sense. However, the challenge of an acquisition may only exacerbate the situation at a company whose performance is lagging, so try to be objective in making the decision. Assessment of your current situation and your capacity for integrating another business are critical items to cover. Key items to consider include management strength in depth, IT infrastructure and management reporting systems, and cash availability. If any of these areas require attention, it may be prudent to focus internally before beginning the acquisition search.

2. Are industry dynamics dictating change in order to remain competitive?

Consolidating industries can often result in the “eat or be eaten” dynamic. If you don't have the critical mass or distribution channels that your competitor does, you might find yourself unable to compete effectively in the market.

An acquisition can help you gain that critical mass in a shorter time than building from the ground up. Remember, however, that critical mass means more than incremental sales. Ideally, you should expect to gain other strategic benefits, such as entry to new markets, exploitable intellectual property, or high caliber management talent.

3. Have you determined that organic growth efforts are too great a challenge, too costly, or take too much time to be effective?

Growing something from scratch can actually be more costly and riskier than buying an existing successful operation, and organic growth almost always takes longer to produce a meaningful positive impact on your business. Often the purchase of a leader in a particular sector of your industry with established processes; predictable earnings and good management already in place are well worth the upfront investment.

4. Have you identified opportunities for strategic growth?

Pursuing acquisitions doesn't require knowing the exact targets on the front end, but before moving forward, you should:

- establish very specific acquisition criteria,
- be confident that there are targets in the market that meet these standards, and
- research the market for the *right* target, not just those companies that are already for sale.

Often a company only thinks reactively about acquisitions when a specific opportunity is presented. But most of the time, the best results come from being proactive about acquiring. Regardless of circumstance, remain disciplined and start the process knowing what you are looking for.

5. Is senior management enthusiastic about undertaking a strategic growth plan? Will *not* pursuing one make it more challenging to retain quality management?

Acquisitions are disruptive to the entire organization, but if you have strong management team members, they are likely already pushing for such a move. The right acquisition strategy will not only motivate a quality management team and drive it to even better performance, but also can actually lead to greater retention. High caliber managers seek opportunities to grow. A good team will not tolerate stagnation – growing and winning is a much more gratifying proposition

Acknowledgment [Brad Bulkley](#) Bulkley Capital Dallas TX