
Growing Your Business Through Mergers & Acquisitions



Mergers and acquisitions occur when companies consolidate, usually with a larger company acquiring a smaller company, or two companies merging their business activities. There can be many benefits of M&A such as increased growth, cost synergies, complementary product and service offerings, skilled talent, new markets, increased liquidity and much more.

The current economic environment may present excellent opportunities for M&A. Suitors may find opportunities to acquire companies that may otherwise not be open to being acquired. Struggling companies may find a lifeline from a merger or acquisition. Even if neither company is struggling, combining forces may give companies the ability to aggressively gain market share when competitors are just trying to maintain the business that they have.

Depending on your goals and options at hand, you may want to consider M&A as part of your company's growth strategy. This article cover some of the benefits, challenges and key things to consider with M&A.

Benefits

One of the primary benefits of merging companies over more traditional forms of growth is the speed with which a merger can be implemented. Growth through traditional sales and marketing simply takes time. And, the more crowded and competitive a market, the more time it can take. Mergers, on the other hand, can often grow a business much faster - as quickly as the merger can be completed.

Time may not be the only benefit from a customer and revenue growth perspective. Traditional sales and marketing can be expensive and carries a certain cost to acquire a customer. Quite often, the cost to acquire a customer increases as a company grows larger and increases its marketing budget. An acquisition may enable a company to acquire customers at a lower cost than existing sales and marketing efforts. This can make an acquisition very appealing. However, when modeling this out, be sure to adjust for a potential loss of some customers due to the acquisition.

Another major benefit of M&A is the potential savings from overlapping costs and infrastructure including personnel. There may also be the opportunity to increase purchasing power, enabling both companies to lower costs through high volume purchasing. The savings from overlapping expenses and increased purchasing power can be significant and can even make two unprofitable companies suddenly profitable.



Also consider cost synergies in vertical acquisitions. Vertical acquisitions involve merging with another business within your supply chain – either a supplier or distributor. These acquisitions often make sense for well-established companies looking to reduce expenses and add to existing business capabilities.

M&A can be very strategic. It may enable a company to enter a new market which otherwise may be too costly, too challenging, or take years to see any results. By merging with another company that already participates in a target market or offers the services you'd like to add, you can effectively enter a new market and increase market share quickly.

M&A can be a useful tool to reduce competition. Merging with a company that would otherwise compete over existing clients not only increases your market share but removes a key competitor from the field: a business win-win.

Merged businesses don't only enhance their market share and service offerings, they add talented staff and intellectual property to their repertoire. Attracting and hiring skilled talent can be difficult and time-consuming, but with M&A, you have the ability to bring over whole teams of talented employees. And, while a merger or acquisition can be scary for many employees, it may help you retain great employees by providing new opportunities for advancement within the combined company.

Finally, M&A may provide greater liquidity from increased revenue, decreased costs, or liquid assets on the balance sheet. The merged company may have greater capacity to incur new debt or expand lines of credit. This increased liquidity may help in paying existing obligations, funding new growth opportunities, financing new debt or even paying for the acquisition.

Every situation and reason for merging is unique, but these provide some of the more common benefits of M&A.

Challenges

While the benefits of merging can be considerable, M&As are not without their challenges. Combining two distinct businesses, each with their own business model and corporate culture is a challenging prospect. It's not always easy to predict whether two separate cultures will merge smoothly, and there will almost certainly be hiccups along the way.

Growing a business, whether organically or via merger presents its own challenges. Operating in multiple markets and serving a larger customer base adds complexity that requires substantial planning.

In addition to the extensive planning needed to implement a successful M&A, businesses should consider how mergers will be funded. If a merger or acquisition is equity-funded, then one or both companies may lose certain rights and control. Dilution of ownership and power can be a hard sell to existing shareholders. The alternative is debt financing, which may appease shareholders who wish to retain power but at the cost of additional business debt.

Getting Started

Pulling off a successful merger takes due diligence and planning. If you're contemplating M&A potential for your business, we suggest starting with your business plan and growth goals. Have a solid understanding of your clients' needs, demographics, and who your competitors are. Identify service offerings and markets that could meet your clients' needs and grow your company. Look for M&A possibilities by assessing key competitors in the service areas and markets you identified. Once you've identified M&A "targets," determine their value, look at their financial position and weigh the benefits and challenges of a potential merger.

Next Steps

If you're considering a merger or acquisition, you'll need the assistance of experienced professionals. Our accountants have the requisite experience to help you evaluate M&A potential, value candidates for acquisition, and implement a smooth transition. Please feel free to contact our office for more information. We're always happy to help.



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