At what point do mergers make sense?

Mark McNally

THE FAMILY ENTERPRISE

The CPA designation that follows my name is familiar to most people. It stands for Certified Public Accountant. Less familiar are the initials CM&A, which reflect special training and extensive experience in mergers and acquisitions.

Thus, a significant portion of my work, involves advising clients on how to harvest the greatest value for their enterprises, which may very well involve a merger or a sale.

Moreover, as a matter of full disclosure, I have gone through the process as a business owner myself. Twice. My perspective on the topic of today's column combines personal as well as analytical experience.

I encourage business owners to begin thinking about the succession of their enterprise from the beginning. Eventually, current owners will need to turn over their stake in the business. How will this happen? Many people find this issue difficult to address when they are in the thick of building their companies. But failing to do so can lay ruin to a lifetime of work.

By always thinking about the next phase of their company's development, business owners are able to time their decisions according to the opportunities they encounter. This approach avoids reactive strategies which tend to yield smaller returns. For example, in a hasty sale of a company prompted by the impending retirement of its sole owner, the buyer has significant leverage which will work against the seller when terms are discussed.

Evaluating merger opportunities, then, is an ongoing process, and timing is critical to the value you will gain from the deal. With the merger mania of the '90s — when bigger was in many cases mistakenly interpreted as better — behind us, it is essential in today's marketplace to weigh carefully the key factors that make this business development strategy work:

■ **Geography.** Many mergers result from two business entities seeking to expand into new markets. Oftentimes, one merger partner will already have a client base in the new location and will seek to establish a physical presence there in order to better serve existing customers and/or to increase market share within that area. In this case, exploring a merger with a suitable local company may make sense.

■ **Business Objectives.** Physical presence is a necessary but not sufficient factor in a merger decision. Careful consideration must be given to the respective business objectives of the potential merger partners. These need to be in alignment in order for a merger to succeed. In cases in which one company holds significantly more decision making authority on the future direction of the combined entity, the result is not truly a merger, but rather an acquisition, which changes the dynamic of the negotiations significantly.

■ **Customers.** Driving the decisions of all parties involved in the merger agreement should be a focus on the benefits the deal will deliver to existing and future customers on both sides. In the accounting world, clients benefit from a greater pool of resources within their CPA firm, which is why you will continue to see firms combine their respective strengths. Again, if the focus of the combined entity shifts away from one of the company's customers, the deal is not a true merger.

■ **Culture.** None of the information provided above makes any difference if the two companies contemplating a merger cannot work together. This is why culture is often cited as the key ingredient in a successful merger. Think of the struggles of AOL Time Warner, now simply Time Warner (and for good reason). On the one hand, you've got the high-brow Time magazine combined with the Hollywood culture of Warner's movie and music industry. Add to that the brash Ted Turner, who became the company's largest shareholder in the mid-'90s and mix in high-tech AOL and what have you got? Confusion, not to mention investor angst.

When implementing a business combination, it is also important to balance the promise of a new beginning with the sense of familiarity that your customers and employees currently enjoy with your company. Tell them what will remain the same before you tell them about the benefits you think they will see as a result of your merger.

This way, you'll replace uncertainty and anxiety with confidence and purpose, at the same time laying the groundwork for new business objectives that should remain long after the ink has dried on the definitive purchase agreement.

For mor information, Mark can be reached at 608.274.2322
mcnally@ashfordbusinessbrokers.com