Small Business Acquisition Opportunities in a Slow Economy

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Businesses need revenue and earnings growth to increase shareholder value, and with our economy languishing, even the best management teams are struggling to maintain sales and earnings, let alone increase them. Even if you're the only shareholder, you'd like to increase your income and equity. One of the fastest ways to increase earnings is to buy them. Although executive teams of large corporations are well tuned in to this fact, and strategic mergers and acquisitions are ingrained in their cultures, the owners and management teams of small businesses (defined here as up to $10 million revenue) rarely make acquisitions unless an opportunity appears on their doorstep.

One reason most business owners aren't thinking about acquisitions is that they're exceptionally busy working "in" (not "on") their businesses in order to maintain sales and earnings in this tough economy. Unless an opportunity falls in their lap, they rarely give serious consideration to acquiring complementary businesses to gain customers, expand geographically, or round out their product line or service offering. Few ever consider making a proactive effort to purchase a supplier to improve buying power, vertically integrate production or improve gross profit margins; or purchase a customer to protect access to desirable markets. Even when a business owner has the time, they usually don't have the experience or the team in place to make acquisitions happen.

Three market conditions are making a business acquisition growth strategy worth immediate consideration for small companies that are in a strong financial position:

The Economy – With sales and earnings down, business values are also down and you can purchase most businesses for less today than a few years ago. More of your purchase price will be for hard assets and less for "blue sky". In these difficult times, target business owners will generally be more approachable and open to creative deal structures.

Business Owner Demographics – Regardless of the economy, a record number of baby boomer business owners wan to retire. While the recession has postponed retirement for many of them, others can't or won't wait. They would rather sell now for a lower price than invest additional years and personal savings to sustain their business through this downturn. Many will be receptive to creative financing, partial equity participation, employment and consulting arrangements.

Financing – At least for now, financing is still available for small business acquisitions (under $3 million sale price) through banks and non-traditional lenders. Interest rates and minimum cash injections are fairly low in historic terms. Your ability to quantity and document immediate synergistic benefits (growth revenue, eliminate redundancies and other cost reductions) will improve your chances of securing financing.

Well-known research by PricewaterhouseCoopers, McKinsey & Company, and others has shown that most mergers and acquisition deals fail to meet shareholder objectives. Many "reasons" (some would say excuses) are cited for these failures. External factors such as "bad timing" and "changed market conditions" certainly cause some of the failures. Based on my own observations, I've listed (at right) those internal/controllable causes that I believe are commonly at the root of small business mergers and acquisitions failures.

Common Causes of Acquisition Failures

1. looked at only one opportunity
2. ego or emotion won over common sense
3. over-estimated the synergistic benefits
4. insufficient due diligence
5. ignored or didn't resolve due diligence issues and risks BEFORE closing
6. integration poorly implemented
7. lack of dedicated time, talent or funds
8. leadership or cultural clash

Are acquisitions for every business owner? No. Are there risks? Absolutely. Do a lot of companies try and fail to ever make an acquisition? You bet. On the other hand, just by being aware of these pitfalls you’re half way to avoiding them. Next, if you think an acquisition growth strategy may be right for you at this time, appoint an experienced and motivated acquisition team (intermediary, transaction attorney, CPA, banker) to help you refine and implement your strategy and you’ll be on a path to success. Finally, be sure you can personally dedicate the time and resources necessary, be conservative in your post-acquisition projections, and don’t let anyone talk you into or out of a transaction. Ultimately it will be your responsibility to make an acquisition that truly increases shareholder value.

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