The Five Critical Factors for Successful Mergers and Acquisitions

By

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Some experts refer to "incompatible business models" undermining a merger or acquisition deal, but what does that really suggest? It means that when companies make money in vastly different ways, doing extremely different things, and no one recognizes or addresses these differences, the merged company risks destabilization. While decision-makers should consider the mission, vision, and values of a target company, more importantly, they should ask these questions about a target company: The Critical Five Factors

How do they make money?

Who are their best customers?

What value do they provide them?

How do they do that?

What threats and opportunities might alter these in the future?

Senior leaders should begin asking "How do they make money" in the strategy formulation stage, continue asking it through evaluation, and never abandon it as integration decisions begin to surface. "Do we really understand the engine that drives this business?" Different companies in the same market make money for different reasons.

You'll also want to know whether they have a clear strategy for the future—a plan for *what* they have to do to make money. You should also detect widespread agreement about goals and have an indication that the leadership team has gone on record about the objectives they aspire to reach. Ideally, you should discern that other organizations change the way they compete in the industry with your target company, but if the company is for sale, that may prove unrealistic. Whatever answers you receive to your questions, one conclusion should remain clear: "We can work with this company to align our mission, vision, and strategy so that we can start making money fast."

Next, ask, "Who are their best customers?" For obvious reasons, an existing customer base makes a company attractive from a strategic standpoint, but from a cultural viewpoint, decision-makers need to look beyond who the customers are to understand how the target company interacts with them. You'll want to know whether or not senior leaders of the target company listen to their customers and whether or not customer input directly influences decisions.

Next you'll want to know what value the company provides those customers. How are their customers better off because they use the products or services of the company? Who would miss them if they went away?

As you examine your target company's brand and repute, what do you find? Do they respond well to competitors and other changes in the business or industry environments? What about their record for taking prudent risks and reaping the benefits? What evidence do you see that they continue to learn and grow? Once again, if the company is for sale, the news might disappoint. But you'll know what you face and be able to evaluate their willingness to improve their processes and protocols as you simultaneously determine what those are.

Then you'll want to know whether their tactics for meeting their strategic goals match or could match yours. What resources, like advanced research and development do they have that they use wisely and that you might tap into? How do they empower employees and involve them in reaching objectives? What key talent must you retain to keep things on track? What patents and other intellectual property do they own? What processes and procedures have served them well? The answers to these questions will do two things. First, you'll understand which among their sacred cows you'll spare, and two, you might discover ways to improve your own ways of doing business.

One of the biggest impediments to integration involves change—the change itself, the fear it brings, and the speed with which it happens. Everyone on both sides of the deal will expect change; the fear will surface when people don't understand what those changes will be or when they will occur. During these critical times, indecision will be your enemy.

Like a diligent nigh nurse checking vitals of a patient, businesses should monitor challenges and opportunities at regular intervals and then make small, relevant adjustments as needed. For example, if you had evaluated Blockbuster in 2002, while Netflix was in its infancy and the web still nascent technology, and you asked the first four critical questions, you would have given the company high marks as an acquisition target. But, if you had asked how well prepared they were to deal with emerging distribution systems, you would have felt less confident about their ability even to sustain their value. With some foresight, you might have predicted they were six years from irrelevancy and nine years from bankruptcy.

Recent history has taught some hard lessons about M & A's—one of the most salient being that many, if not most acquisitions should never have occurred. The second lesson indicates that the first lesson might be moot if the parent had done more and better positioning for the acquisition—like asking the critical five questions.