Make Evaluation Continuous in Mergers and Acquisition

By

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Evaluation in the M & A process—appraisal, valuations, and assessment of the target and acquiring companies—should happen at each turn: before, during, and after the decision to acquire. Evaluation has neither a "start" nor a "start date." Rather, it involves a circular, continuous process of reevaluating new information as it becomes available and reassessment of existing data as new events shape reality. At all times, the parent company's strategic objective must serve as a lighthouse for all the ships at sea—a beacon that will show the way to success.

Whether or not a company wants to consider an acquisition, any discussion of strategy should include an examination of the company's strategic forces—the powers that drive the business's strategy, govern its tactics, and determine the scope and nature of future products and markets. These strategic forces help leaders understand why they are in the business they're in and not another, why they make the products they make and not others, and why they serve the markets they serve and not others. It also helps evaluate whether the parent's strategic force will match or complement the strategic force of a target company.

When senior leaders in the parent company make strategic decisions about the direction the company will go, either consciously or unconsciously, they have also reached agreement about the strategic forces. Often leaders use the organization's strategic force as a litmus test for generating and evaluating future alternatives because it provides a mechanism for developing, specifying, and understanding the different available alternatives.

When senior leaders consider an acquisition, they need to make the implied obvious and the discussion concrete, not abstract. They should first examine their own strategic forces and speculate about how they might profit from adding to or complementing them. But they will also want to examine any strategic-forces-related threats that might lurk post-acquisition—an often overlooked aspect of due diligence. They can't *infer* benefits post acquisition just because at first blush the companies' strategies seem aligned and their strategic forces compatible. They must dig for evidence to support their hopes.

Therefore, in addition to weighing the general benefits they hope to gain, senior leaders would do well personally and professionally to examine the following strategic forces to determine how their lives and the lives among those in their chain of command will change with an acquisition: market served, products offered, method of sale, and new technologies. Other strategic forces exist, depending on the nature of the industry, but these are among the most common.

A *market served* is a group of current or potential buyers who share common needs. An organization whose strategic force is market needs will provide a range of products to fill current and emerging demands of customers in that market. These companies will constantly search for alternative ways to respond to these customers and continuously ask, "To whom will we sell?"

Companies that use *products and services* as their strategic force always ask themselves, "*What* will we sell?" These senior leaders of these organizations realize that products or services play a key role in the future of the company. Therefore, the most profitable strategy for this kind of company is to continue to deliver products similar to those it has and for leaders to look for novel ways to improve these products.

In addition to evaluating their target's key customers, before making a decision to acquire, Enterprise executives examined Vanguard's *methods for selling* their services. Not surprisingly, Vanguard had a much deeper understanding of airport operations. At Orlando, Los Angeles, and other big airports, National and Alamo mangers presided over thousands of rental transactions every day. Their systems and processes operated on a much bigger scale than Enterprise's did. After thorough evaluation, the senior leaders at Enterprise eventually adopted Vanguard's programs because they determined they were better than Enterprise's existing ones for airport rental.

When *technology* drives an organization, the company offers only products and services that originate from or capitalize on its technological capability. In such an organization, technology determines the scope of products offered and markets served, rather than the products and markets determining the technology.

The strategic force concept holds the key to managing major product and market choices that the organization must resolve. It should serve as the touchstone for making the strategic decisions leaders will face as they consider a merger or acquisition, and leaders should consider seriously the implication of any major changes to it.