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Developing an Acquisition Strategy

In the current economic environment where uncertainty prevails, many businesses are fighting for survival where others have weathered the storm. It is this latter group that should be considering acquisitions in order to improve margins and market share. Opportunities may exist to acquire a competitor that was slow to react to the downturn in 2008 and is still feeling the effects. Financing is currently inexpensive and readily available for the financially stable acquirer.

Some of the main reasons to consider an acquisition include:

1. **Maturing Product Lines.** Management may wish to augment a current product line that is in the latter stages of its growth cycle with new products from a target company.

2. **Horizontal Integration.** This involves acquiring a direct competitor in order to eliminate competition, exploit economies of scale and improve market share.

3. **Vertical Integration.** This involves buying a supplier of inputs to a company's product line. This guarantees a continued supply of the input from the target at a preferred price, thereby improving margins.

4. **Acquiring Unique Resources and Capabilities.** At times, it may be difficult to create the "know-how" organically that is required to ensure the long-term success of the business. In these instances, buying a company with the competencies and capabilities an acquirer is lacking makes sense.

However, deciding to acquire a business without developing a proper acquisition strategy is one of the biggest mistakes a buyer can make. Many companies have failed due to a poorly executed acquisition of another business. So how does a buyer go about acquiring a business and ensuring that the sum of the whole is greater than its parts?

A properly developed strategy ensures that potential acquisitions are being executed for the right reasons. It also assists management in targeting the appropriate businesses so that synergies are maximized.

An acquisition strategy includes the following:

1. **SWOT Analysis.** To determine which companies to target, a buyer must clearly identify its own attributes in order to augment its strengths, exploit its opportunities and mitigate its weaknesses and threats.

2. **Market Position.** This is performed to determine whether the buyer is a:

    a. **Cash Cow.** (High market share but low growth);
    b. **Star.** (High market share and growth);
    c. **Dog.** (Low market share and growth); or
    d. **Problem Child.** (Low market share but high growth prospects).

    This analysis should also be performed on potential targets to determine synergies and strategic fit.

3. **Approach to the Marketplace.** There are three successful strategies that if done well, usually generate a sustainable competitive advantage:

    a. **Low-Cost Leadership -** (Wal-Mart);
    b. **Product Differentiation -** (Apple); or
    c. **Focus or Specialization -** (Coca-Cola).

    It is difficult to be all things to all people so it follows that buyers should consider focusing on targets with a similar approach to the market.

4. **Cultural Fit.** What is the buyer's core ideology? Do prospective targets have similar values and beliefs as the buyer? If not, employee retention will be a significant issue unless the buyer allows the target to operate autonomously.

Finally, the buyer should consider other potentially less complex (and less expensive) alternatives to an acquisition:

1. **Licensing Agreements.** A company rents the technology or distribution rights of another company for a fee or royalty.

2. **Co-Marketing Agreements.** Company A sells company B's product in company A's territory and vice versa.

3. **Joint Purchasing Agreements.** Two or more companies join forces to create a buying consortium in order to exploit economies of scale.

4. **Joint Venture.** Two companies create a separate legal entity in which they both invest.

Aries Advisory Group is uniquely suited to assist you with the development and execution of your acquisition strategy. We will walk you through the process and ensure that all options are considered before a final decision on the best strategy for your company is made. We will then assist you with its execution. Please contact us at info@ariesag.com or at (416) 467-7878 to see how we can help.