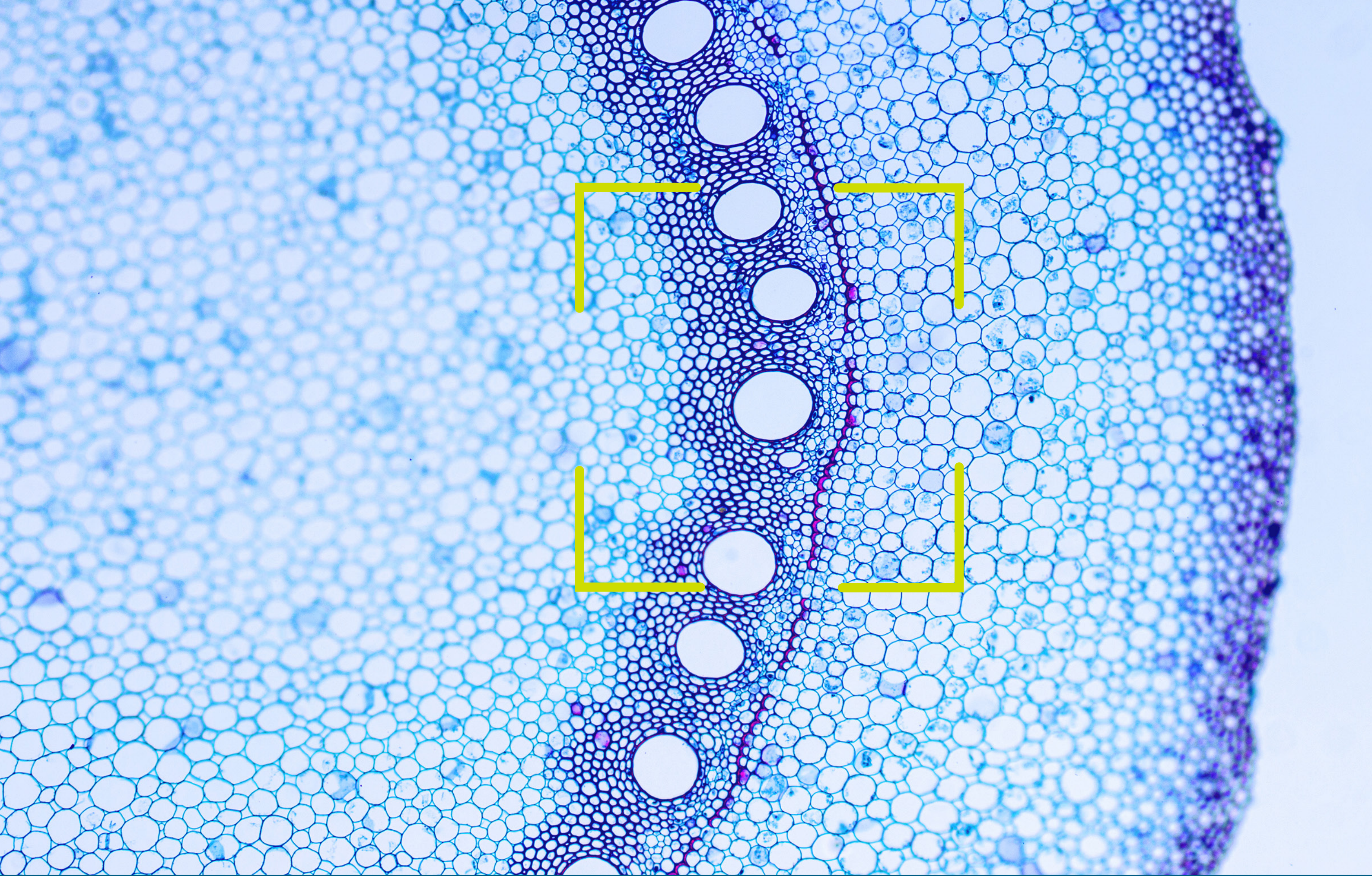
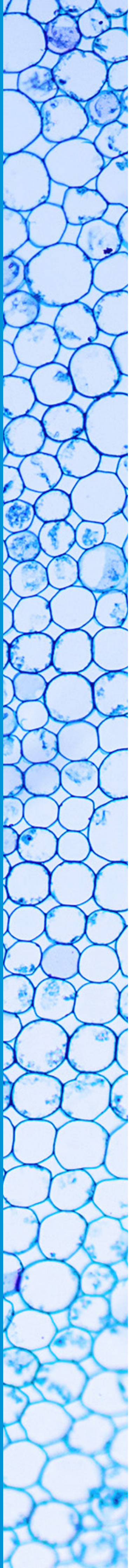


How to make acquisition strategic

After a period of reduced activity during the recession, mergers and acquisitions seem to be back on the agenda. A recent survey by EY found that acquisitions are part of the corporate strategy for many companies, with 40% planning a deal within the next year.

But it is increasingly important to acquirers that their purchases deliver strategic value, rather than simply making them bigger. A survey by KPMG found that 79% of businesses making an acquisition in 2015 will do so for strategic reasons, including to expand geographic reach, widen their customer base and enter new lines of business.

Identifying strategic value can optimise the success of an acquisition, help you justify the purchase to any funders, and increase the wealth you realise when you come to exit your business.



Seven questions you need to ask

Before making an acquisition there are seven key questions you need to answer, regardless of the size of your business or the target. These questions will help you look at the opportunity objectively, and identify any synergies that might deliver strategic value.

1. **What aims must be achieved to justify making a purchase?** For example, will it help you expand your customer base, complement your existing product line, or defend against competitors? Be wary of acquiring a 'bolt-on' business with little synergistic value. Ideally, an acquisition should result in something greater than the sum of its parts. We explore good strategic reasons for an acquisition in more detail below.

2. **What financial benefits will you see if those aims are achieved?** For example, how will the acquisition affect your business' profitability, cash flow and/or market share?

3. **Does it make financial sense?** In other words, do the benefits of the purchase represent an attractive return on its costs? And how long will it take for you to see this return?

4. **What are the risks?** What are the chances that your strategic aims will not be achieved? Think about whether you can live with the consequences if that happens.

5. **How will the purchase implemented?** You need to think carefully about who will implement the deal and how. Undertaking an acquisition will demand a lot of your time and effort; and that's on top of the work you need to do to keep your business running as usual in the meantime. Think about what kind of support you want from an adviser, as well as the types of adviser you might need (e.g. corporate finance, legal, property surveyors).

6. **Is there a deliverable plan for integration of the purchase?** A good plan for the integration of the target is key to achieving your strategic aims. What do you need to do to exploit synergies? Think about the staff you are acquiring as well; it is vital to get them on board, and they will probably have useful knowledge of the target.

7. **How quickly can the acquisition be integrated?** When will the benefits start to be delivered, and is it soon enough?

79% of acquirers will purchase for strategic reasons in 2015.

Strategic reasons for acquisition

It is vital to the success of any acquisition that it is underpinned by a sound strategy. Simply buying a non-related business for the sake of getting bigger is a recipe for disaster. There are numerous good reasons for acquisition, such as to:

- **Acquire customers**, e.g. customers in different market sectors or geographies.
- **Enhance operating leverage**, e.g. gaining volume to improve plant utilisation and production efficiency.
- **Mitigate a weakness**, e.g. dilute customer concentration or strengthen an incomplete management team.
- **Improve or complete a product line**, e.g. giving your sales force "more arrows in their quiver" by adding complementary products.
- **Answer the buy or build question**. For example, it may be cheaper for a technology company to acquire technology rather than develop it in house; this may also shorten the time to market, which could be vital in dynamic fast growth industries.
- **Provide scale and access to capital markets.**
- **Remove barriers to entry**, e.g. to break into regulated or government work.

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