CFO

How to Prepare for 'Crossroads' Situations

In many M&A deal circumstances, the best path is unclear and the clock is ticking.

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Financial executives play a major role in influencing a company's strategy. It's often the job of CFOs to weigh the pros and cons of M&A deals that could benefit the company and create value for shareholders.

When a company is open to a merger or acquisition and decides to run an auction, under normal market conditions there will be multiple viable buyers competing with each other to make a deal. Almost always, a successful transaction will mean that the seller receives the highest price available within a clear timeline.

However, those kind of situations are not universal — in fact, I would estimate that they happen only about 80% of the time for intermediaries and less than 50% of the time for CFOs. Complex decisions and complicated, unique, non-auction negotiations are the norms when you think about deal opportunities from the perspective of senior managers and boards of directors.

I call these "crossroads" deals because they are exactly that — the company is at a crossroads where the best path is unclear and the clock is ticking. The situation could resolve in numerous ways, not all of them positive.

Crossroads situations typically fall into one of two categories: a company either has an overabundance of options or not enough.

Companies with too many options sit somewhere in the middle between wild success and looming failure. The investors in such companies are anxious to see cash returns. The source of returns could be new business opportunities, joint ventures, acquisitions, divestitures, expense reductions, recapitalizations, or an outright sale of the company.

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In the opposite situation, a company only has a handful of options — occasionally by choice, but often not.

Take, for instance, a small business that suddenly loses its largest client. The resulting loss of income could be substantial, and leadership could be left with a small number of not-so-appealing options, ranging from dramatic cost reductions all the way to asset liquidation.

Alternatively, a company might be too set on pursuing a single opportunity, to the point where it doesn't fully consider competing options. In both cases, the weight of the decision can paralyze decision-makers.

When the job of chasing down one or more potential opportunities becomes overwhelming, finance executives traditionally seek help from lawyers and investment bankers. A lawyer will assist in managing the legal risks of a situation, while an investment banker will help companies arrange financing to back a transaction.

Investment bankers have the skills to assist in assessing the financial impact of a range of opportunities. But under their traditional business model — which is commission-based and tied to the closing of a deal — they're strongly motivated to push for certain outcomes. The problem is that the best advice in a crossroads situation may be to not proceed with a deal.

In crossroads situations, the most important tools a business can have are awareness of strategic alternatives and the ability to compare them quantitatively.

Having these tools and knowing how to use them comes from conducting disciplined, regular strategic planning; routinely checking the market for business relationships that can change the direction of a company; and making decisions on the basis of clear-eyed, long-range financial plans and analysis. Companies with sophisticated outside investors or who rely regularly on investment bankers know these tools, but not all companies do.

If this kind of long-term strategizing is not in a firm's wheelhouse, the best way to prepare is to begin building relationships with lawyers and investment bankers of all stripes. Identify who is more suited for efficient deal execution and who is more suited for strategic advice. By doing so, you put the company in the best position if it comes to a crossroads.

Frank Williamson is the founder of Oaklyn Consulting, a consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capital-raising, investor relations, succession, and other strategic corporate finance decisions.