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Mergers/acquisitions are not for the faint of heart

Frank Williamson

Growth and expansion are part of the natural life cycle of a healthy business. Sometimes that growth comes about organically, through opening a new location or expanding products or services. Other times, merging with or acquiring another business might be the best strategy.

But, there's no dodging the fact that mergers and acquisitions (M&A) can be extremely risky. Business owners considering such a decision need to be clear-eyed about the potential downsides and challenges.

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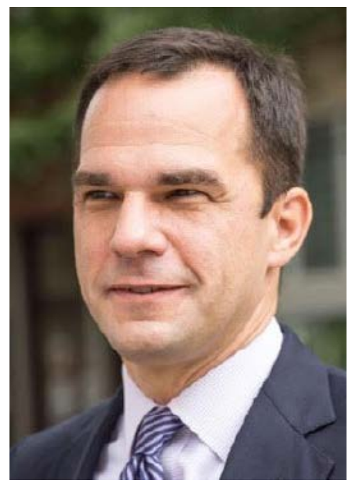

Frank Williamson, founder of Oaklyn Consulting

Perhaps it's just human nature, but I have encountered business owners who optimistically assume that merging with or acquiring another business will result in double the revenue, double the number of successes and so on.

Such a scenario is possible, but it's not likely in the short term.

It takes hard work to make an M&A deal flow smoothly. Somebody at your business has to focus on the deal instead of tending to the crucial and primary job of serving clients. And, something has to give when a business isn't operating at full capacity.

In the meantime, your competitors will be doing everything they can to benefit from any

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perceived weakness on your end. What better time to be aggressive with sales and try to peel off a customer or two?

It would seem that taking away a competitor by buying that company would be advantageous — in that there would be one fewer company bidding against you for new customers.

But, that doesn't tell the whole story. In a market where contracts go out to auction, companies are generally required to seek a certain number of bids — five or six is typical.

Despite removing one potential bidder, another will inevitably rise up to take its place, preserving the competitive landscape.

Buying a business doesn't mean that you're buying everything that makes it successful, either. It's not uncommon to lose good employees during an M&A transition period. Some might even decide to go into business themselves, creating a new and motivated competitor.

Other times, the cultures of your companies might not mesh. Two groups of people might think about business differently or have varying levels of energy. And, if you encounter bumps in the road, there tends to be finger-pointing.

Business owners shouldn't be scared away from going down this path. But, M&A decisions are an area where professional consultants can demonstrate their value. An M&A deal is a huge undertaking, especially for a small business owner who is going through the process for the first time. An experienced guide can help navigate pitfalls and make the process go as smoothly as possible.

Saying an M&A deal is good for your business is like saying open-heart surgery is good for your health. It may be the right and necessary choice, but it's one that carries plenty of challenges and risks.

You have to do everything you can to lower the risk. Make sure the staff is trained, the room is sterile and the equipment is tested and up to date. Don't do it in your backyard with a hacksaw.

Frank Williamson is founder of Oaklyn Consulting, a Tennessee-based strategy consulting firm that has a financial focus.