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BUSINESS DEVELOPMENT

*Creating Profitable Growth*

## **Winning at Acquisition: The Proactive Approach**

By Dick Albu, Founder & President of Albu Consulting Inc.

A good acquisition made at the right time in a company's life cycle can propel a business forward, significantly accelerating sales and earnings growth. Your approach, experience and commitment to the acquisition search process can decide the difference between success and failure.

There are two ways to approach acquisition initiatives: opportunistically or proactively. The proactive approach offers greater control of the overall process, and increases your odds of success in a market that's intensely competitive.

### **"Opportunistic" vs. "Proactive" Acquisition Search**

In an opportunistic approach you take no action until a compelling acquisition candidate comes to your attention. Typically, you announce your network of contacts that you're interested in acquiring a certain type of company and that you're offering a finders fee. Because the network is working on a contingency basis, they tend to pursue the avenue of least resistance, often presenting ideas that may only be remotely appropriate for your business. It is your responsibility to screen each prospective candidate. Keep in mind that, if rejected too often, a network contact will lose interest.

In a proactive approach you commit time and resources to finding and qualifying prospects. The process involves creating a comprehensive list of potential acquisition candidates, then focusing on the targets that have the greatest probability of success. Because some targets are not necessarily known to be for sale, you can preempt competitors and begin negotiating without having to compete for attention.

As an extension of your management team, use a qualified outside resource such as a business broker or consultant to help expand your ability to gather information and uncover creative approach strategies. In addition to keeping your acquisition initiative confidential; a qualified outside resource will also help you avoid premature disclosure of your intentions to prospects, and, in competitor-to-competitor situations, avoid confrontation.



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## **The proactive search process**

A proactive search process should evolve as follows:

### **Define the acquisition strategy**

In this first step, establish the goals you wish to achieve through an acquisition, and describe the criteria for selecting the ideal acquisition candidate.

The process of defining the strategy should begin with an assessment of your company. Often it's best to bring in an external resource to assess your firm. That person should interview key managers to discuss the company's structure, its processes, its people and its overall strengths, capabilities and capacity. Becoming aware of your strengths and capabilities increases your ability to identify potential hard and soft synergies which might enhance the value of a potential target.

Next, define the objectives, guidelines, parameters and priorities of the external growth effort, as well as management biases regarding product or service categories, markets, geography, technologies, and other factors that might influence the selection process.

Following this preliminary work, write out a specific recommendation outlining the strategy. The recommendation should include a fully rationalized statement of the strategy, and a detailed description of the search guidelines that includes:

- transaction size limitations (minimum and maximum)
- industries or markets of primary interest
- infrastructure requirements
- financial considerations
- technology of interest
- sophistication of the business
- management requirements
- Other relevant parameters which will help you screen out undesirable candidates

The external development team and the CEO should approve the strategy in advance of beginning field work. Proactive acquisition search requires a great deal of positive energy, and disagreement among key managers complicates and slows the process, thereby creating uncertainty and increased costs.

### **Develop the comprehensive list of potential acquisition candidates**

Be creative and brainstorm ideas regarding where candidates might be found. Some obvious sources include industry association membership directories, industry publications (particularly those that provide annual state-of-the-industry reports), industry specific directories as well as general corporate directories that segment by

industry (i.e. Directory of Corporate Affiliates), and industry trade shows. Depending on the level of confidentiality you require, you may want to canvas your sales organization for ideas as well. If confidentiality is a concern, you should consider retaining the help of an outside resource that can make inquiries without revealing your firm's name.

As you develop your list of potential acquisition candidates, do not be concerned whether any are known to be available. Availability, or probable availability, will be decided later in the process.

### **Gather top line information**

Screen the comprehensive list down to a short list of priority prospects based on desirability or best strategic fit. Eliminate the candidates that do not meet the guidelines outlined in the acquisition strategy.

Establish two categories for rejected candidates: "rejected for cause" and "need more information." As you get deeper into the process, more information will become available and those candidates still in question will be better defined.

Your goal in this phase is to arrive at a group of entities which appear to warrant further investigation. These priority candidates will be scrutinized further in the next phase.

### **Select priority candidates**

For each priority candidate, develop a profile that includes ownership, management, sales revenue and profits (if available), geography, markets, product lines, brands, services, market share, salesforce, manufacturing, and any other relevant information.

Review the information and rank each target according to desirability, and if possible, establish a preliminary assessment of its probable availability. Divide the list into primary and secondary candidates so that you can focus on a short list of six to twelve prime prospects. Hold secondary candidates in reserve and as primary prospect are found to be less desirable, or are determined to be definitely unavailable, secondary candidates can be moved to the primary list.

### **Develop an approach strategy**

For each prime candidate, develop an approach strategy that defines the business rationale of why the potential seller would consider divestment.

Your research efforts in this phase should go beyond information available in the public domain. Interviews with suppliers, trade associations, customers and ex-employees, will give you an inside-out view of the target company's strengths, weaknesses and goals. Probe for competitive pressures, concerns about future growth, financial restraints, technology weaknesses, changes in business strategy, capital requirements and capacity limitations, all of which are potential entry points to the company.

With this research conducted, identify the key decision maker and other high level contacts within the company. High level contact will help you make your approach to the decision maker, and help ensure that your proposal receives a serious audience. This contact is not necessarily the most senior officer. Secure the support of the right person and he/she will help influence the rest of the organization. Never approach people that might be negatively affected by the decision.

### **Contact priority candidates**

Contact the targets to set up personal meetings with the key decision makers identified in your research. The objectives of the meeting are to:

- confirm and enhance your information base
- test the viability of, and strengthen the approach strategy
- anticipate questions and obstacles which will arise during negotiations
- gain agreement to begin discussions between your two companies regarding the possible acquisition.

The key to success in bringing candidates to the negotiating table is the preparation and implementation of the approach strategy. Insights into the management, ownership, performance and strategic plans, as discussed earlier, need to be gathered from a variety of sources, including personal interviews with people familiar with the target company. If a compelling rationale for the proposed acquisition can be developed and accurately presented, the odds of attracting the potential seller's attention will increase significantly.

Competitors tend to talk more easily with a third party. An experience outside resource can be perceived by the target as an intermediary between the two companies, and, therefore, can provide you with important feedback during serious negotiations.

### **Keep the process going**

Try to pursue at least three serious targets at all times. This not only increases your objectivity and bolsters your confidence as a negotiator, it accelerates the process. Here are some numbers to consider: when using a proactive acquisition search process about 30% to 40% of companies initially approached will commit to a first meeting with the potential buyer. After the first meeting, about 20% of candidates will agree to enter into serious negotiations, and of those many will fall out of negotiations.

Be prepared for surprises and be ready to move quickly on new opportunities. Approach each negotiation as a selling challenge and a learning experience. Always leave the door open so that you can exploit and build on the learning which takes place in the initial meeting.

Critical to the success of either opportunistic or proactive acquisition search is the CEOs active involvement in all aspects of the process. Success depends on his/her complete support, participation and commitment to success.

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