ACCESS Insights

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Driving Growth through Purposeful and Systematic M&A

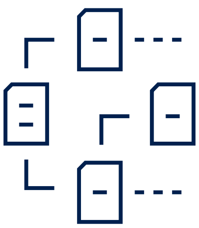
BY KEVIN MCALLISTER AND STEVE CHANG

In order to achieve consistent growth through Mergers & Acquisitions (M&A), a successful company systematically identifies and pursues opportunities with purpose. In practice this means following a disciplined process of actively pursuing opportunities that align with a clearly defined growth strategy.

So what does purposeful and systematic M&A actually look like?

Purposeful

M&A is characterized by knowing which markets you want to be in (or not), knowing the profile of the ideal company you'd like to buy (e.g., financial profile, product breadth, market position, geography, business mix) and having a clear view of how an acquisition will generate value through operational synergy, enhanced market penetration or other value creating actions.



Systematic

M&A is characterized by the use of formalized, repeatable processes for deal sourcing, due diligence, merger integration and value creation. Leading companies may also utilize contemporary technology, digital outreach and data analytics to drive rigor and efficiency with M&A efforts.

When executed together, a systematic and purposeful approach to M&A can deliver more predictable returns over an extended period of time with reduced risk.

So how can a company begin to do this? We suggest the following:

1. Define Markets and Models You Want
2. Screen Opportunities Rigorously Against Benchmarks
3. Buy What You Want to Own, Not Just What's For Sale
4. Drive Integration, Engagement and Value

1. Define Markets and Models You Want

Defining and choosing markets you want to engage in and models you want to pursue are critical to an effective M&A strategy. More specifically, companies need to rigorously analyze and select the markets and segments they want to compete in vs accepting where they operate today or what they might inherit through an acquisition. There are a variety of characteristics that can be assessed to gauge attractiveness including industry fragmentation, competitor intensity, geographic concentration or dispersion and market size and growth.

In addition to choosing priority markets, a company should also define the type of businesses and business models (i.e., how they create value and make money) they prefer to guide M&A activity. This will ensure that an acquirer stays focused, pursuing businesses they understand and that align with a chosen strategy.

2. Screen Opportunities Rigorously Against Benchmarks

The bedrock of an effective M&A strategy should be a thoughtful set of criteria that enable evaluation and prioritization of potential acquisition opportunities. Example criteria might be things like market or population density, EBITDA scale, expertise of an owner and management team, competitive landscape, and value creation potential. Choosing which criteria to use and prioritize is a critical part of a systematic and purposeful process. The specifics of the evaluation criteria will depend on the nature of a given industry and can be identified through research and deliberation. Once criteria have been defined, they should be rigorously applied to screen and evaluate potential acquisitions.

3. Buy What You Want to Own, Not Just What's For Sale (SM)

With clarity on strategy, it's important to buy what you want to own and not just what's for sale. You need to have the discipline to avoid deals that may look interesting but don't align with your strategy. For each step of the acquisition process, there must be rigorous examination of a target business, consideration of how it fits within your strategy and identification of where and how value will be created. These details must be considered in a thoughtful and systematic manner

"Perhaps the most important part of an acquisition strategy is the work you will do to integrate an acquired business"

and not ad hoc as opportunities appear. M&A success requires discipline, starting with what you choose to buy, to achieve consistent results over time.

4. Drive Integration, Engagement and Value

Plenty of good acquisitions have failed due to poor merger integration. In order to avoid this outcome, it will be critical for a company to have a defined merger integration process, clear communication protocols, project plans and milestones and resources and accountability focused on integration tasks. Importantly, a key to success is the time and attention you give to addressing people matters, including engaging everyone around an exciting vision of the future and opportunities the acquisition will create. Motivated and inspired employees will work hard to deliver results, and the work you do during integration will set the stage for capturing value over an extended period of time.

Here's the Bottom Line

M&A can be a powerful and effective method for driving growth, but it must be purposeful and systematic. Success will depend on your ability to execute on a disciplined strategy - selecting optimal markets and business models and acquiring and integrating businesses you want to own vs those that are for sale.

Kevin McAllister is the Founder and Managing Partner of Access Holdings and Steve Chang is a Partner with Access Holdings

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