The Anatomies of Acquisition: A Primer

By James A. Russell and Jim Tepper | *Partner, New Direction Partners*

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It's an appeal for help that we've grown accustomed to hearing at New Direction Partners: "My sales are flat. We aren't moving in the right direction as a business. I know I should be thinking about acquiring another company—but what kind of company, and how?"

Our first response is to congratulate the owner on having made the commendable decision to grow by acquisition. Then we try to outline the scenarios in which acquisitions most often take place, making sure that the client knows what to expect and what to watch out for in each case.

It's essential to have a clear-eyed view of how acquisitions work, because sometimes, they don't. A company that acquires another company without fully understanding what it is buying can find itself saddled with a dead weight that does nothing but lose money. In some instances, what might have been a successful acquisition falls apart because of things the buyer failed to anticipate at the time the deal was closed.

Generally speaking, acquisitions that succeed conform to any of the five following models. They are all structured as tuck-ins with the exception of the final one:

Model #1: The buyer acquires a company similar to his own to gain more volume of the kinds of work he is already doing.

Model #2: The buyer acquires a company similar to his own because the company has better (i.e., more modern and productive) equipment.

Model #3: The intent of the acquisition is to diversify the buyer's product mix.

Model #4: The acquisition is a technology play that will enable the buyer to move into new, technology-enabled areas of service or acquire updated, software supported services.

Model #5: The objective is geographic expansion. (In this model, the target company is acquired as a going concern and continues operating in place. In the others, the buyer absorbs only active accounts and/or the desired equipment and technology.)

The main attraction of Model #1 is familiarity: the buyer's and the seller's capabilities, employee skill sets, and customer profiles are the same, or nearly so. But, there could also be differences to reconcile. For example, the acquired company might have a pricing structure different from the buyer's. It could be paying more (or less) for paper and consumables. One company might be a pleasing-color shop, while the other caters to high-end customers with stricter color requirements.

By themselves, similarities between companies don't guarantee a good fit. The volume that the acquired company brings to the table may be attractive, but what if most of it is concentrated in a few large accounts? The buyer must also ask whether the acquiring plant has enough capacity to handle the inrush of new work. These are all issues to address in the due diligence and negotiation phases, not after the sale is closed.

Model #2 could grow a half-size offset shop into 40" production, where it wants to be. There is commonality between the operations, but the buyer should be certain that the postpress department, for example, is equipped to handle the output of the full-size press (or presses) being brought in. The same consideration exists if the equipment being acquired is digital. Digital presses need to be supported by digital finishing lines—conventional postpress isn't well suited to the smaller formats and volumes of digital production.

If gaining equipment is the goal, and if the existing footprint is at full capacity, it may make sense to structure the transaction as a reverse tuck-in in which the buyer shifts production to the acquired company's plant. This affords the needed room for growth, and the acquired equipment can continue to operate in a space where it is known to run efficiently. Circumstances have to be right for a reverse tuck-in to work properly, however.

One key to success in Model #3 is retaining the people responsible for producing the diversified product mix that makes the acquired company attractive. Another is remembering that with new product categories come new customers—strangers with whom the buyer will have to develop sales and support relationships. Once these are formed, the buyer will have an opportunity to cross-sell the acquiring company's product lines along with those of the acquired company.

Web-to-print, MIS, and data-driven mailing services are among the capabilities that inspire technology plays in Model #4. It's usually easier and faster to acquire these specialties than it is to home-grow them. Being able to offer them is a major plus for customer retention, and they increase the perceived value of the acquiring company as well.

Again, what's crucial is keeping the expert personnel on board, especially in areas such as database management, personalization, and 1:1 multichannel marketing. Companies that make acquisition technology plays will find that they need trained programmers on staff as much as they need skilled equipment operators.

Our colleague, Frank Steenburgh, has written an informative post about the advantages of geographic expansion under Model #5. As Frank says, the broader the territorial footprint, the stronger the appeal to Fortune 500 companies and other customers that buy printing on a national basis. A company stuck in a flat regional market can't pick up and move to where the work is, but it can accomplish nearly the same thing by acquiring a complementary operation in a place where the market has more to offer.

Coordinating activity between the two sites is the main concern. Can the acquired company be managed remotely from the buyer's location, or does it make more sense to send a management team there? How much personal time will the owner have to dedicate to the tasks of merging cultures and establishing customer relationships? These questions will be at the head of the list when considering a geographic expansion in the Model #5 scenario.

At New Direction Partners, our advice to every client is to be in either a buying or a selling frame of mind. We encourage acquisitions, but only when they are mutually beneficial, planned with care, and executed in ways that maximize the likelihood of success. A bad acquisition is worse for a growth-committed company than no acquisition at all. With proper advisement and attention to detail at every stage, no acquisition need be anything except a rewarding win for all concerned.

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