Merger or Acquisition for a Small Business

I got a great question from a local small business CEO who asked, “I have started a business that is growing and would appreciate some general information about the potential of selling my business in a few years. What should I know?”

My response was that this is great planning and I compliment your looking into this option for your business. There is a super article on SCORE’s web site that was recently written by Eric Allison, managing partner of Golden One Ventures, a boutique M&A firm catering to the middle market for the staffing and recruiting industry. I will share some of his expertise from his article.

All entrepreneurs understand the difficulty of starting a business from scratch. The countless hours and sleepless nights one must endure to come up with an effective business plan are often compared to birthing a child.

However, it is also necessary to accept the fact that keeping the business alive is just as difficult, if not more. In most cases, crucial decisions should be made in order for the enterprise to move forward, including company buyouts or sales. This is where mergers and acquisitions (M&A) come in.

Mergers and acquisitions is an umbrella term that covers quite a lot—from corporate sales and purchases to consolidations and mergers.

If you are a business owner or someone who is planning to start one someday, it is vital to learn more about M&A this early in the game. One of the most common misconceptions entrepreneurs have is that M&A is only for large-scale or multinational businesses that have millions of funds to spare. Even at the local or regional level, M&A agreements can prove vital, especially for small- and medium-sized companies.

There are different types:
In a **merger** agreement, the company owners of two or more businesses agree to combine their companies in an attempt to expand their reach, gain market share from competitors, and reduce the cost of operations. In larger firms, their respective boards of directors should approve the merger, and seek approval from both companies’ shareholders.

Usually, the companies that agree to merge are almost equal in size and earnings, thus such deals are often called “merger of equals.” After a merger, the two individual companies cease to exist, and a new, company is born.

**Acquisition** is unlike mergers, are technically purchases. A more profitable company decides to buy most or all of the company’s shares in order to gain control of that portion of the company. Compared to mergers, acquisitions are easier to follow because only the purchased part of the business will be affected by the deal. If the acquiring party purchases the entire company, then the latter becomes entirely part of the acquiring firm.

**Consolidation** is an M&A agreement that creates a new company with all the assets, liabilities, and other financial entities of the responsible parties. This combination is done to combine talents, increase profitability, and transform competing firms into one, cooperative enterprise.

Mergers and acquisitions can take place due to a variety of reasons, and as a company owner, there are factors you need to consider before expanding your business:

- **Grow income and market share** – These are the two most common reasons firms enter into M&A agreements. For instance, if a shoe company wants to expand its merchandise to men’s and women’s apparel, it can acquire another business that already has a loyal consumer base in those markets. If the merger or acquisition goes smoothly, that business may be able to enjoy increased market share, more profit, and a wider audience.
- **Survive unforgiving competition in the industry** – In some cases, a business may find itself outdated and outgunned when it comes to the latest innovations in the industry.
- **Take over competitors** – One traditional way to get rid of competitors is through acquisition. However, even if you have the finances to take over your rivals, you have to make sure you can streamline their operations into yours. In addition, you also need to ensure that the employees of the
acquired company can cultivate a workplace culture that is similar, if not identical, to yours.

If your company is facing any of these potential reasons, then you may want to consider entering into an M&A agreement. Before joining the fray, though, make sure first that you set the value of your company accurately. In order to achieve this, you will need the assistance of M&A advisors.

Fortunately, several trusted firms specialize in M&A agreements between small- and medium-sized businesses. You just need to know where to look.

M&A is a powerful strategy that companies have been using for many decades. As long as it is done correctly and with enough preparation, you’ll be able enjoy its benefits, in the long run, should you choose to do it.

___________________________________________________________

Dean L. Swanson
Southeast Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
www.seminnesota.score.org/

*Dean is a volunteer Certified SCORE Mentor and former SCORE Chapter Chair, District Director, and Regional Vice President for the North West Region