Merger and Acquisitions Rationale for Creating a Checklist Checks and Balances and Sticking to a Plan.

Developing a checklist of acquisition criteria can also reaffirm your goals or more clearly bring a part of your strategic plan into focus. You may also discover something about your business or goals you may not have previously known.

Developing the Checklist

The first step in developing acquisition criteria is examining your strengths and weaknesses. While this step may seem obvious, many buyers fail to examine themselves adequately and consequently develop flawed acquisition criteria. (SWOT based on thorough internal and external analysis)

Next: your strategic plan. If you have none, this is the time to develop one. If it is on a napkin, that's just fine, the simpler the better, but it needs to be executable. ***(What is a strategic plan – Strategy Presentation)***

After you have a realistic and complete picture of your business and a vision of its future, list the qualities you're seeking in an acquisition candidate, and what you can afford.

Facts to Consider

Many, but not all, of these qualities will be specific to the industry. While each acquisition is characterized by a particular set of needs, we have prepared some guidelines to help you develop yours:

- **Industry and type of company**. Are you looking for a business similar to yours, or do you want to diversify?
- **Level of sales and profit margin**. Do you want a business with smaller volume and a higher margin? Would you consider a company with a higher sales volume than yours?
- **Financial strength**. Does the company have undervalued assets? Are there inventories that can be used as collateral for financing? How much pre-acquisition leverage can you accept?
- **Geographic location**. Where do you want to buy? Is that the only acceptable location? Will any efficiencies of scale materialize only if the target is within a certain area?
- **Purchase price, financing terms**. How much can you pay? Do you need seller financing? Are you looking for an earn out? What financing resources will you use? How much value will the acquisition create in the eyes of the lender?
- **Management strengths and weaknesses**. Can your current management assume responsibility for the target's operation? Will you need to retain existing management after the acquisition? Are there specific management strengths you need to complement your business?
- **Market and market strategy**. Is the acquisition designed to increase your market share? Is there a particular segment of the market you want to capture? Do you want to diversify your market strategies or expand your market research?
- **Number and strength of competitors**. If the acquisition is for diversification, who are the target's competitors? Are they new to the market? Are they gaining or losing market share?
- **History and reputation**. Is the acquisition candidate a family business? Will it be difficult to persuade the owner(s) to sell or the key employees to remain? Are you looking for a business with a strong reputation for high quality? Do you need name recognition?

- **Property, plant and equipment**. Do you have idle facilities? If so, are you planning to acquire targets and liquidate the property, plant and/or equipment to finance the acquisition? Has the equipment been well maintained? Is it paid for?

- **Distribution networks**. Is this acquisition designed to increase your distribution networks? Do your networks and those of your target complement each other? Can you combine networks to lower distribution costs?

- **Operational efficiency**. Are you looking for ways to increase efficiency in an area like order fulfillment? Do you have a highly efficient operation you could export to the target?

- **Liability issues**. How will the acquisition affect your product liability insurance? Are there proposed changes in safety or environmental regulations that affect your industry? Will the target have difficulty complying? Can the target help you comply with new regulations?

- **Trademarks, patents or proprietary technology**. Do you want to acquire trademarks or patents to increase the price you can charge for your products or to increase your market share? Do you have proprietary technology that would streamline the target's operations or provide a low-cost improvement in its product quality?

- **Research and development (R&D)**. Do you want to spread the cost of the R&D investment over a broader product or earnings base? Are you looking for new developments?

The successful acquisition begins with a concrete description of its purpose and a flexible yardstick with which to judge potential candidates. These questions can help you develop an acquisition checklist that will improve your focus. If you are planning an acquisition, call us early in the process. We can help you develop your acquisition criteria, identify potential targets and investigate their suitability.