**The 7 Most Costly Mistakes That ANC’s Make When Acquiring a New Business: *And How To Avoid Them***

According to the Harvard Business Review, between 70% and 90% of all businesses acquired through a merger or acquisition fail to bring value. Even worse, as many as 60% of these acquisitions destroy value.

While we don’t have those numbers for businesses acquired by ANC’s, anecdotally, they are similar.

In spite of how bad these odds sound – they are descriptive, not predictive. Most of this failure is easily avoided.

**Growth through acquisitions is a solid strategy to consider *if you avoid these seven costly mistakes:***

1. **Overpaying:** Purchasing companies frequently pay too much for an acquisition. There is a saying when investing in real estate, “You make your money when you buy.” This means that spite of all the benefits that may exist in owning the building, you risk losing money if the purchase price and terms aren’t immediately favorable *to the buyer.*

It’s the same for buying a business. Despite this, for reasons ranging from insufficient due-diligence, to being enamored with the business being considered, to being over-optimistic about the future, to ego—many buyers pay too much.

They also misjudge the full cost of the acquisition. This includes all the integration costs, addressing issues that didn’t show up during due diligence, potential loss of key employees or customers during the transition and so on.

**To avoid this mistake:** *Ensure that your due-diligence includes the “soft” qualities of the business and not just a review of financial statements and assets.*

*Explore questions such as the strengths of the management team, the degree to which systems and processes are established and written, the compatibility of its culture with your own and the degree to which the company is dependent on the outgoing owner, outstanding customer issues (or lawsuits), the reputation of the business in the community, etc.*

1. **Misjudging the Value Match:** Purchasing companies frequently misjudge the potential value an acquisition might bring.

For example, they may hope to achieve an economy of scale between their current operations and the new acquisition. Or they may hope for savings through removing management and administrative redundancies. But if both companies are already operating efficiently, it’s very possible that there are no gains to be had.

They may hope that an acquisition will introduce them to a new market. But if changes that they may make to the acquisition (even as simple as branding changes) alienates them from the new market, then there was no gain.

**To avoid this mistake:** *Be objective about the full value and potential cost this acquisition may bring. Be very specific about what benefits or synergistic values you expect through the acquisition. Evaluate their likelihood.*

1. **Culture:** Many acquisitions fail because of a mismatch of organizational cultures. Organizational culture is like an onion. At the core there each businesses world view and values. Outside of that are the expected behaviors and traditions important at both. Outside of that are more observable elements like dress codes or office furnishings.

Both companies need to take time to understand each other’s culture, to identify commonalities and have sincere conversations around differences.

**To avoid this mistake:**  *Acquire companies that share your values. Acquisitions have that significantly different cultures – especially at the world-view and core value level – aren’t likely to survive. Understanding the core values of your own organizational culture make it easier to identify and understand the core values of others.*

*Exercise humility, patience, lots of communication and clear expectations. Remember that you are probably purchasing a business that works – with the culture they have. Be careful not to lose their “secret sauce” by needlessly changing the recipe that works for them.* *Any changes you do make, are usually best made by gaining their buy-in as opposed to crude enforcement.*

1. **Integration:** Most company acquisitions completely forget to consider, let alone plan for, what it will take to integrate a new business in your ecosystem.

As mentioned above, the impact of culture change is significant. Also, it is common to overlook technological differences or changes that will be needed. Additionally, systemic, process or policy changes that may occur. Sales processes, vendor relationships, community relationships and more are all impacted.

Another common error is poor communication around the integration process. Poorly communicated, suddenly announced or seemingly arbitrary changes can cause the employees of the acquired company to feel devalued and threatened. This can lead to a loss of key employees.

**To avoid this mistake:** *Consider all the points of likely integration between businesses. Along with identifying the potential benefits, consider likely challenges. Create a plan (with the input of management from the acquired company) for a successful integration on each of these points.*

*Take time to communicate well, include listening to how the employees of the acquired business are experiencing the changes. Remember, you probably bought a company that was performing well. At least some of that success was related to either how they already did things.*

*Avoid changes that aren’t clearly helpful or necessary.*

1. **Not Focused on Customer Experience:** Without customers, you don’t have a business. Despite this, many buyers completely neglect to consider how the customer might experience or feel about the acquisition or changes that may come with it.

There is a helpful concept called the “customer journey.” Essentially, what is the customer experience, each step of the way, in their interactions with you? Will the customers be asked to pay the price for integration challenges? Will they lose something as a result?

Many customers are very loyal in their business relationships. A change in ownership often becomes a natural point for customers to reevaluate their relationship with the business. The incoming owner should never take their loyalty for granted.

**To avoid this mistake:** *Map out the customer’s journey in their relationship with you. At each step of their journey to making a transaction, receiving a service or continuing the relationship consider – are they gaining or losing because of this acquisition? Are they receiving better service or more frustration as a result of these changes?*

*Make sure your customers don’t lose because of the acquisition. Don’t make assumptions of their loyalty and how much inconvenience they’ll put up with. Assume that you need to win the hearts and loyalty this entire customer base.*

1. **Pride and Personal Agendas:** These aren’t the same thing. But they are similar in the sense of putting your interests over the interests of others. Some acquisitions are ego driven. No one will say this out loud, but the deal is pursued entirely because an owner (or board) views the acquisition as one more point on their tally of self-worth.

Additionally, there is an odd ego dynamic that can happen around cost. Some people want to be able to flex their financial muscles and just prove they can pull off a deal – even if the deal isn’t likely to bring value. (Remember, most acquisitions don’t.) They stop making a good business decision and start making ego decisions.

Personal agendas can come into play when there is self-dealing amongst owners or a board. Someone may personally benefit in some way because of an acquisition – even though the acquisition itself may not be a good investment. Or sometimes the incentives that tied to making acquisitions drive poor buying decisions.

***To avoid this mistake:*** *It’s difficult to advise people driven by pride or a personal agenda. In my experience, they can’t or won’t see things differently. But many people go through moments of ego or struggling with a conflict of interest. It’s helpful to have good, objective advisors who are willing, to be honest and candid with you. People who don’t stand to benefit or lose from the transaction. Consider what they say. Their goal is usually to help you succeed.*

1. **Parent capacity:** Last, but not necessarily least, is the capacity or bandwidth of the parent company to take on an acquisition. I once had a client who ran a very profitable and lean operation. They had no fat in their system.

They made a strategic acquisition that should have helped expand their market and provide a complimentary service to their existing clients. However, the acquired company would need to scale up operations for the parent company to realize a return on their investment.

The management of the acquired company didn’t have the skills to scale up (which is what could have made them a good investment.) Unfortunately, the purchasing company didn’t have that ability either.

Result: The acquisition quickly ran up costs, lost value and was sold at a loss a few years later. (A fairly typical scenario.)

**To avoid this mistake:** *Make sure that you have the ability, time and resources to shepherd the acquired company through the transition process. Even “turn-key” businesses that “run themselves” will likely experience changes (as described above) that will require the parent company’s time and attention. Make sure you have it to give.*

**Growth through acquisitions can be great strategy**

Acquisitions *are* a good growth strategy for many companies. But the purchase transaction is just a small part of what is required to acquire a good investment. The new owners need to buy well. Then they also need to have an objective, open-eyed integration plan. Lastly, they need to have the willingness and ability to commit resources to ensuring a successful process.

Any wise investor should be sobered by the fact that most acquisitions fail. Don’t assume it won’t happen to you. Instead, plan and then work so that you’ll be a part of the successful minority.

Take good care,

Christian

Christna Muntean empowers leaders to generate rapid growth and value. I have helped clients grow profitability 3x-5x in as many years.

**Are Acquisitions Part of Your Strategy?** [Contact me](mailto:christian@vantageconsulting.org) if you are considering acquisitions as part of your growth strategy. I can help you ensure a quick return on your investment.

**Considering a Succession or Exit*?*** [Contact me](mailto:christian@vantageconsulting.org) if you’d like to ensure stability and future success for your business or non-profit through a leadership succession.

If you are considering the sale of your company, I will work with you confidentially to help you rapidly multiply the value of your company and prepare it for a successful sale. Call 907 522-7200 for more information.