Six M&A lessons that even experienced pros forget sometimes

By Frank Williamson, Oaklyn Consulting

Being an M&A advisor is an experience of constant learning. No matter how long I work in this profession — and I've been doing it for more than 20 years — I never cease to encounter situations that present unforeseen challenges.

I recently participated in a forum with five other experienced M&A professionals in which we talked through our experiences of managing risk in the mergers and acquisitions process. By exchanging stories of deals gone wrong, we touched on some common points about the work we do.

We settled on six keywords to sum up the lessons we learned:

Unanimous. Minority owners can cause unexpected problems, holding up a deal from being done despite holding just a small stake in a company. The lesson is to pay attention to all of the crucial stakeholders in a deal. Having unanimity in deciding to move forward is important to managing risk.

Team sport. When investors buy a business, they're looking at the totality of the business and imagining how it would fit into their existing operation. Because there are different expert perspectives in a business — operations, sales, HR — it is better than not just one person is making a decision. Think about how to reflect the expertise of each important business function as you move forward with a deal. Making important decisions in an M&A function is not a solo activity; it's a team sport.

Dis-synergies. In thinking about the acquisition of a company, investors are focused on how they can cut costs and increase sales. These are normally called the synergies of a deal. They're not always easy to achieve. Sometimes it turns out that there are more costs, or more roadblocks and obstacles to additional sales that might cost revenue as a result of the deal. So, it's important to also consider those so-called "dis-synergies." Risk management is as important as quantifying the upsides.

Constituents. In a situation where a big customer has the right of first refusal, there is a needle to be threaded. You must decide how to make an offer that is good enough to get the deal done, but not so good that it will cause the big customer to trump the buyer. Think about the impact of the deal on all the constituents to the deal — including owners, customers or employees — and do what you can to maintain important ongoing customer relationships.

Checklist. As you go through the pre-deal due diligence process, it's important to remember that both the answers you get and the absence of the answers you hoped to get are equally important. At its core, due diligence comes down to working a checklist — listening to where you get information and where there's silence. Even if you get answers that make sense nine out of 10 times, you need to consider that silence on the 10th question as being as important as the answers you receive. At the end of the process, you need to be able to say you worked through your checklist with discipline and didn't give somebody a pass.

Cushion. When you're buying a company, the legal documents you sign always have an insurance policy of some kind built into them, which can be viewed as a form of risk management. This practice provides a cushion in the event that things which should have been learned were not. People need to be conscious on both sides that there's a reasonable basis for there to be some form of cushion. There's an insurance policy in there; sometimes you have to use it.

About Frank Williamson
Frank Williamson is the founder of Oaklyn Consulting, which helps private companies complete mergers, acquisitions, joint ventures and other strategic transactions; arrange financing; and manage investor relationships. Working as consultants, not brokers, and billing hourly, the team extends the capabilities of clients' Boards and management teams. Learn more at OaklynConsulting.com.

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