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Advisory Alert: A holistic approach to M&A allows thoughtful and strategic growth

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It takes an upfront analysis of your own company as well as a comprehensive look at a target to be sure your growth strategy is aligned with what you'd gain from an acquisition.

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This means taking a holistic approach to every function and asset – from HR and recruitment processes, to IT functions, to supply chain and your position in the market. This approach also includes an assessment of often-undervalued assets like a customer base, culture and a brand.

"An M&A perspective is all about strategy," says Jim Peko, Grant Thornton's national managing principal, Transaction Services. "Are you acquiring customers, technology, products or expanding your geographic footprint? What is it you need to grow your business?" Once you establish those value drivers, you need to be sure the growth you hope to achieve through M&A is aligned with your overall growth strategy, says Peko. That alignment is key.

Any growth strategy needs to be enterprise-wide. By the same token, any acquisition has to be viewed through the focused lens of that strategy: Does this business have the viability to deliver on your plan for growth?

Before a company embarks on an M&A deal, it should take a hard look in the mirror to do a complete evaluation of its assets and growth action plan, says Chris Smith, principal, Grant Thornton Advisory Services. Honesty definitely is the best policy. "You need to have a reality check before acquisition ideation starts," Smith says. "Do you really know what is valuable and what is a strategic asset? You want to be acquiring things that correlate or build on what you have." Put on paper all assets and their value, he says. C-suite executives should be in agreement.

"A company may go forward with an acquisition without fully realizing that its infrastructure is far behind," says Smith. "Before you even try to acquire a company, be honest. Realize your infrastructure may require an overhaul, and don't take on anything."

Avoid these 6 reasons deals fail

The broad purpose of any M&A deal is to grow and increase profits and enterprise value. Yet the majority of deals fail, and many have reasons in common.

Limited due diligence. Due diligence cannot be limited to financials and tax (although the tax function should be involved early on in the M&A process). True, companies need to take a hard look at the financials and tax, but they also need to move beyond traditional diligence and focus on areas such as the quality of all aspects of operations (including the workforce), transitional or cultural diligence and a hard assessment of transaction, business and market risks.

Cultural integration issues. These issues need to be evaluated and differences reconciled, whether through an integration of cultures that works for all sides or by allowing respective units to run themselves. Any approach requires clear strategies.

Overpaying. Paying too much can be avoided by having a detailed planning process and focusing on the drivers of value throughout the process as opposed to waiting until the deal closes. Speed to attaining the synergies enhances value and increases the likelihood of success.

Overestimating cost savings and synergies. When this happens, a deal may well fail.

Lack of clarity in a deal's execution. A slow start to operational integration after a merger frustrates all parties, including employees, customers and shareholders.

Taking a knee-jerk reaction to a deal. Resist pressure to go forward with a deal until you've done a thorough, enterprise-wide evaluation. At the same time, don't damage a done deal by focusing on short-term gain while putting long-term goals at risk.

Why a holistic approach matters?

Peko concurs that a clear, complete assessment is necessary. "Companies need to take a holistic approach that focuses on driving value throughout the process with a defined strategy today more than ever because of where valuations are in the market," he says. "We have historically high valuations, lots of liquidity, a very competitive market situation. You can't do just financial diligence and confirm what EBITDA (earnings before interest, tax, depreciation and amortization) is. How do you create value and strategic advantage for yourself in a competitive process?"

You do that through an enterprise-wide method that evaluates all aspects of a deal. "Is the IT system up to date? Can you consolidate the supply chain to drive value? Is the business model significantly affected by the leasing standards changes? Are there going to be pitfalls from a cultural perspective?" Peko asks. "Know all that ahead of time so you can make adjustments."

A lot of companies don't look at everything they should as assets, says Smith – for example, their customer list. "They may have access to thousands of people that all act this way and look this way and buy this way – yet they don't view that as an asset with value."

The same can be said for culture.

Cultural misalignment is a big cause of deal failure. "Cultural integration can be a slippery killer of deals," says Smith. "CFOs may roll their eyes [when it comes to viewing culture as an asset]. But if no one did an assessment of cultures, people may be disconnected and they leave."

Cultural differences that go unaddressed frequently lead to mass defections. The same can be said for uneven compensation and benefits structures.

Says Peko: “A CFO is thinking -- about whatever is put on the table as a tactic to grow -- what is the probability it will be successful? How accurate are the projections? If we go forward with a deal, are we going to achieve the synergies in the underlying investment thesis and capture projected value?” No one wants to be the one to tell the CFO who supported a big initiative to acquire a growth target that the target needs an unforeseen new technology system for $4 million.

“The board and the C-suite need to have an M&A strategy in place,” says Peko, “and the business must have the proper infrastructure in place. Deals fail when they don’t.

“We often don’t see acquirers take as deep a dive as they should when targeting healthy companies” Peko says. “When targets are in distress, the buyers tend to be more cautious and take a more comprehensive look at the value drivers. If we can get clients to take a deeper dive analytic on a healthy company, and what has value, particularly on things like a customer base – we can better leverage that to create enhanced cash flows, drive revenue growth and create enterprise value.”

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