

ACQUISITIONS –

::the benefits and risks::

Over recent years both in Healthcare and other industries, there has been considerable change in ownership of the businesses that we work for. These acquisitions seem set to continue, an article in last weeks Financial Times reported a large increase in Mergers and Acquisitions activity at the end of 2003 and expect this to accelerate in 2004.

Not too many years ago there were many smaller organisations in Healthcare, but over the years many of the successful businesses have been acquired and some of the less successful businesses disappeared from the competitive landscape altogether. This very magazine underlines the fact that change is the only constant in business, with acquisition announcements almost every issue. So why do large organisations acquire businesses rather than create their own brand to compete with the incumbent?

In theory acquisitions have several advantages over both internal development and strategic alliances which makes it a popular strategy, particularly for ambitious organisations that are committed to fast growth:

- It may enable the Company to reduce its cost base through rationalisation, and allow economies of scales to be realised.
- The acquiring Company may also wish to acquire valuable skills, thus strengthening it's core competencies that the acquired Company already has. Over the short, medium and long term this can of course vastly improve it's competitive position and vastly reduce any learning curve, that otherwise may take years.
- By making an acquisition the company may improve it's market share and competitive position. It may also remove a competitor from the market.
- An acquisition also allows for a company to get into a new market or market-segment very quickly indeed or simply improve the critical mass of both organisations.
- An acquisition may also prove to be more profitable over time for the overall organisation. A focus on higher margin products in a different market-segment may tempt companies to acquire organisations in pursuit of better shareholder value.
- A Company may wish to diversify to protect it from a downturn in its core market or pressures on margins.

- A Company may see a long profitable future for an innovative product and acquisition of that product and management expertise may be less expensive and also quicker than starting from scratch.

This list is far from exhaustive, as there are certainly other reasons for acquisitions and mergers, but these will cover the most of the common reasons cited by senior executives for investing their resources in this way.

It is fair to say that acquisitions don't come without risk. Often acquisitions actually fail to deliver additional benefits as initially identified by the senior executives who make the acquisition. We have all seen the challenges over recent years of companies who have pursued very active acquisition strategy, sometimes at the expense of everything else! We have certainly seen this in our own industry where a conglomerate from outside has purchased Healthcare organisations because it was the latest fad. There is overwhelming evidence that the most successful acquisitions have been where the "target" selection of the Company to be acquired is in related areas, and there are some genuine synergies between the two organisations. In these cases the bidding firm's management and core competencies can also positively effect the acquired company, and relatively quickly.

So there are risks to acquisition as well as benefits! How then do Companies try to minimise these risks?

- Eliminate acquisition targets in industries and fields that are totally unrelated to the core business of the acquirer.
- Appraise the existing business of the acquirer and identify the core competencies, and resources that are available to make the acquisition work, and in which market segment.
- Once the market segments are selected, select the criteria for the acquisition candidates and prioritise them into the "must have" and "nice to have" lists. The list for must have might include strong management, strong and consistent growth over five years at 20% plus etc.
- Identify any potential candidates that meet your criteria.
- Research the potential candidates further to determine and potential problems or risk areas as well as any potential up side

that has initially been missed such as complimentary core competencies.

- When an appropriate candidate has been identified and contact made, which is often through a third party, if interest is shown commence your due diligence process. This may well involve spending extended time with management to help build up an accurate picture of the business. In a hostile bid this may well not be possible.
- Once the acquisition has been concluded, the organisation should be integrated with determination and as quickly as possible. The objective must be to realise any synergies and structural benefits at the earliest opportunity, whilst at the same time trying to minimise the cultural shock to you and I of having a new master.

Clearly acquisitions can have an impact on us as a sales team, particularly if we are the acquired, however this is not necessarily so. An acquisition can be made to strengthen a Companies position in our geographical market as an example. In this case the acquirer may wish to make few changes other than to realise the long-term potential of that business by investing in the established team. Sometimes however sales force mergers can be one of the benefits/reasons behind an acquisition or merger. In my next article I will look at how Companies try to make these difficult exercises work.

Duncan Wilson
Sales and Marketing Director
Mantis Surgical Ltd.

For any comments on this or any other article or feature in this edition of on target magazine please email the team on:
articles@ontargetmag.com