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MATCH MAKING AN M/A TRANSACTION

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Quick Summary: Try to form a business partner relationship before pursuing a transaction.

Abstract:

Two companies can meet and find that an M/A transaction may be attractive. How the companies become aware of each other and the potential synergies vary widely. Beginning as business partners in which each party offers a capability that is attractive to the other party allows the gradual forming of a relationship well before a non-reversal transaction commitment is made.

There is always something that precedes the lovely thought of “Love at first sight.” Obviously, there must BE a “first sight”! This simple fact applies to a potential M/A transaction as well as to a couple. Even with a blind date arranged by a third party, there still must be a “first sight.” How two organizations meet is probably as varied as it is with two people coming together on a personal level.

The suggestion of an arrangement could come from a casual meeting on a trade show floor or conference, at the suggestion from a customer, business partner, investment banker, or broker, or even be suggested by an employee. Independent of the “first sight” occurrence, there must be some attraction on both parties’ part. That attraction may be immediate or merely a sense of an opportunity to form a deeper relationship. As discussed in the article 7.030203, “*Transaction Motivations*,” each party may have entirely different motivations for exploring a transaction. Understanding both party’s motivations is critical.

A common and highly effective method of beginning a “relationship” process is establishing a business partner arrangement. Volume 5, Chapter 5 of this collection, “*Business Partners*” includes twenty-one articles on that subject. Most of those articles use the analogy of the biblical characters, David and Goliath, to describe various aspects of the possibility of a partnering arrangement. From article 5.050201...

The use of David and Goliath to differentiate partners refers to their size and strength as opposed to the outcome of the biblical story. As the story goes, David was a young, small, inexperienced person with virtually no reputation. Goliath was an older, large, experienced person with a proven reputation that was feared by all. The companies that are the intended audience of this book are “Davids.” Unlike the biblical story, the goal of partnering is to join forces, not to fight. So, the two choices for joining forces are either “David and David” or “David and Goliath.” Although most of the articles in this collection can apply to Goliaths, the primary audience are Davids.

At the most basic level, each partner has a capability that could benefit the other by working together. If the relationship is one-sided, with one party offering a capability to the other, the relationship is better described as a customer-vendor arrangement. In either case, as the relationship continues, one party or the other may desire to deepen the relationship through some level of ownership. A common circumstance involves a David company forming a relationship to utilize a Goliath's sales organization to reach more customers faster. Over time, the Goliath may become reliant on reselling the David's offerings, viewing it as a competitive advantage. Not uncommonly, the Goliath may desire to resell the David offering exclusively to maintain the competitive advantage. The best way to obtain exclusivity is through joint or total ownership.

The circumstances making a deeper relationship desirable can vary widely. Although "prearranged" transactions might be successful, a partnering arrangement before a transaction significantly increases the odds of forming a long-lasting, mutually beneficial relationship. So, if at all possible, plan on "dating" first!

In the business partner arrangement described above, the common mutually beneficial aspect to the relationship involved one company having a product or service that the other company found advantageous to add to its portfolio. Many other similar needs and capabilities can make some type of involvement attractive to both parties. In fact, the needs or capabilities form the basis for looking for the first date. Rather than leaving it to happenstance, it is worthwhile for a company to list both its attractive capabilities and its needs prior to any arranged or chance encounters. With these pre-established lists, a company can objectively evaluate a situation to determine if a first date is even appropriate. As discussed in the next article, these needs and capabilities factors will help establish the basic motivations. Below is a partial list of some of the factors that a company may possess or need. Note that the list could be interpreted as either a need or capability.

1. Brand or product recognition
2. Broad distribution
3. Access to customers
4. Efficient order fulfillment capabilities
5. Broad-scale installation/field support
6. Bulk component purchasing power
7. High volume manufacturing
8. Reverse logistics support
9. Cash to fund operations
10. Specialized skills or know how

The lists are remarkably easy to create by asking two questions: "We excel at..." and "We could benefit from...". Armed with these lists, a company that was not previously considering forming a business partner or transactional relationship may discover that it is in their best interest to begin looking for an appropriate first-date partner.