

WHEN STRATEGIC ACQUISITIONS ARE THE ANSWER TO GROWTH – A SUCCESS STORY

Bob Anderson, owner of Professionals Business Management (PBM), an Overland Park-based medical billing firm, was ready to acquire. He knew what he wanted. However, many successful business owners are less sure about which path to take when it comes to growing their business.



Do I grow it from within (organically), or do I grow

it through acquisition? While both have unique merits and challenges, there are many reasons why strategic acquisitions can be a strong move for growing companies:

- Immediate entrance into a new market;
- Consolidation to increase market share and power within an industry;
- Geographic and product expansion to access untapped markets;
- Acquiring unique human capital and/or technologies;
- Avoiding the unknowns of organic growth, including the time frame for projects to become profitable and the uncertainty of the total capital investment required.

For a company like PBM looking to expand geographically, acquisition is arguably the way to go. Acquiring the medical billing division of Medova Healthcare in Wichita, Kansas, gave Anderson “instant” access to a new market and the established client base of Medova, and he gained a new billing software he may implement throughout his organization. The acquisition also allowed both PBM and Medova to share networking and referral opportunities with each other, giving both companies a new path to continued growth.

Good Timing Makes a Difference

Current market conditions are ripe for acquisitions. Debt financing is available, as banks and other lending institutions

aggressively put their resources to work. Equity capital is also abundant, as private equity groups have billions of dollars of available funds waiting to be invested. Throw in low interest rates, and market conditions become ideal for borrowers.

Meanwhile, there are plenty of good companies with a desire to sell. During the past few years, many companies

delayed selling because they were waiting for more favorable market conditions. As conditions improved, sellers re-entered the market. While this resulted in higher business valuations, benefiting sellers, it also has given acquirers more selection and better security about the potential of their acquisition targets.

Making Acquisitions Work

For an acquisition to pay off, you need to know 1) what to buy, 2) how to buy it, and 3) how to integrate it. When considering a strategic acquisition, remember:

1) Stay within the bounds of what you already know. Look for acquisitions that complement your core business strategy. Large and small companies alike sell off assets that are non-core to their business.

2) Business is personal. Be sensitive to the business owner of a target company. The business you wish to acquire is someone’s “baby”, and selling it to you can mean much more than the bottom dollar. Keep the evaluation process personal, and take time to understand the people as well as their business.

3) Do your homework. Engage a trusted team of advisors (accountant, attorney, banker, intermediary) to help guide

you through the acquisition process. Perform research well beyond the numbers (the management team, culture, condition of the infrastructure and equipment) before drafting a letter of intent. Once an agreement is signed, use your professional team to perform a thorough “due diligence” before completing the deal.

4) Don’t depend on a deal closing. Be prepared to walk away from a deal that, after research, looks troublesome. Remember that any time and expense consumed in the acquisition process is a sunk cost.

5) Integration is crucial. The acquisition process can be challenging, but the real work begins after closing. Companies that succeed in acquisitions have a detailed integration strategy managed by an integration team. Without proper integration, the planned efficiencies and synergies of two companies will never materialize.

Tim Skarda is the President of Allied Business Group, Inc., an Overland Park-based mergers & acquisitions and business appraisal firm. Allied consults with business owners and prospective buyers on how to buy, sell, appraise, and increase the market value of their respective companies. Allied helped bring PBM and Medova together to create this success story.



Bob Anderson (Left) and Dan Whitney (Right) complete the sale of Medova's medical billing practice.