Newsday
LONG ISLAND
NEWSDAY.COM MONDAY, FEB. 26, 2007 | LONG ISLAND EDITION 50¢

Merging or acquiring can mean growth

SMALL BUSINESS
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You've come as far as you can on your own, and you want to take your company to the next level.

Still, you may not have the expertise to go it alone, or you might just want to get there a lot quicker than nature would allow. It may be time to consider a merger or acquisition, experts say.

"Organic growth in general is very slow," says Dale Klamfoth, senior vice president at WJM Associates, an organizational effectiveness consulting firm in Manhattan. "Sometimes the way to get to a critical mass, in a market sense, is to merge or be acquired."

In fact, a recent PricewaterhouseCoopers' survey of America's fast-growth private companies found that the main motivator behind those firms seeking mergers and acquisition in the next three years is market-share expansion. Other objectives included competitive positioning, as well as obtaining key personnel and strategic skill sets.

"More likely than not, you'll consider a merger or acquisition once you need to take your business from where it is today to the next level," says Bob Sturm, Long Island technology industry leader for PricewaterhouseCoopers in Melville.

At that point, you have to determine what you are looking for in a potential deal, he says. Basically, size up what your needs are — be it access to new markets, new products, key people or all of the above, Sturm says. Once you figure that out, you can better plan your strategy.

So for instance, if key management is what you are looking for, you wouldn't want to consider a company where key personnel are looking to retire or jump ship once the merger or acquisition is complete.

This happened to ad executive Ron Greenstone at his former ad agency Greenstone Roberts. He acquired a company in New Jersey with the idea that the owner would stay on and run it. In fact, the owner intended to retire, which he then did shortly after.

"It's important you know why they want to be acquired," says Greenstone, now chief executive at Greenstone/Fontana in Hauppauge.

Basically, you need to do your homework. This includes not just looking at the financials of a company you are seeking to merge with or acquire but also making sure the corporate cultures or underlying values mesh, experts say.

"The cultures have to match," says Ken Stein, president of Kensington Co. & Affiliates in Roslyn Heights, which specializes in mergers and acquisitions, and franchise sales and development. "The core values of the company should be somewhat similar."

While it's difficult to talk to employees and customers before a deal is done, you can learn a lot just by visiting a company's facility, Stein says— for instance, whether the environment is more laid back or rigid compared to your own.

You also want to evaluate whether the customer concentration is sufficiently diverse, he says.

"Most buyers get nervous about any concentration greater than 35 percent," Stein says. "Ideally, you don't want one customer to be more than 10 percent of your business."

This applies whether your firm is acquiring another company or whether your own company is being acquired, he says.

Separately, if you are doing the acquiring, it helps to have the seller or owner remain on staff for a defined period, he adds. That eases the transition, notes Evan Bloom, a principal of Sir Speedy of Westbury, which made two acquisitions last year.

In both cases, the owners joined the printing firm, one as a production manager and the other as a quality control manager.

This not only helped fill key positions within the company but provided a comfort level to existing clients.

"The first thing they did was call their clients and let them know what was happening," says Bloom, adding that it pays to be upfront with customers as soon as possible.

The same holds true for employees, says Klamfoth of WJM Associates.

You don't want employees guessing about their fate or dispelling bad information to the public because they are left in the dark.

"I'm a firm believer that you need to tell employees everything you possibly can because if you don't they can make it up," he says. "The more you can share, the more engaged employees will be and the less likely they are to leave."

Of course, some jobs will be excised anyway during the course of a merger or acquisition because of redundancies, but it's always best not to keep those employees in limbo. And for those key employees you want to retain, you might consider "stay" bonuses as an incentive, he adds.

Just make sure from the get-go that all employees or owners knows their place in the new organization. This is particularly important in a merger, where two owners will play key management roles.

"Everyone needs to know exactly what their responsibilities are before you go into it," Greenstone says.

After all, you know what they say about too many cooks in the kitchen.

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