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Frank Lynn & Associates, Inc.®
MARKET STRATEGY CONSULTANTS

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Acquisitions and Their Effect on Go-to-Market Strategy

by Carl Cullotta

As this is the season for strategic planning and budgeting for the next fiscal year, Frank Lynn & Associates recently surveyed a number of our clients to gain insights into how these companies approach planning. While they generally do a thorough job of planning for the existing business (organic growth, market threats and opportunities, etc.), we were struck by how rarely the subject of acquisitions entered the discussions. So we decided to take a deeper look at acquisitions and their impacts on go-to-market strategy and market position.

Not All Acquisitions Are Created Equal

Frank Lynn & Associates' benchmarking found that any given manufacturer's or channel's acquisition strategy is driven by consistent decision logic. These strategies fall into one of four types, defined by the primary point of leverage the acquisition strategy provides the buyer:

- "Portfolio"—the portfolio approach is characterized by a financial buyer. This type of buyer finds value in the acquisition by bringing expertise in the ability to "buy low/sell high". Often the acquisitions made by this type of buyer fall across a range of business types and industries, as the portfolio helps to minimize risk through diversification. While this buyer may place new financial metrics or constraints on the acquired business, the management team and the approach to market are typically left intact. The portfolio buyer is least likely to fundamentally change the value proposition or market position of the companies they acquire
- "Add in/bolt on"—an add in/bolt on acquisition strategy is most likely found with manufacturers who have high share and strong customer relationships in their core products. Acquisitions are made to take advantage of these strong relationships and increase the average value of a customer. The most attractive acquisition targets under this approach are companies that fill product gaps (thus limiting the need of customers to "cherry pick" competitive products) or capture product adjacencies (allowing for logical expansion of the product basket offered the customer). A buyer using an add in/bolt on strategy can have significant impact on the acquired company, often by eliminating "redundancies" in the sales, marketing, and/or channel strategies
- "Differentiation"—from a competitive standpoint, the most strategic acquisition strategy is the differentiation approach. Acquisitions are made to fundamentally redefine the value proposition offered the customer. Typically, this comes in the form of new technologies, services, or support that the acquired company brings to the buyer. As a result of the redefined value proposition, the "win/lose" factors for the acquiring company have the ability to integrate the acquired capabilities, and the ability to redefine the go-to-market strategy to support it so it can deliver on the new value proposition. This type

of acquisition approach will have the most significant impacts on competitive position, both for the acquiring company and its traditional channel partners and competitors

- "Roll up"—the final acquisition strategy has gotten a lot of attention in recent years, particularly in distribution businesses. The roll-up strategy is designed to bring together a large number of like businesses, and capture the economic value of the acquisition through operational leverage—sourcing, operating structure and costs, and systems. Roll-up strategies can be lucrative for the buyer who has the competency to select the "right businesses to buy" and to quickly and efficiently integrate them into the core

<u>How to Incorporate the Issue of Acquisitions into Strategic Planning</u>

Whether you are the acquiring company, or the buyer is your channel or competitor, each of the types of acquisition strategies above can have profound impacts on your market position and go-to-market strategy. We recommend building an "acquisitions audit" into your strategic planning process. This audit will help you understand how acquisitions may fit into your strategy, how likely acquisitions will be part of your competitors' strategy, and if so, how each is likely to affect you.

The most effective way to audit the acquisitions impact is to use a template approach. You can do so by answering a series of questions:

- Where are acquisitions most likely to occur?
  - Who are the most likely acquisition candidates (buyers or sellers) in your market?
  - What type of acquisition strategy does the industry support?
    - Is the financial performance of the industry attractive to a financial buyer?
    - Do you (or competitors) have any product gaps that warrant an add in/bolt on approach?
    - Are customer needs changing or new technologies/services emerging that will demand differentiation?
    - Do viable candidates exist to support a roll-up approach to acquisition? If so, are there any potential buyers who are in position to capitalize by applying some type of operational synergies?
- What is the probability?
  - Do the companies identified above have a history of growth through acquisition?
  - Do these companies have access to capital to support an acquisition strategy?
  - Have there been past acquisition successes/failures that would influence a buyer's decision?
  - Are there any regulatory factors that may promote or present a barrier to acquisitions?
- What is the impact?
  - In what ways can the acquisitions identified above affect your business (whether your company, a channel partner, a competitor or a company from outside the current industry structure is the buyer)
    - Customer segments?
    - Product categories?
    - Geographies?
    - Channels?
    - Etc.

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- What is your response?
  - Are there any proactive steps that can be taken to either reduce the probability of acquisitions and/or mitigate any potential impacts within the affected segments?
    - Sales, marketing, channel programs
    - Operations
    - Other
  - In the event of any acquisition above, what would your "12-month plan" look like?
    - Immediate action items
    - Contingencies
    - Key metrics
    - Etc.

In summary, acquisitions can often have a major impact on your go-to-market strategy, impacts that are underestimated in planning. Frank Lynn & Associates has been helping clients understand and plan for the impacts of acquisitions since the 1970s. Whether due to your acquisition strategy or that of your channel partners or competitors, we can help define the decision frameworks to make those acquisitions work to your advantage in the market. We would be happy to help you think through the implications for your business. To do so, give Carl Cullotta a call at 312-558-4823, or email cpc@franklynn.com