

THE SEVEN IMPORTANT QUESTIONS REGARDING A MERGER

By Kevin Spafford

It just happened again. Yet another call from the equipment dealer in the adjoining territory encouraging you to consider merging operations, and comanaging business responsibilities.

The manufacturer's rep has been strongly suggesting that a merger or acquisition may be in your best interest long-term. And, economies of scale dictate vigilant streamlining to remain profitable.

On many levels, and during pressure filled moments, the idea of joining forces with another compatible operator sounds very attractive. Methodically spreading risk and responsibility, taming the emotional cyclone of absolute accountability, and dispersing some of the weight of daily decisions across a group of experienced business proprietors feels like the right thing to do.

Ownership is a constant challenge. Employee management requires more time and administrative attention. Inventory costs are increasing, and margins are being squeezed. The tractor consumer is changing – full time farmers are giving way to rural lifestyle. Sales revenues are becoming more important than service receipts. And you precariously sit on the fulcrum of a balance between the objective demands of the business and the emotional needs of the family.

So how can an owner impartially judge the merits of a merger opportunity? Where is the crossover point between prolonging the agony of diminishing success, by applying business saving triage, and revitalization, by applying systems that create opportunities for growth and development?



Your accountant will be instrumental as you weigh the financial values of a collaborative business endeavor. But you should also carefully evaluate:

- the personal characteristics of the owner(s)
- the cultural composition of the other dealership(s)
- the business acumen of the operation(s) management personnel.

The seven most important questions that you should consider while contemplating the potential results of a merger opportunity are:

1. What is the objective for the merger?
2. Are each respective merger candidate's objectives compatible?
3. Do the skills, abilities and competencies of each merger candidate enhance business management capability?

4. Can you detail the predictable benefits of this merger?
5. Have you honestly delineated the probable challenges of this merger?
6. Will you explore past multiple ownership (partnership, etc.) relationships of each merger candidate to discern cautionary characteristics?
7. Is there another way to bridge the (perceived) business deficiency, such as establishing a subsidiary operation, utilizing a strategic alliance, hiring a specialist, engaging an outside consultant, selling the business outright, or...?



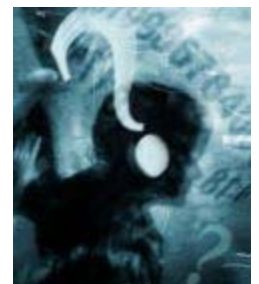
Though the questions above appear simplistic and the corresponding answers obvious, your goal must be to create a business relationship that is both complementary and compatible.

A merger is basically a partnership, and common lore tells us that the multiple entities composing a merger must be founded on similar, if not identical, objectives. As in a marriage, partners may be polar opposites, but their dreams and aspirations; wants and goals; values and principles; and methods and actions; should be well attuned.

A (permanent) merger is not the solution to a temporary problem. A merger must be based on real and perceived expectations of gain. Be diligent in asking the tough questions.

'Extreme reluctance' may be the best frame of reference to assume before you agree to surrender your independence.

- Weigh the net monetary value. As in wood working – measure twice, cut once.
- Evaluate the gain in business acumen against the loss of free rein.
- Calculate the increase in depth and breadth of operational reach.
- Be mindful of changing market conditions and the ever increasing need for improved customer solutions.
- Don't underestimate the diminishing returns from the pressures of economies of scale.



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