

By David M. Shanberg

The Most Important Question in Mergers & Acquisitions

An acquisition is obviously a very involved process, involving strategic considerations and numerous qualitative and quantitative criteria. The importance of being thoughtful, thorough, analytical, and prepared cannot be overstated. However, it's frequently helpful to take a step back during the acquisition process to ask:

“What am I buying?”

Of course, there's no right answer, but there should be a clear one. There are a number of possibilities, such as:

- Product, service, or technology, or a platform that can support additional products
- Customer base / traffic that is attractive or significant
- Distribution channels or hard to duplicate partnerships
- Human resources, such as the management team, development team, or other technical expertise
- Intellectual property
- Brand or reputation
- Fixed assets or property
- Financial characteristics

I'm sure there are a number of other potential answers. The point is to not lose sight of the core reason for the transaction.

Knowing the answer to this key question makes it easier to confirm whether the transaction is really necessary, how scarce and valuable it is, and whether the same attributes are better achieved through a build or partner strategy. For example, if the customer base is the key asset, can the same thing be achieved within a reasonable amount of time by spending marketing funds?

In addition, the answer should influence areas of focus during due diligence, as well as key terms during negotiations. For example, if the management team is the key asset, they should be a focus of due diligence, and the ultimate deal needs to be set up so they are likely to stay.

Finally, the answer to “What am I buying?” should be the cornerstone in communicating a crisp rationale for the transaction to the board, investors, employees, vendors, customers, the financial community, and the media.

Although this advice may seem simple and obvious, it’s surprising to see how often it is overlooked in the frenzy of dealmaking.

David Shanberg has led communications, Internet, software, and other technology mergers, acquisitions, strategic alliances, venture investments, business development, and finance activities for the past 16 years, completing transactions totaling over \$90 billion. He also has a previous 4 years of experience in technology consulting.

Baker Pacific specializes in corporate development strategy and M&A transactions for technology companies. Baker Pacific is especially well-suited for situations where a company finds itself contemplating or facing a significant transaction (such as a sale of the company or an acquisition) and needs additional expertise and bandwidth to be successful.

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