A Complete Guide to Prepare Your Startup for an Acquisition

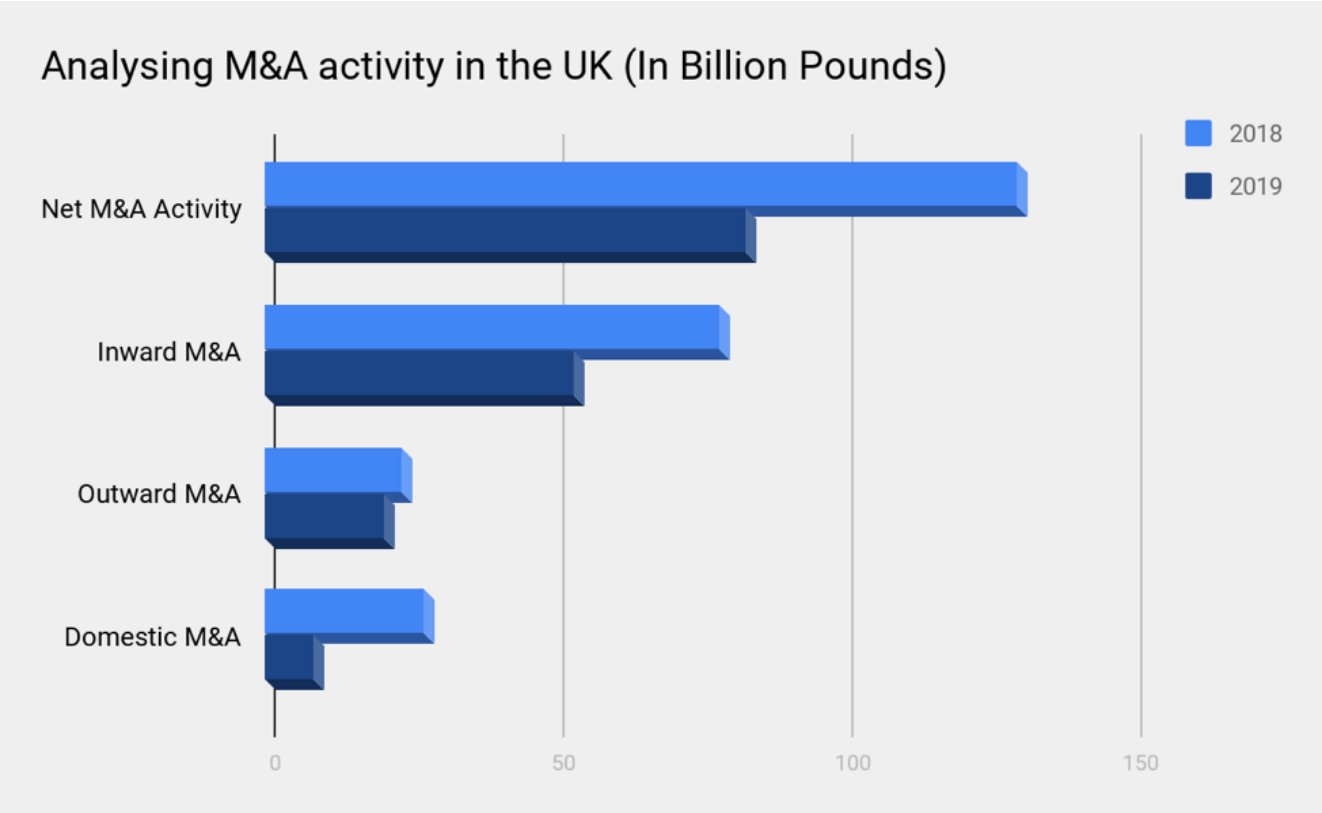
June 30, 2020 11 min read

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Acquisitions and mergers are exciting times for entrepreneurs.

For most, it’s the time that they have worked so hard for. Getting acquired by another firm not only validates that your company is a rising star in your industry, but it can also provide a financing bridge you might have been trying to fill for some time.

The UK business landscape is highly active when it comes to mergers and acquisitions (M&A). To give you a fair idea, there were as many as 1,400 M&A deals during the first half of 2019, led by the technology/telecom sector, followed by insurance, manufacturing, IT services, and wholesale industry.



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However, apart from the excitement, acquisitions are complicated and require a high degree of skills, expertise, and nerves to execute. Research finds that as many as 70% to 90% of all M&A deals end into failures, and it’s not just small firms, but also megacorporations, such as Microsoft, Google, and HP, that get these acquisitions wrong.

If you an entrepreneur ready to sell off your business and move onto a new idea or continue within the acquired entity, you need a strategy to go through the entire acquisition process. This guide will highlight some crucial aspects of acquisition and how an entrepreneur can minimize any chances of failure.

Is the acquisition the right fit?

List clear goals and motivations for the acquisition.

Once the excitement of an acquisition sets in, the first thing you would want to do is to set clear goals for this sale. The catch here is not just your personal gains, but a myriad of other factors that will have an intense impact on the success of your team and business.

Start by asking questions such as:

- Why are you selling your business?
- Is the acquirer the right fit for you?
- Do you have an exit strategy in place for your co-founders?
- How do you picture yourself going forward?

We'll take on each of these points individually, but let's start with the first one.

Startups take years to build, sweat equity, and countless personal sacrifices made by the founders, so you should be sure about selling your business.

Some potential reasons to sell your startups or a significant stake could be:

- To grow your business.
- To work on new opportunities.
- To get access to the necessary capital for growth.
- Personal reasons, such as planning to retire, ill health, or any family obligations.

Also, make sure that you're financially as well as psychologically ready for this step.

Going through acquisitions could be overwhelming, so it's always best to have a clear vision.

Find out if the acquiring entity is a good cultural fit.

So you received a fantastic offer for your business, and you're all set to go ahead, but is that all you need to consider? As many as 7 to 9 acquisitions lead to abysmal failure, and to make sure that yours is a success, you'll have to find out whether the company is the right fit for your business.

A winning culture that values its employees extends trust, and operates with a positive culture could be ruined by a toxic acquirer. As a founder, you can use a variety of methods to judge the cultural alignment between both businesses. It may require leadership interviews, discussion with key executives, and even conducting surveys across the company.

Cultural compatibility could be a deal-breaker in many cases, so doing thorough research is always in your best interest.

Do your research and homework diligently.

The overall mergers and acquisitions in the UK in 2019 comprised deals worth £83.4 billion, with inward M&A accounting for £53.8 billion, £20.9 billion in outward M&A, and domestic M&A worth £8.7 billion. One must note that mergers and acquisition activity in 2019 was lower than what we witnessed in 2018.

These figures provide a fair idea of the size of the M&A activity in the UK. As a business owner, doing thorough research before the acquisition is critical for your firm. Find out what the other firms want to do with your business, what will happen to your employees, and how acquisitions have worked out in your industry.

You can reach out to other entrepreneurs in your industry, having experience in selling a business. It'll give you a fair

idea of the primary challenges you might face before and after the execution. Remember, the more you sweat during this stage, the less are your chances to be surprised later.

How do you picture yourself in the new entity

Most entrepreneurs find it difficult to imagine their startup without themselves or vice-versa, but when you are ready for an acquisition, things are about to change. You have to be realistic when considering your role going forward.

It’s entirely plausible that post-acquisition

- You’ll lose the anonymity or control you enjoyed before selling your business.
- The acquirer may want to introduce major changes, so be ready for that.
- You may lead the operations, but you’ll be subjected to following the acquirer’s rulebook.

Honesty is critical at this stage. If you want to work on new opportunities or continue working with your firm, think the entire plan through. If you intend to leave post-acquisition, intimate your acquirer about the same.

Why due diligence is much bigger than it sounds.

Once you’re mentally and strategically ready for acquisition, it’s time to get started with the due diligence. Most first-time founders underestimate the legal and financial aspects of the acquisition. Having the right blend of financial experts, lawyers, and tax advisors is critical for a positive outcome, so you should pull your socks up for some major due diligence.

Hiring a legal counsel for acquisition.

You would want to start by hiring an experienced legal counsel for the acquisition. Some founders may commit the mistake of going with their in-house counsel, but that’s not always the best case. M&A lawyers have the necessary skills and awareness of different aspects of the entire acquisition process.

Your legal counsel will play a key role in:

- Drafting agreements at different stages of the acquisition, such as NDAs or developing an appropriate response for a letter of intent
- Negotiation process
- Helping your staff through various legal processes
- And communicate with the legal counsel of your buyer.

Each of these tasks requires the highest level of expertise and skillset, so make sure to hire a legal firm with the right track record in M&A.

Choose an experienced financial team.

Once you have legal counsel, hiring an all-star financial team is the next part of the acquisition process. The acquisition will require all kinds of financial reports and statements, including revenue reports, financial schedules, Pro-forma statements, expense accounts and several other reports.

Your in-house accountant or accounting team may find it tough to process these requests while doing the daily accounting tasks to help your business operate. It’s advisable to hire a financial firm that holds expertise in acquisitions.

You would want to work with a firm having CPAs in their team. Getting your business valued by a CAP will help you handle buyer pressure during the negotiation process.

Involving an investment banker.

Hiring any investment banker won’t be in your best interest. Always choose a banker with prior experience in your industry. Your investment banker should understand your challenges, goals, and pre- and post-acquisition strategy.

Your banker should be able to provide market data for similar acquisitions, pinpoint how or why you’re in the same situation, provide a list of clients, and operate in your best interest.

It is critical that your investment banker has an in-house valuation team or works with a reliable third-party firm. Most buyers are inclined to pay the minimum possible sum, so having an independent valuation is critical to protect your financial interests.

How to prepare your team for acquisition.

Now that you understand the intricacies of the due diligence process, we have to shift focus to the most critical part of the acquisition, i.e. informing your team about the acquisition. While an acquisition is good news for most entrepreneurs, your team may feel otherwise. It is critical that you handle your team smoothly throughout this transition.

Address your company with transparency.

Transparency is a critical right from the beginning of the acquisition process.

As an employee, an acquisition can feel like a nightmare. If employees like their jobs, they’re going to be a bit resistant to change, especially if they’re not sure what it means yet. When you first announce the acquisition to your team,

acknowledge that it’s normal to feel fear, excitement, confusion, worry, and ambition in light of the news.

Preemptively quell some worries by addressing some of the most critical issues for your team right away. After clearly describing what the merger will look like, get into the details.

Most team members will immediately want to know about:

- Their work location and current or future flexible options
- Their job security
- Changes in wage or benefits
- Severance options should they opt to leave
- Noncompetes and contracts with the new parent company
- The relationship between the present company and the new parent company

Be ready to answer these questions. You can address questions at the end of your announcement. If you’re not sure of something, collect team members’ contact info and promise to follow up—and follow through on that. Also, if anyone in your team has some further questions, allocate time to answer them.

Present information privately before it goes public.

The easiest way to create distrust among your team is to address a merger with them after your press release about it goes public. You should be the first one to announces the acquisition to your team. Even if you’ve signed an agreement with the company acquiring yours, you should be able to gather your team for a meeting fifteen minutes before the press release goes out. Don’t let your team feel like you completely blindsided them with a public announcement.

Additionally, expect an erratic, unproductive workday once you make the announcement. The best way to handle it is to be completely honest, compassionate, and rational throughout your

announcement.

Address your team’s worries.

Most of the team members will be worried about the change.

The best way to make your team feel secure (and not like leaving) is to present them with multiple options. Will they have the ability to work at home more often with the new company policy? Surely there are some benefits to the acquisition—like better benefits or pay raises. Highlight those options, but be real about any drawbacks for your team.

Did a more prominent company acquire you to eat the competition, or to integrate your technology? Help your team understand the reason as well as the benefits of an acquisition. The answer to that question has an enormous impact on how your team will feel.

Provide a timeline.

The acquisition will be a major change for your team, so it is critical to give them ample time to adjust and realign their careers.

As it’s likely been decided with the acquiring company, provide a timeline for acquisition to give your team a better idea about how and when this change will affect their lives. For example, sometimes, acquisitions don’t impact operations for six months or more, giving your team plenty of time to adjust. If facilities are merging, try to provide an estimated date for that.

As a founder, you can help your team by looking out for employment opportunities, give them references for their next job, and provide any assistance possible within your means.

Host regular progress meetings and address concerns.

As the acquisition process progresses, host regular (perhaps monthly) meetings with your team to address budding questions and concerns with the same transparency you initially offered. As time goes on, invite a representative from the acquiring company to join you, giving your team a real chance to become familiar with the new leadership.

Ensure adequate team culture merge.

Lastly, pay careful attention to any similarities or differences in team cultures. From the socioeconomic backgrounds of teams to differences in management style, team culture merges are among the most challenging parts of transitioning an acquired team.

Bottom Line:

Preparing your team for a merge won’t be easy, despite your feelings of success. You’ll encounter resistance, and some of your team will likely leave. However, you can do your best for the people who stay by honouring them with transparency and providing them with leadership through the transition.

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