

## Finding a partner when the playing field is tilted

Brad Cherniak, Financial Post · Tuesday, Jul. 13, 2010

Friendly and engaging, hardworking, bright future, no skeletons in the closet ... I'm not talking about a soul mate, rather these are attributes small businesses should be looking for in a merger or acquisition.

The playing field is tilted toward buyers. The dearth of capital is well-documented, and the initial public offering market is still comatose. Companies are capital-starved and hence more open to selling, often at bargain prices. That is particularly the case in the technology sector, with technology and market convergence making many new companies targets.

Rather than delve into how to execute on deals, or the benefits and pitfalls of mergers and acquisitions, this column focuses on how to find good targets.

**Analyze why you are considering a merger or acquisition** Are you solving a problem, filling in a weakness, or exploiting an opportunity? If it is to get big for big's sake, to hide poor performance in chaos, or to feed an addiction to the excitement of a deal, it's time to rethink.

**Recognize you are looking for a needle in a haystack** Form an internal "deal team" of employees you will bring into the inner circle about your acquisition plans, and assign responsibilities. This team should start the process by compiling a database on your industry and its players.

Track basic information including name, location, offering, estimated sales, known or perceived strengths and weaknesses, key customers, pricing and positioning in the marketplace. Your senior sales or business development people can be helpful here.

Finding the right target is half serendipity so increase your chances by asking the team to keep their eyes and ears open and ensure they add any intelligence garnered to the database.

Don't worry about being exhaustive or complete, you can build the intelligence piece by piece.

The Web is a good place to find information on most companies, but there is no real analytical framework. Websites such as Biz-BuySell.com are attempting to organize the market, but the jury is out on whether they can bring more than quantity.

If you get creative, you can also find sites that offer free searchability features. For example, the U.S. government site -- [www.sba.gov](http://www.sba.gov) -- has databases of companies that are applying to become government suppliers. Users are able to sort companies by location, size, number of employees, etc. In the technology realm, [CanadalT.com](http://CanadalT.com) has a basic but good searchable database and the Government of Canada offers ICT Canada -- Knowledge Portal, a unique source of information that maps the structure of different industries, which could be particularly helpful to companies looking to acquire tech companies.

Any search should start by talking to competitors and customers to get a feel for the companies on your radar -- these are probably the most valuable leads.

Business brokers also can be a source of leads if your search process does not pan out.

**Decide what your "public" position will be on M&A** It is certainly less sensitive and risky to tell people you may be a buyer than to say your company may be for sale.

The risk is being distracted by the process and overwhelmed with information. Your personal, professional and business networks can generate a reasonable volume of raw leads. If you add a reasonable success-based referral fee to the mix, you can amp up the volume, if not the quality. The offset is the additional work to process the leads.

**Develop a Top 5 or 10 prospects list and regularly update, discuss and amend it** This facilitates the creation of criteria to best evaluate targets and more quickly decide whether a target is worth more digging, or an exploratory meeting.

It will also allow you to react more quickly to opportunities, which may arise without forewarning. Being nimble can mean the difference between getting the deal and having to compete in an auction, or missing the opportunity altogether.

**Decide if and when you need professional help** The first four steps will help you ascertain what skill sets you have on your team and whether you can carry out an effective target search and evaluation process in-house, and move to the next phase when the time comes.

Without question, this process is time-consuming, and is littered with targets with little to no real value to you, so you should carefully consider how many internal resources to take away from your core business by committing the attention of key employees to the M&A realm.

The entire process is more art than science -- instinct and horse-sense drawn from experience will play a key role in conjunction with your business strategy.

Next to good luck or kismet, process discipline is key to effectively finding your business's soul mate.

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