Should you buy your rival?

Some of the world's largest multinational food and beverage businesses have successfully grown through a strategy of acquisition. David Baveystock and Ben van der Westhuizen explore the advantages and challenges of buying your competitor.

BUYING a competitor business can be a highly lucrative strategy. A well-executed acquisition can significantly increase the size and scale of the buyer.

The potential benefits of buying a competitor business include access to a broader customer base with an opportunity to cross-sell products from both businesses as well as entry into markets or distribution channels where the acquirer has a limited presence.

Also, the acquisition may offer access to new product categories as well as cost synergies including production site consolidation, increased purchasing power and the elimination of duplicated roles through consolidation of distribution and administration functions.

The potential value that can be unlocked when integrating competing businesses can be significant, resulting in the value and performance of the combined entity to be greater than the sum of the two separate businesses.

While buying your competitor can deliver significant value, it is a complex and challenging process. Competitors are typically wary of each other and the competitive relationship manifests an underlying discomfort.

We have identified the following three key obstacles when it comes to transactions between competitors, along with some strategies of how to deal with these challenges.

1 LACK OF TRUST

A lack of trust and the emotion associated with rivalry between competitors are major obstacles to a transaction between competitors. This normally becomes evident during the initial approach to the competitor about buying the business. This initial approach is critical and highly sensitive, and often the first reaction is that the business is not for sale.

The buyer should carefully plan the initial approach and ensure it's prepared for any objections the competitor may raise. A cordial approach that shows respect and is sensitive to the concerns of the target business enhances the chances of a continuing dialogue following the initial approach.

Demonstrating to the target business that the approach is serious and not merely a 'fishing exercise' will be an important part of enhancing the credibility of the buyer.

An overly hostile or aggressive approach will result in limited engagement from the target business. Similarly, downplaying the achievements of the competitor business in order to justify a low valuation is not considered a sound tactic.

In our experience, using an independent advisor to make the initial approach takes some of the emotion and distrust out of the process.

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2 REQUEST FOR CONFIDENTIAL INFORMATION

In order to make a proper assessment of the competitor business, certain information is required to perform a valuation of the target business. Competitors are reluctant to provide confidential information at the outset as they fear the information may be used to their detriment and they may be at a commercial disadvantage should the transaction not proceed.

Access to information can be a significant obstacle for the buyer during the initial stage of the acquisition process.

Importantly, the buyer must act in a professional manner and demonstrate a seriousness to engage and progress the transaction.

A confidentiality agreement provides a seller with some protection, however most sellers are reluctant to provide confidential information until they feel comfortable that the buyer's price is within an acceptable range and the buyer can execute the transaction.

If limited or no information is provided, the buyer may be forced to make assumptions when doing a valuation of the business. The veracity of the assumptions can then be tested during due diligence, if the seller decides to proceed.

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3 PRICING EXPECTATIONS

The pricing expectations of the buyer and seller is fundamental to the success of a transaction. A low ball offer for a competitor business during the initial approach normally results in a shut door, with the seller not engaging.

A buyer that can demonstrate that it is well prepared, has the necessary means to execute the transaction, and presents a well-reasoned and commercially defendable offer has a better chance of being successful. The ability to be flexible and to adapt the offer to address the requirements of the target business is also important.

Even after adopting the right strategic approach, the target simply may not want to sell the business. If the target is not interested or does not wish to engage, it is best to end the process, with an invitation to re-engage should the seller have a change of mind. We have found that a large proportion of business owners prefer not to be rushed and require time to think through the financial and personal impact a potential transaction will have.

ABOUT THE AUTHOR

David Baveystock and Ben van der Westhuizen are directors of Comet Line Consulting, an advisory business that specialises in acquisitions and divestments within the Australian food and beverage industry. For more information visit www.cometlineconsulting.com.au

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