Is it time for your next strategic move?

Now is a great time to explore new opportunities. Consider taking some steps to prepare your company.

By François de Visscher

Verizon is buying MCI for $6.6 billion. SBC is spending $16 billion to reconnect with its former parent, AT&T. Procter & Gamble is shelling out a whopping $57 billion to scoop up Gillette.

Are these highly visible deals (and a flurry of less noticeable mid-market transactions) signs of an accelerating consolidation of the world's economies? Judging from our recent client activity, many family businesses that have transitioned to the next generation are eager to participate in this acquisition spree. Others are finding reasons to buy out some shareholders or even sell their company in this active market.

What's fueling this new wave of mergers and acquisitions activity? More than one factor contributes to the current conditions of the mergers and acquisitions market:

• **Companies feel greater pressure to further globalize their business.** Today's global economy changes the definition of reachable markets from countries to continents and ultimately to the globe. Achieving global leadership in a sector of choice is necessary to create long-term shareholder value. External acquisitions to complement a product or enter a new market are often very efficient ways to achieve the necessary market reach.

• **Companies have exhausted opportunities for growing internally.** During the past five years, companies have been focused on cleaning house, wringing out efficiencies and hunting down productivity improvements. With improved margins and profitability, family businesses must focus on growth again.

• **The "Asian factor."** The rise of Asian countries as the world's fastest-growing economies forces most companies to rethink their own growth strategies. For some this may mean entering the Asian markets by way of a “green field” investment (constructing a project from scratch) or new partnerships. For others, it means reinforcing and expanding their technological base.

• **Interest rates are still relatively low—but they’re rising.** Many family businesses are taking advantage of this low-interest-rate environment to finance acquisitions, shareholder buybacks, or both.

• **Private equity financing is also plentiful.** Many private equity funds worldwide are targeting family businesses. Recently, we have seen many new types of investors entering the private equity market, including domestic and international family offices and hedge funds. Many such new private equity investors have lower (9% to 10%) return requirements than those of the traditional private equity funds.

• **U.S. tax rates on capital gains remain low.** With more than a year before the next Congressional elections, capital gains tax rates are likely to remain low in the near future, enticing many families to take advantage of those conditions to sell their business or buy out existing shareholders.

• **The U.S. dollar is at a historically low valuation point compared with other major currencies.** This makes U.S. dollar exports more palatable, but conversely it entices U.S. companies to create revenues in higher-value currencies. The strong value of the euro and the British pound also strengthen European companies’ interest in U.S. acquisitions.

All of these factors make this a great time to contemplate your next strategic move. Is this the time to sell, to acquire or just to buy back some shares of less interested family members? Before you dive in, consider the steps you should take to prepare your company for its next phase:

• **Solidify your balance sheet.** With today’s still relatively low (but rising) interest rates, set up lines of credit and refinance expensive existing long-term debt by lengthening maturities at today’s rate.

• **Solidify your shareholder base (patient capital).** This may be the time to survey your shareholders and offer share buybacks or redemptions to less-enthusiastic owners. A unified shareholder base is a most important asset as you consider your next move.

• **Establish your strategic direction.** Define your core competencies and identify an area of growth that will enable you to become No. 1, 2, or 3 in your global market. There are four global strategic growth opportunities to consider, as the grid below illustrates.

Four global growth strategies

	EXISTING PRODUCTS	NEW PRODUCTS
NEW MARKETS	**Product expansion** Taking existing products into new territories and countries requires communication technology, plus strong local distribution and marketing alliances to bridge cultural differences in new regions.	**Company reinvention** Unproven new products and cultural novelty of new markets makes this the riskiest strategy. A family business would be well advised to share the risk with joint-venture partners.
EXISTING MARKETS	**Organic growth** Growth in existing markets with existing products is often referred to as the "defensive growth strategy" against large, often well-capitalized global competitors.	**Product innovation** New products in existing markets require strong R&D efforts and commitment of the family company. Technological leadership is critical for global growth.

Each strategy in the grid requires different types of financing. For instance, product expansion often requires outside capital, which is amply available in global capital markets because the product has been proven in its existing markets. Financing for building new plants or acquiring physical assets in new markets can be obtained most successfully from local sources, such as banks or private investors/partners. While financing for local distribution or sales organizations is best achieved through internal cash flow, more global players—such as private equity funds, family offices and private individuals—are beginning to finance the expansion of family businesses outside their local markets.

- **Value your business and its opportunity for creating shareholder value.** Knowing how much your business is worth would help you to prepare for the integration of an acquisition or to counter strategic approaches from interested buyers.

What if you can't unify your shareholders to rally around the strategic direction you want to pursue? It may be time to look for a new home for your company. The abundance of money available from financial and strategic sources makes selling very palatable.

Whichever strategy you pursue, today's economic environment is unusually inviting. It's a great time to turn your attention from harder-to-find internal growth to opportunities outside your company's—and, perhaps, your country's—borders.

François de Visscher *is founder and partner at de Visscher & Co., a Greenwich, Conn., financial consulting and investment banking firm for closely held and family companies (worldhq@devisscher.com).*

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