Acquisitions are a topic of much contemplation and fear, but also of importance, for many companies and their owners.

There are so many layers to it!

The following are only some of the questions and concerns we have gleaned from our clients and personal experiences over the years, as advisors, principals and private company executives:

When do I buy another company?

How do I do it, exactly?

Where do I start?

What are the key steps?

How do I protect myself and my company?

Is this really a good idea? How do I know for sure?

Do I put my existing business at risk?

How disruptive will this process be?

Can I do it with my team, or do I need an advisor?

What are the costs of this process?

What are the timelines of this process?

Which of my employees do I bring into the loop?

Are the market conditions right for a deal?

Where do I go from here?

Over the next nine instalments, we will attempt to provide insights on many of these important questions.

We can't cover all the bases here, but hope we can illuminate the topic of acquisitions relating to private companies, and provide insights on areas for further examination.

(Selling your company and exit planning are a whole other topic, which we cover in another series available separately.)

Watch this space for upcoming instalments, and happy reading!

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If you are considering acquiring a smaller company, do you know what motivates your purchase?

Is it getting the target, or paying a good price?

While purchasers often say it is both, the practical answer more likely is that it depends on a few things.

Those include:

Are you playing offense or defense?

If it is offense, you probably have less time.

Typically, specific market opportunities, or “windows,” close faster than industries decline. Whether mature and slow-growth, or even sunsetting industries.

If you are crunching your numbers carefully, chances are they show that the upside to be gained from winning the acquisition is far greater than the incremental cost of overpaying, compared with the “fundamental” value of the target.

There is a reason why highly acquisitive companies do deals very quickly and tend to pay higher prices — and it is not recklessness.

They are trying to maximize their position in a particular market window that they have determined is attractive.

They will have taken their time evaluating and defining that market window.

Once they have, they will go hard and fast.

Their key objective is gaining position in that market window, and acquisitions are often just one of many things to be done to achieve the objective.

Conversely, if you are on the defense, making the wrong move or overpaying for an acquisition uses up finite and likely increasingly scarce and non-renewable financial resources.

You cannot afford a misstep without hurting the value of your company, or risking hastening its demise.

In the defensive scenario, overpaying has a much different risk profile to the acquirer.

What SMBs should take from this is to very carefully nail down why they are even considering an acquisition.

Evaluating commitment to the process v. sunk costs

One of the most vexing decisions that must be made is when to pull up and walk away from an acquisition, instead of digging in and continuing the battle.

Companies and business owners who have closed or pursued acquisitions know the process is long, arduous and a great consumer of resources — management time, energy, and attention and cash for assorted professional fees and expenses.

But the even bigger cost is the increasing impact an acquisition has on the mindset of the acquirer and its board of directors.

What tends to happen is the transaction takes on a bigger and bigger persona at management meetings and the board level, for example.

Other initiatives tend to wither while the deal becomes increasingly central to everything.

Dissenters eventually quiet down, as the time for debate is considered past.

The acquisition becomes the main agenda item and as a result, like a large planet, has an increasingly powerful gravitational force, drawing in more and more resources.

This affects companies of all sizes, but particularly smaller ones, which generally do not have the bandwidth to properly carry multiple objectives and initiatives.

The result is often that the acquisition process becomes exceedingly hard to turn off.

The default setting becomes to get the target at almost all costs.

The commitment to, or obsession with, the acquisition can hurt the acquirer’s core business and end up shifting the focus of the deal from offensive to defensive, particularly with small to mid-sized companies.

It becomes a vicious circle, whereby the harder you pursue the deal, the more you reduce your probability of winning, and your ability to do so.

And finally, the more your ability to pay for the target — and the price you should pay — declines.

This is the vortex, a killer of smaller businesses.

How can you avoid the vortex?

The easiest way is to become an acquisition machine like Alphabet, Facebook, or Constellation Software.

Then no single acquisition dominates the agenda, with the insidious effects described above.

But this route is not generally feasible for the average small to mid-sized business.

SMBs can better arm themselves to do successful acquisitions by ensuring the following:

— Have some specific M&A experience on the team, complete with the battle scars, whether in-house or an outside advisor.

— Have an ongoing dialogue at the board level as to whether the acquisition is still worth pursuing based on the current facts. Make it a separate agenda item to the deal itself.

— Ideally, have a committee of the board focused on this element, staying above the fray of the deal. One or two people can perform this role.

— Discuss drop-dead deadlines or valuations for the transaction, and have a sense of what they are, although it is rarely practical to have these set in stone.

— Watch the company's existing performance metrics like a hawk. If you see deterioration and can't explain it, you may be in the vortex.

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