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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Businesses large and small are facing a barrage of criticism for being too conservative, hoarding their "dead money," rather than being innovative or hiring new talent.

Some say, they may even be hindering the rebound of the economy.

Whether or not you think this criticism is fair, there are things business owners need to consider before setting about spending to expand their business.

When does it make sense for a business owner to branch into a line of business outside their traditional sector?

Impacts of Diversifying

First, ask yourself why you would do this.

If it's to shore up a weak core business by spreading your eggs in different baskets, or because you are bored, or unfulfilled in the business you are in you should not proceed.

The most critical factor in deciding whether or not to diversify is where a company is in the life cycle of its core business.

A new business line will stretch your staff, especially the most critical ones.

Often, the staff you rely on most in your core business will be the same ones in the new business.

Don’t spread them too thin.

It is easy to underestimate the impact the competition for resources will have on your existing business, particularly if the new business is housed within your existing one.

It can split the attention and loyalties of the business owner.

Another big issue is cultural says serial entrepreneur Barry Wood, currently CEO of Ontario Excavac Inc.

People in the core business may resent the use of resources in the new business.

They may not understand, or may be fearful of how it will affect their jobs.

Or they may not mesh with the people involved in the new business, creating friction and tension in the workplace.

Sharing resources also makes it harder to financially model both the existing and the new business.

Shared resources are much more difficult to apportion validly.

This can obscure profit margins and free cash flows in both businesses.

Don’t Neglect Your Core

All this is particularly important if your existing core business is in expansion mode, or is still consuming rather than generating cash.

It is much simpler if the core business is mature and has cash flow to help fund the new one, than to have two hungry mouths to feed at once.

One option for expansion is to focus on what could be done to improve the core business.

You may be surprised at the opportunities that exist to improve your core business.

Worst case, the new business uses up crucial and limited cash that you could have deployed in your core business to overcome an unexpected challenge.

Impact on Other Stakeholders

Aside from stretching your resources, it’s important to note that lenders generally don’t give credit for a new business initiative until it is no longer new.

Equity investors may be more open-minded, but not automatically.

Getting clear agreement with all or a majority before embarking on a new direction is crucial to avoid finger-pointing when the inevitable challenges arise.

Having two businesses together could also complicate financing or selling either business, unless they clearly complement each other.

This is not to say adding a new business should never be done.

It can energize your company and create interesting compensation and reward opportunities, as well as creative ownership structures.

There is also the possibility of a windfall gain that can be used to fund your core business or widen your options for exiting that business — a partial buyout, dividends, or acquisitions to get bigger and thus appeal to a broader array of buyers.

Wood adds that, ideally, the new business should complement the existing core business.

In seasonal businesses, starting a new arm with opposite seasonality can be a means to level workload, better utilize resources and avoid layoffs.

There can also be unanticipated synergies with your main business, saving costs or increasing your market presence, for example.

The Bottom Line

Adding a new line of business can be much like playing three games of chess simultaneously:

One with your existing business, one with the new business, and one with the combined operation.

Not for the resource-constrained, or faint of heart.

But big upside if you do it right.

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