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How to Keep Your Small Business Merger From Crashing

By Karen E. Klein July 10, 2013

Mark Hemmeter, founder and chief executive officer of Denver-based Office Evolution, was admiring the bright, modern furniture he'd purchased for the reception area of a company he'd acquired in Colorado Springs, Colo. Then he overheard a client grousing on the telephone: "These new guys came in, and it looks like Disneyland out front now!"

The 2007 incident was an early sign of trouble in an expansion attempt that eventually fizzled. In 2009, Hemmeter sold the company back to its original owner at a loss. "It was an expensive lesson," he says. He's now expanding his 10-year-old, 25-employee virtual-office business via franchising.

Mergers and acquisitions have spiked in recent months, as middle-market companies look to grow and baby boomer entrepreneurs retire. BizBuySell, an online business-for-sale marketplace, reports that small business transactions jumped 62 percent from last year in the second quarter of 2013. The company reported a 56 percent increase in the first quarter of 2013. (Disclosure: BizBuySell advertises its listings on Businessweek.com.)

But unrealistic expectations, poor planning, and culture clashes often foil small business mergers, says Andrea Simon, a management consultant based in Yorktown Heights, N.Y. Her company, Simon Associates Management Consultants, has shepherded about two dozen M&A deals.

"Since the recession, M&A is going gangbusters. But many CEOs wake up the next morning with buyer's remorse," Simon says. She compares integrating two companies to putting on a play without rehearsal. "Once you buy, there's not a lot of time to make it work. It becomes far more a tug of war between two company cultures than a collaboration on a new entity that's better than either company was before."

Alan Cohen learned the hard way. His 74-employee, third-generation equipment and heavy machinery business, Aaron Equipment, made two acquisitions that went badly. First, in the 1990s, the Chicago-based company bought an East Coast supplier and moved the owner and his business to Chicago. Then, Cohen says, he came to believe that the new partner had a "drinking problem, and over the course of about three years the relationship soured and we had to end it."

A second acquisition, in 2003, involved buying the assets of a New Jersey equipment company out of bankruptcy court and hiring the failed company's remaining employees. Cohen thought he could expand his product offering and cut sales and marketing costs. But integrating the other company's systems turned into a "horror story," and the company cultures clashed, he says: "They had a lot of anger toward the old management and a very difficult time playing well with others."

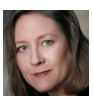
Cohen eventually closed the New Jersey business and rebuilt it in Chicago, keeping one key engineer. And he's given up on acquisitions. "They took the focus off of our work and became toxic for our culture," he says.

That's why Marshall Carter kept strict rules for acquisitions during the nine years he was CEO at State Street Bank & Trust (STT), a Boston financial services provider. "I did 13 acquisitions, but never just to gain market share in a business we were already in," Carter says. "Everything stops, and everybody's worried about their jobs. It's a lot easier to beef up your own sales force." He also advises against acquiring any company bigger than 15 percent of your own company's size.

Acquisitions can help your company get new skills to grow, Carter says. "If you can't build the capability you need in-house, you have to either hire people away or go out and acquire a company that does what you need," he says.

Other avenues of growth, however, may be smoother. When Aaron Equipment decided to enter the packaging equipment business four years ago, it teamed up with an entrepreneur whose bank had closed during the recession, leaving him without access to growth capital. "We decided to start doing projects together as partners on specific equipment opportunities," Cohen says. "We got to know him, he got to know us, and instead of looking at a snapshot of a financial statement that's been massaged, we got to see how he worked on projects and with customers."

Rather than acquiring the company, Cohen started a joint venture with the entrepreneur. "It is a very high growth opportunity for us and him, and he is a wonderful guy," Cohen says. "Basically, we got to live together before we decided to get married."



Klein is a Los Angeles-based writer who covers entrepreneurship and small-business issues.

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