A QUICK EXERCISE TO HELP DETERMINE ACQUISITION TARGETS

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Acquisition can be an important component of a PEO's growth strategy. There is no one formula, so each PEO must ask itself some questions to determine which acquisitions fit into its growth strategy and business model. These questions will not pinpoint specific PEO acquisition targets, but will help you identify the types of companies that will fit your strategy so you can align and narrow your search to find the companies that will be the best for your acquisition strategy and PEO business plan.

First, question 1: To grow your PEO's market share and increase the bottom line, do you choose organic growth, acquisition, or both? A larger PEO should ultimately find economies of scale, be more profitable, and provide a greater return for investors and shareholders. This model proves to be true. At the end of the day, an acquisition must increase the financial strength of the buyer or it makes no sense.

Now, question 2: Where are we today, where do we want to go tomorrow, and how will we get there? Business Planning 101. Putting a plan and budget in place will answer most of the basic questions about the highest and best acquisition target companies. What are your financial and growth plans, mapped out by year? How does an acquisition help you meet or exceed those goals? Why are you acquiring? Here are just a few possible reasons:

- Expansion of your geographic footprint;
- Additional product offerings the core business does not provide;
- Elimination of a competitor;
- Economies of scale by the addition of lives—lower operating costs;
- Addition of management and sales talent;
- New technology or technology enhancements;
- Additional marketing tools;
- Enhanced distribution channel; and
- Speed of entry into a new market.

And now, question #3: How expensive is the acquisition and when will we see a return on investment (ROI)? Is the acquisition priced correctly? Internal financial modeling for the addition of an acquisition requires expertise and experience. Remember, not all the benefits are tangible—many can be intangible. Budgeting for those is even more complex.

So, what constitutes the best acquisition for a buying entity? Each deal must have its own strategic logic with a well-articulated, specific, and written plan for how the combined companies will reach greater overall value creation, as well as operational and financial performance. Start with your current business plan, then map out where you want to go and how you will get there. Only then can you accurately determine what acquisition targets are best for you. I guess if it were simple, everyone would be a successful acquirer. Happy hunting!

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