How SWOT Analysis Can Be Used for M&A

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Commonly used for marketing and product development purposes, SWOT strengths, weaknesses, opportunities and threats analysis also provides a framework for owners preparing to sell their company and buyers evaluating a potential acquisition.

When marketing their company and negotiating a sale; sellers typically want to emphasize their company's strengths and opportunities. Buyers, on the other hand, are interested in strengths and opportunities, but also weaknesses and threats-particularly when they seek price flexibility. So sellers must be prepared to discuss negative factors to mitigate any devaluation on the final selling price.

Assembling Data

SWOT information usually is assembled in a four-cell grid, with strengths and weaknesses in the top two cells and opportunities and threats in the bottom cells. This presentation makes the relationship between factors easy to assess and draw conclusions from.

Strengths and weaknesses are considered internal factors; opportunities and threats generally are considered external. Of course, factors are interrelated-an internal weakness such as a poorly trained sales or marketing department can result in an external threat such as a loss of market share to competitors.
Internal factors to consider include:

- Customer contracts and relationships,
- Brand and corporate reputation,
- Breadth and depth of products and services,
- Operating efficiency,
- Level of company debt,
- Location and condition of facilities,
- Skills of management,
- Accounting, auditing and tax practices.

External criteria to consider include economic trends such as consumer demand, interest rates and bank-lending standards. Depending on the company and the economic cycle, any of these could be risks or opportunities. Rising interest rates, for example, pose relatively little risk for a company with heavy fixed-rate debt. But a company with the same level of debt in variable-rate securities could face sharply higher interest expenses.

Such events as the opening of new overseas markets, changes in competition due to new market entrants or exiters, or changes in customer preferences should be included in your analysis. And technology that improves production, makes possible new products, requires expensive modifications to existing products, or potentially has other effects also should be considered

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Think like a Seller ... or a Buyer

To take full advantage of SWOT analysis, think like the opposite party in your transaction. As a buyer, the better you understand your target, the more receptive the seller is likely to be to your bidding price. Sellers, on the other hand, shouldn't simply emphasize their strengths and opportunities, but also try to uncover any potential synergies and highlight them during the negotiation stage.

A CEO searching for strategic buyers can devise criteria to find potential strategic value. It's easier to look for viable buyers once you've identified possible synergies. Integration options include:

Vertical. Integrating vertically allows the buyer to bring its solution to industries in which the seller currently focuses. An example is a larger executive-recruiting company that acquires a business specializing in executive recruiting for the health care industry.

Horizontal. Integrating horizontally allows the buyer to bring its solution to the market in which it currently focuses. A marketing company, for example, might acquire a Web developer so it can provide Internet-based solutions to its established clients and prospects.

Channel. The strategic buyer has a sales channel that can easily adopt the acquired company's products. As a result, the buyer will have more to sell to existing customers.

Capacity. The acquiring company has unused capacity that can be filled with the target company's product. For example, a manufacturer can make the acquired company's products in its existing factories without adding new real estate or additional equipment.

Geographic. The seller gives the buyer access to its strongest geographic markets. For example, an office-furniture distributor headquartered in Chicago acquires a similar business based in Detroit.

Operational Efficiency. The buyer may be able to operate the combined businesses at a higher margin by eliminating redundancies. For example, a bank may acquire a competitor and eliminate 15% of back-office costs by combining staffs.

Explore Your Options

Even if you're not currently interested in selling your business, understanding how it might create strategic value for larger companies can be a productive exercise. That analysis may allow you to create new strategic relationships and increase sales.

Your ability to identify these and more subtle synergies-and demonstrate them to the potential buyer-can be worth millions in exit value (that is, the value at the time the company is sold). Every executive team can create value and realize benefit by examining the potential strategic synergies their business can create and initiating discussions with potential strategic partners, acquirers or investors.