

The five types of successful acquisitions

Companies advance myriad strategies for creating value with acquisitions—but only a handful are likely to do so.

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There is no magic formula to make acquisitions successful. Like any other business process, they are not inherently good or bad, just as marketing and R&D aren't. Each deal must have its own strategic logic. In our experience, acquirers in the most successful deals have specific, well-articulated value creation ideas going in. For less successful deals, the strategic rationales—such as pursuing international scale, filling portfolio gaps, or building a third leg of the portfolio—tend to be vague.

Empirical analysis of specific acquisition strategies offers limited insight, largely because of the wide variety of types and sizes of acquisitions and the lack of an objective way to classify them by strategy. What's more, the stated strategy may not even be the real one: companies typically talk up all kinds of strategic benefits from acquisitions that are really entirely about cost cutting. In the absence of empirical research, our suggestions for strategies that create value reflect our acquisitions work with companies.

In our experience, the strategic rationale for an acquisition that creates value typically conforms to at least one of the following five archetypes: **improving the performance of the target company, removing excess capacity from an industry, creating market access for products, acquiring skills or technologies more quickly or at lower cost than they could be built in-house, and picking winners early and helping them develop their businesses.** If an acquisition does not fit one or more of these archetypes, it's unlikely to create value. Executives, of course, often justify acquisitions by choosing from a much broader menu of strategies, including roll-ups, consolidating to improve competitive behavior, transformational mergers, and buying cheap. While these strategies can create value, we find that they seldom do. Value-minded executives should view them with a gimlet eye.

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