

The “Merger”: Are You in It for Love or Money?

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Have you ever watched a colleague take a job for the wrong reasons, clearly not listening to their gut? The money is too enticing, or the cachet of signing with a new company blinds them to the things that really matter once they are on the payroll. I've seen people who were inspirational entrepreneurs become absolutely miserable because they opt to work for an organization that is a poor cultural fit, or its leaders don't value their insights and innovative ideas.

I now see exactly the same dynamic occurring with acquisitions. Merger and acquisition (M&A) activity in our industry is up in recent years. Smaller firms, concerned about their ability to continue serving clients in our changing world as well as trepidation about meeting their own financial goals, are selling to larger, more established players. Time and time again, I witness people I respect making short-sighted decisions, mostly based on up-front money. They lose sight of the bigger, long-term picture based on the allure of an immediate infusion of cash.

It baffles me. How can someone who was motivated to make a name for themselves by building a business think they will be professionally satisfied working for a giant corporation that has little regard for their individual contributions? I'm sure some people are driven by anxiety – but few regard this as a valid element in a decision-making tool set. Although short-term money is a powerful force, I think it often short-circuits the analytical process.

In today's employee benefits market, there are basically two acquisition modes: lots of cash up front and leadership often exiting within three-to-four years, or more money over a longer period of time and principals finding a new home within the new company. When you make a decision based on sizeable up-front money, expect your future existence to be based on the same measure. In M&A transactions where compressing financial timelines is the primary factor, you can be certain the buyer's concern for their return on investment will always outweigh your personal job satisfaction and your creative ideas, much less your aspirations.

There are ways to enter into these deals, remain true to yourself, and, two-to-three years down the road, continue to be happy with your decision. It starts with being realistic and maintaining your perspective. Here are some factors to consider.

Love or money?

Do you have a passion for your business – or do you want to begin to slow down? If you are ready for the latter, choose the deal that provides you the most money up front. Some sellers deal with a “corporate” environment longer than others, but the biggest buyers have the most cash to offer upfront. If that's what you want or need, then go for it. There are times when financially driven deals are smart business.

Don't want your career on the endangered species list?

If you want to remain passionate about working, however, put on the brakes. Take time to think beyond the short-term impact on your wallet. What does the next immediate step in your career look like? Most acquisitions require that principals stay on for a period of time to ensure a smooth transition and a steady flow of commissions. Do you plan to bolt after that period and set up shop across the street the minute

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your non-compete term ends? What are you willing to tolerate during the interim? How do you feel about telling clients the company that acquired you is the best thing since sliced bread, then trying to lure them away years later? Will the factors that motivated you to sell today still be challenges in tomorrow's market? What firm can truly help you grow, has the platform to improve margins, will value you and your staff as true contributors and, finally, offer a meaningful equity play in the combined entity? Or will you be working for one that is 100 percent-focused on driving EBITDA?

If you want to remain a viable, contributing professional, you must examine the culture and motivations of the company that wants to acquire your agency. Talk to others who have been through the same process. How many transactions have they done, and how many sellers remain engaged in the business? Ask them if they feel valued; if they are able to maintain some autonomy. Are their opinions respected? Do they plan to stay with the organization long-term? Would the executive team care?

I'll tell you this: my company would consider an acquisition a failure if the principals left the minute their contract ended. We acquire agencies not only for their earning potential, but for the minds of the leaders behind the operation. That's the richest asset they bring to us, and it would be a tremendous loss if they left our firm.

Alignment with your advisor?

Many of today's sales are orchestrated by intermediaries with significant experience in deal-making. There are some excellent firms conducting this type of business. They have all the right traditional connections and can streamline the process for you. They will perform an "auction" and line up a list of companies interested in acquiring your agency.

When going this route, make sure you are properly aligned relative to the outcome. This, in particular, relates to finances. What if you feel a connection with a company that offers more money over time, which can often impact your advisor's compensation for the transaction? Do you want to choose your acquiring firm – or have them choose you? Your advisor moves on once the transaction is complete. You, your employees and your clients must live with the realities of the sale.

What is the buyer's primary focus of business?

Nearly all the major players in acquisition mode are P&C companies first and foremost. So what if your primary business is employee benefits? Hmm. I'm not a rocket scientist, but I don't have to be one to realize, "Houston, we have a problem."

Let's not be naïve. Corporations are cutting costs and pulling back, and the economy has never fully recovered from the rocky road it's been on the past couple of years. If you want to become a valued member of a team, operate on the leading edge of the employee benefits industry and offer clients innovative new products and services, do you really think that a P&C company can provide you those advantages in today's economic climate? Maybe. Maybe not. Is that a risk you are willing to take?

I believe our future is about meeting the needs of employees and their families – focusing on consumers – via employers. This is a huge structural change that few are currently talking about or positioned to deal with. This will require leveraging technology, enhancing call center functionality and mastering an entirely new approach to service and value creation. It is our supposition that innovation during this transition will come from "benefits" leadership, not folks in the P&C space.

What does the company that wants to acquire your firm say about the future of the employee benefits industry? Does it have a vision for the world two, five, 10 and 15 years from now? Is it investing money in intelligence, technology and infrastructure to make their vision a reality? Do you want to be aligned with an organization that is not?