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Does Competitive Advantage Matter?

Recently I met with another business owner who was unable to identify her company's competitive advantage. While owners usually have some inkling about why their customers choose their product or service over their competitors', they are much better prepared to talk about plans for growth, profitability or managerial issues.

When owners enter the mergers and acquisitions world, however, they must know what their companies' competitive advantages are because it is a prime determinant of how buyers assess value and therefore the price they'll offer for a company.

But competitive advantage should intrigue not just those owners who are ready to sell or recapitalize their companies. The sooner that all owners identify their companies' competitive advantages, the sooner they can work to strengthen and protect it. In the M&A world, the more robust the competitive advantage, the more likely it is that buyers will pay a premium to purchase it.

What your company does differently or better than its competitors can take many forms: reputation, platform for add-ons, distribution chain, control of primary input source, proprietary knowledge, etc.

The process of pinpointing a competitive advantage begins with an owner's usually intuitive answers to a series of detailed yet wide-ranging questions.

The process is similar to one a physician might use to diagnose a condition or disease: Start with general questions and follow up with increasingly more precise ones.

The next step is to determine whether the advantage is one that the company – especially under new ownership – can sustain over time.

Business owners should then formulate a strategy to showcase that characteristic to entice a buyer to pay top dollar for the privilege of owning the company.

Buyers best appreciate the value of a competitive advantage in one of two ways: in the amount of pain they can avoid or the amount of gain they can achieve in acquiring the company's competitive advantage. The greater the amount of pain or gain the competitive advantage inflicts or offers, the greater the buyer's willingness to make lucrative purchase offers. That's leverage.

In today's M&A marketplace, business owners' ability to extract a maximum purchase price from a buyer has much to do with matching a company's advantage to a buyer's needs. Owners who fail to understand that link leave thousands, if not millions, of dollars at the closing table.

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