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Management Strategies

Agency Sees Mergers As A Growth Strategy

If there's one thing Merle Whitehead has learned while leading his firm through 16 mergers in the past decade, it's that every transaction is different.

Some involve complex negotiations that threaten to drag on for months. In one case, Whitehead had to convince a broker-owner's son, who was set to inherit the acquisition target, that the deal offered him a brighter future than if his father's firm stood alone.

Whitehead is president and chief executive officer of Stovroff Realty in Orchard Park, NY. Through acquisitions, Stovroff has expanded its reach throughout the Buffalo area and into Rochester and Albany. As a result, Stovroff boosted its transaction volume from 4,000 deals in 1996 to 14,000 in 2001 and has become the largest brokerage in western New York.

Why merge?

Why consider a merger? Profitability is the top motivation. With profit margins squeezed, mergers can lead to economies of scale. Combining forces lets firms spread the same fixed costs for technology and other overhead across a larger number of agents, Whitehead says.

For sellers, a merger can be a way out of the business. With many brokers reaching retirement age, consolidation is an attractive alternative to a succession plan.

"The No. 1 trend in the industry is consolidation," Whitehead says.

There's evidence to support Whitehead's assertion. In recent months, NRT of Parsippany, NJ, bought the Corcoran Group of New York and Dyson & Dyson Real Estate Associates of San Diego, while HomeServices.com of Minnesota merged with Jenny Pruitt & Associates of Atlanta.

For its part, Stovroff Realty has bought firms large and small. In 1996, when it was Buffalo's second-largest firm, Stovroff combined with the market's third-largest brokerage. In September 2001, Stovroff took on a 50-percent share of Rick Leisure Realtors, Rochester's fourth-largest real estate firm. In 2000, Stovroff acquired the Realty USA franchise in Albany.

Guide to a successful merger

So how do you tackle a merger? While every deal is unique, Whitehead has formulated some rules of thumb that will help you through the process:

1. Make the first call. Before you can merge, you have to find a target. It's simple, Whitehead says, although you might feel reluctant to take this first step. Just pick up the phone, call your competitor and set up a meeting. Make sure the meeting place is discreet. You don't want rivals or your own agents to start chatting about your impending marriage before you've even started.

At this stage, perception is the biggest obstacle. You're probably prone to think things such as, "Those other companies aren't as professional as us." But put your prejudices aside, at least for now. "Assume compatibility," Whitehead says.

2. Screen the merger candidate. Once you've determined that your target is willing to move forward, it's time to stop assuming compatibility and to start gathering information and critically analyze the pros and cons. Have your target sign a confidentiality agreement.

When asking questions, Whitehead says, "Be very Columbo-like." The point of a deliberate approach to asking questions is to uncover new and important information. Consider your goals and your target's goals.

M&A Tips For Brokers

Merle Whitehead of Stovroff Realty offers the following tips for brokers seeking to grow through mergers and acquisitions:

- **Don't let your prejudices kill an opportunity.** You might think you're incompatible with a competitor's personalities, policies or culture. Such thinking means you'll never find a suitable target.
- **Be Columbo-like in your questioning.** Like the TV detective, you need information. You must investigate to identify your acquisition target's goals, weaknesses and important players.
- **Look for cost savings.** Economies of scale are the main reason to merge, so look for redundant locations, products and services.
- **Bring in your CPAs and attorneys early.** They'll help you structure the deal in the most advantageous way.
- **Redefine yourself.** A merger is the perfect opportunity to update your mission statement, get rid of old systems and make changes that would have been difficult otherwise.
- **Put on a new face.** Quickly change signs, business cards and marketing materials to reflect your new name and identity.
- **This is a team.** Internal power struggles and resistance to change are natural. But stop using the words "we" and "they" right away.
- **Anticipate problems.** After the merger, you'll work long hours to fix small problems.

Be sure to identify all the players at the target firm, including partners and shareholders. In the case of the acquisition target mentioned above, for instance, Stovroff hoped to buy a brokerage that the broker-owner had promised to his son. So Whitehead no longer had to convince the broker to go along with the deal — he had to persuade the son. Whitehead won over the son, but if he hadn't addressed the son's concerns, the deal likely would have turned out badly.

Assuage the ego of your target. "Don't say, 'We want to buy your company,'" Whitehead says, because it will seem less like a merger and more like a hostile takeover. Make sure you get buy-in from the leaders of both companies. The merger won't work without it.

As you look at the merger partner's numbers, keep in mind that internal financial statements can differ from audited financial statements. Also find out why previous merger deals might have fallen apart, and whether your target is talking to any other acquisition candidates.

3. Bring in your trusted advisers right away. Don't make the mistake of consulting your accountants and attorneys too late. Bring them in early to address the technical issues of the transaction. The list is endless: Are you going to purchase assets or stock? Will you pay with cash and notes or on a contingency based on future earnings? Will you buy half the company, or 60 percent of the company? Should the new corporate entity be a C Corporation, an S Corporation or a Limited Liability Company? Will you keep the other broker's office or dispose of it? These questions must be addressed by your CPAs and lawyers as soon as possible.

4. Take control of the deal. "These transactions can go on for months and months if you let them," Whitehead says. "You kind of have to be the driver."

In 1996, Whitehead's firm, then known as Stovroff & Herman Realtors

Inc., was negotiating to combine with H. Potter Realtors Inc. It was a blockbuster deal between the No. 2 and No. 3 firms in the Buffalo area.

On May 5, Whitehead told his attorney he wanted to announce the deal by June 6. The attorney said such a quick timetable was impossible, but Whitehead told him to do it anyway, and the completed merger was reported in the Buffalo News on June 5.

5. Think about ancillary issues. Buy your target's offices, if possible. This gives you greater ability to dispose of real estate that you don't need should you decide to consolidate redundant locations.

6. Announce the deal. You want to speak with a unified voice to your managers, agents and the media. Tell key people the day before you announce the deal. On the day of the announcement, tell managers at 8 a.m. and agents at 9 a.m.

Keep in mind that brokers tend to be analytical and logical and are likely to embrace the deal. But agents often will focus on the negatives of the deal. Keep your message focused on how the merger will help agents. As for media relations, have only one spokesperson for the company.

Don't change agent compensation plans right away, because agents naturally fear change, Whitehead says. Once the merger is done and on stable ground, then you can introduce new compensation plans.

7. Expect the unexpected. After the deal is announced and completed, your work is just beginning. Cancel any trips you plan to take during the first three to four months after the merger. Expect to work 70-to-75 hours a week for four-to-six weeks, with much of your time spent just putting out small fires. Take care to be visible to your people, especially at the branches. Also expect lost productivity, and don't think a merger will lead to miracles.

"When you add two offices together, one plus one doesn't equal two," Whitehead says. "It might be 90 percent of two."

In addition to unanticipated fires, you'll likely encounter power struggles as well between managers and department heads.

8. Ease the combination. Build a transition team to make sure that cultural issues don't derail the benefits of your merger. Your transition team should include a broad array of people at your firm, including department heads, managers, agents and secretaries.

Take on your new identity as soon as possible. "It's imperative that you get people to stop using the words 'we' and 'they,'" Whitehead says.

Determine what should change and what shouldn't. Dump old forms and systems, and change signs, business cards and marketing materials right away. Merging means rewriting your mission statement and redefining your core values, he says.

9. Be flexible. Even after 16 mergers and acquisitions, Whitehead says there's no ready formula for combining with another company. "None of them look alike."

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