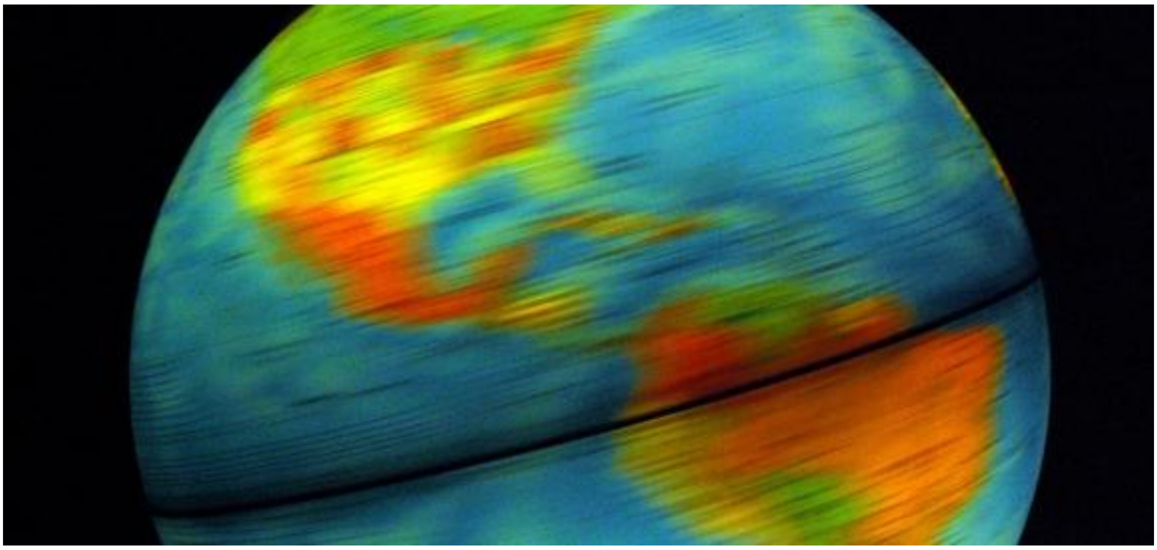
A Surprising Reason to Expand Overseas



One of the reasons big companies buy smaller ones is to get access to a new geographic market. When it comes to ginning up the price you can get for your company, where your business is located can often be more important than what your business does.

When office furniture maker Herman Miller paid $50 million for POSH Office Systems Ltd, they were buying a fast way to get distribution in China. It can take years for a U.S. company to sign up and train dealers in foreign countries. Herman Miller essentially bought a turnkey network of dealers in the world's most important market for office furniture.

Geographic Diversification

If your business model works in other countries, not only can you grow more quickly, you can also increase the universe of people who might like to buy your company and the price they're willing to pay.

Take for example New York-based DataArt. While not looking to sell, DataArt's CEO Eugene Goland agreed to let my colleague Cliff Olin, principal at Olin Capital Advisors Inc., and I take a look at his business for this article.

DataArt makes custom software for the financial services, healthcare and hospitality industries. If you're a Wall Street investment bank and you need a custom piece of software that allows your traders to run a proprietary valuation algorithm, you might call Goland's company to build it.

It's big-brain stuff, and while the U.S. is a good market, 30% of DataArt's revenue now comes from the United Kingdom, and they're starting to pick up projects in the Ukraine and Russia. DataArt also hires software engineers in all the markets they serve, giving them a diversified employee pool. That helps make them more attractive to potential buyers or acquirers.

“DataArt would be an attractive acquisition target for U.S. strategic acquirers who want more exposure in international markets,” says Olin. “And it would be attractive for private equity firms, both U.S.-based and international, that would see DataArt as a platform to enter fast growth markets like Russia and important financial centers like London.”

The more geographic diversification DataArt has, the wider the pool of potential buyers likely to be interested in them. For example, a U.K.-based custom software company wanting to increase their exposure to the U.S. market may see DataArt’s U.S. presence as attractive, while also appreciating the fact that DataArt is familiar with the way Brits do business.

Equally, a U.S. company keen to tap emerging markets like Eastern Europe for both talent and customers may see DataArt as a turnkey way to get access to Russia.

Geographic Diversification and Risk

DataArt’s geographic diversification also significantly reduces its risk profile, another plus for potential acquirers.

Goland emphasizes that no one customer accounts for more than 5% of DataArt’s revenues. This customer diversification is a characteristic coveted by potential acquirers, and it further reduces DataArt’s risk profile.

Although we are all tied together by the increasingly interdependent world economy, some national and regional economies manage to buck the world macroeconomic trends and chart their own path. So it’s appealing to be able to build a presence in countries that might boom as others are pulling back and, conceivably, spending less on things like information technology.

That’s just one more reason that the regions in which you operate can have a big influence on the number of people keen to buy your company. The more people lining up to buy, the higher the price.