



## INDEPENDENT CONSULTANTS ASSOCIATION INTERVIEW WITH JOHN L. NELSON

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With 32 years experience in senior management, John L. Nelson's early career focused on leading new business ventures to successful outcomes within the Fortune 50 culture. He is known as the "father of NEXIS," which he guided from an embryo to icon status. John is president of Nelson Consulting, Inc. ([www.NelsonConsultingInc.com](http://www.NelsonConsultingInc.com)), specializing mergers, acquisitions and investment banking as a business intermediary. John spoke with The Consultants Report editor, Pete Gallagher, about Mergers & Acquisitions as a business model for consultants.

**ICA:** As a consultant, when did the "light" come on? How did you decided to concentrate on mergers and acquisitions?

**Nelson:** Five years ago, I was serving as an executive in a company that had experienced impressive growth domestically and internationally. Its success and value was at an all time high. When the owners had a falling out and decided to sell the business - our baby - a business broker was selected to act as our business intermediary. We quickly discovered that the business broker lacked the required professional skills, resulting in a very bitter and costly experience for the owners. As far as I was concerned, the broker should have gone back to selling used cars! The sale did close but we probably left several million dollars on the table due to the inadequacies of that business broker. The individual in question represented a very well know financial giant - a household name everyone would recognize. I became very frustrated upon discovering we had signed an exclusive agreement with an individual that was skills challenged. I viewed him as incapable of acting in our best business interest as a business intermediary, which was born out in his failure to maximize our return on investment.

That is when the light went on for me. I recognized that there was a market opportunity for a pro to come in and do the job right. My sense was a mature person with the right skills and experience could successfully lead a closely held mid-market company to selling part or all of their equity position for top dollar. Fortunately, my experience included twelve successful equity transactions ranging from IPO's to private placements. Modesty aside, I seemed to be reasonably well practiced at it.

**ICA:** What traits should a consultant develop to be successful in the M&A world?

**Nelson:** Experience, Experience, Experience! Once you get past experience, you must possess "integrity." Dealing with a company's finances and exchanging equity for dollars is probably the most sensitive area I can think of within the business arena. Many of our clients have raised their baby (company) to at least teenage years and are wrestling with the idea of placing the business in the hands of a stranger - a buyer or equity partner, if you will. As a business intermediary, we must handle this with integrity, augmented by underlying skills that are capable of preserving the best interest of the seller.

**ICA:** What prerequisite skills would a consultant need to enter the Mergers & Acquisitions field?



**Nelson:** M&A is not a field where a small consulting company can afford to train new or junior staff. That being said, the basic skills requirements include a very sound financial background, work experience in or around the merger and acquisition genre and the ability to imbue confidence. At a minimum the candidate must possess the technical M&A vocabulary and cultural experience ... and a deep desire to share - a very giving attitude is a pre requisite to succeeding in the M&A business.

I think someone coming out of college with a master degree in finance will typically have a high opinion of himself or herself. Some may believe that they can handle M&A right out of their MBA. However, textbook sense is simply not enough. In many cases, I have observed, M&A is a late career move. Many people who are in the M&A game have built their own businesses and sold businesses one or more times. Moreover, they say, "I like this. I would like to do it again. But this time I want to sell other peoples' businesses or assist them in capturing a mezzanine capital partner."

**ICA:** What are the pitfalls?

**Nelson:** I think the largest pitfall is deluding ourselves into thinking we can handle the entire process all on our own. So far, I have never met anyone in the M&A field that possessed all the skills and credentials necessary to do the engagement solo. Consultants who have not had successful first hand M&A experience are probably going to mess it up, beyond repair. M&A is not anything like the average garden variety consulting engagement, whereby the consultant's role is predominately coaching and drafting recommendations. The typical consulting engagement ends with the deliverable. In many cases, the execution responsibility falls to the client.

However, in the case of mergers and acquisitions the M&A consultant assumes full life cycle responsibility as a business intermediary. Although we typically receive an up-front retainer, we do not reap significant rewards until we successfully sell part or all of a client's equity at the agreed upon terms. M&A financial rewards are principally success based - not hourly billing rate based. Therefore, a significant pitfall to entering the M&A consulting field is the lengthy time between engagement initiation and the actual payday. As business intermediaries, we actively lead the project and become the dominant face right up to the moment of closing. Then we are paid.

**ICA:** What does today's business landscape look like to you for consulting?

**Nelson:** The last three to four years have been a financial desert for many businesses (July 2004). A number of marginal companies died of financial thirst trying to cross the desert. Today, the desert is behind us - at least for now. A barometer we use as an M&A economic indicator is the IPO market. As you know there were very few IPO's from 2000 through 2003. However, the first quarter of this year initiated a number of IPO's. The interest rates are at a 50-year low in America. The stock markets are slowly rising and the outlook is cautiously optimistic. Our US unemployment rate is well in check. Money is flowing again. Venture capital companies have funded new investment funds and are buying into companies at an accelerated rate. IT spending is picking up. In addition, US retail sales, on a percentage basis, exceeded all other developed nations. The US economy is on the move again.

Specific to M&A, there are a number of clients that have survived the financial desert and are simply worn out. Some are saying, "I want out," or they say, "I need a capital infusion from a fat cat partner. I spent all my money surviving. If you can find me a financial partner that will capitalize the company for growth, I will stay on and lead the company to financial success. I am managing a



potential gold mine opportunity but I spent all my cash surviving." My considered opinion is the U. S. economic environment is ideal, particularly for M&A. This is evidenced by a significant number of "deals" I currently have in the works.

**ICA:** What personal business philosophy has guided you through your career?

**Nelson:** I do not even begin an endeavor until I know I am going to win. I think it through thoroughly. If I suspect my risk of loosing is too high, I do not enter the game. I will not ante up. This applies to prospecting as well as launching a business venture. Calculating the odds of winning is my personal litmus test. Experience has taught me that it is very costly to play in a game that is fraught with inordinate high risk for failure. In today's upbeat world, taking on too much risk is unnecessary and simply bad business. In today's "New Economy" and the opportunities presented therein, consultants can choose the games they want to play in, minimizing their risk and maximizing their success.