



# The Next Edge

Reward comes to those who move ahead of the pack, whether selling or buying.

**H**ome builders will start buying—in the near future. As tough as that may be to believe, a wave of mergers and acquisitions and a wave of land purchases will likely start off-shore and make its way towards us. For anyone with the capital and interest to purchase strategic assets, the surf's up soon.

Most of us can't see the wave building, but new research from the University of California and Michigan State University indicates those who see it first and act on it will gain an edge over those who jump on the bandwagon after the wave becomes common knowledge.

Research shows that most mergers result in negative or zero returns to the acquirer. Home building was a veritable hive of acquisitions over the last 10 years. If they track consistently with M&A research, many deals tanked. Can acquisitions of both sizeable land positions and home builders be good business, or are such acquisitions foolish?

John Haleblan, from the University of California, Riverside, along with Gerry McNamara and Bernadine Johnson Dykes, from Michigan State University, have examined the dynamics of acquisitions. Their research, entitled, "The Performance Implications of Participating in an Acquisition Wave: Early Mover Advantages, Bandwagon Effects, and the Moderating Influence of Industry Characteristics and Acquirer Tactics," appeared in the *Academy of Management's* January 2008 issue.

"Although numerous first-mover advantages have been posited for pioneers in product-markets, we see advantages associated with market preemption as the most applicable to acquisition waves," the authors

write. The advantage for an early mover in an acquisition wave is the ability to "preempt competition by tying up critical assets the firm may leverage to its benefit." According to the authors, "Firms acting early are more likely to experience positive acquisition returns, and the returns bottom out about two-thirds of the way through the wave."

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Acquirers who act early "yield an advantage in the cost of acquiring a strategic asset," such as a piece of land or a home building company. An early mover's foresight may allow it to acquire a land position or target firm "at a lower cost than its competitors as the early mover acquires key resources in a market and integrates them before competitors perceive their true value."

Are public builders and private equity firms thinking along the same lines? Many publics have amassed large sums of cash on their balance sheets. And conversations I've had with numerous private equity

firms indicate that billions of dollars are being targeted toward residential assets.

The authors argue, "Many firms will enter a rising acquisition wave motivated by bandwagon pressures rather than by rational assessments of the strategic value of undertaking acquisitions. Bandwagons occur when firms undertake a strategic action such as acquisitions because of the previous actions of other firms. Firms jumping on the bandwagon follow different decision evaluation processes than early adopters. Rather than undertaking a comprehensive analysis of strategic opportunities and the value of alternative courses of action, firms following a bandwagon restrict the scanning they undertake, are less likely to consider contradictory information, and are less mindful of in their decision evaluation."

The study notes that firms jumping on the bandwagon "focus on social cues, assume others have superior information, and undertake actions without fully considering their strategic implications." The key to seeing the wave before it becomes common knowledge is to understand the key metrics that drive home building and how market dynamics move into place to support these drivers. Those organizations with the analytical expertise and available capital will gain as the headwinds come back around and shift to tailwinds. **BB**

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