

Buying Businesses – Do the Deal Because it's the Right Thing to Do

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Today's question comes from a business owner in Westchester, who's looking at opportunity in an uncertain market.

We're looking at several acquisition targets, and are zeroing in on one or two. Frankly, to hit next year's numbers, we're probably going to need to acquire a business. We've done a couple very small deals in the past – bringing on an owner and maybe one or two employees, for very little cost. This time it's going to be a bigger deal, and I want to be sure we're ready.

I like what this owner is saying about acquisitions. First, doing smaller deals makes the business more prepared for a larger deal. We all make mistakes. The trick is managing the size of the risks, and the mistakes, so that we can learn as we grow without jeopardizing the core business. I also like that this owner is thinking about growth through acquisition, rather than just trying to push ahead internally to get to the next level. Finally, doing acquisitions is a great way for us to practice for eventually selling out of our own businesses.

Let's get to work. Here are some questions to consider.

- Do I have the right resources in place, or can I get them?
- What's it going to cost, and how much risk is there financially?
- Is everybody in my organization on board and ready, willing and able to support the acquisition?
- What's the opportunity cost?

Make a list of what you've learned from previous acquisitions – good, bad and ugly. Ask everyone in the organization who's been through an acquisition to put their thoughts on paper. Assess where repeat mistakes are likely to show up. Get your employees involved in figuring out how to prevent those mistakes. Know what warning signs you need to be on the lookout for. Make sure you've got rock solid solutions, not a hope and a prayer.

Define what has to result from the acquisition, 1, 2 and 3 years out, in terms of sales, personnel and equipment acquired or put to use, profitability, market opportunity. Set goals before you get into the deal, be very specific. Post goals where everyone can see them and help make sure they happen. Measure results monthly, quarterly and annually and make fast corrections if you're off track.

Be sure you have in place the resources you'll need. What's it going to take to get through this deal financially, personnel wise, skill wise? Lay out a chart of the

larger organization. Figure out who's going to do what, and who's going to be so busy they'll need a partial or full replacement for the job they used to do. Don't count on getting everything you need from the newly acquired company – there are no guarantees they're going to gel and stick. Have a backup plan.

What's it going to cost, and how much risk is there financially? Make a list of everything that could go wrong and what that would cost to fix. Calculate the risk of lost profit short and long term. Be very realistic, and be sure you have 2 – 3 times the money you need, set aside to get through the tough spots.

Be sure everybody in the organization is on board. The time to find out that someone isn't ready, willing or able to do double duty, handling their old job and pitching in with the new one, is now, before you get into a deal. If you don't have enough personnel resources on your side, people with whom you work well, you may need to pass up the deal and focus internally, for the moment. Remember, you can't do the acquisition alone. You need a solid team in place to pull off the deal.

Up to the time the deal is closed, you need to constantly ask yourself these questions. Is this the best use of my business resources? Are there any alternative uses of my financial



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and human capital that make more sense? What's the likelihood that things will work out well? Is this a better bet than putting money into a good marketing plan, or hiring some additional talent? Sometimes we get so caught up in getting a deal to happen, that we forget to pick our head up and look around at our options. Don't do the deal just to get it done. Do the deal because it's the right thing to do – the best payoff for the time, effort and risk.

Looking for a good book? Try *Mergers and Acquisitions Handbook for Small and Midsize Companies* edited by Thomas West and Jeffrey D. Jones.

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