Trusted Advisor to Business Owners

Is this the right time to buy a small business? 09/07/09

I'd like to grow by **buying a business**. Over the last two years I've been talking to a lot of **small business owners** in Fairfield County. Some owners are now more anxious than ever to sell. For others, vendors, landlords and major suppliers are pushing them over the edge. I'm afraid that I could inherit a bag of problems I can't handle. I'd still like to do a deal.

Acquisitions can be a great way to jump forward. But you can't step in, unprepared, and expect it to come out well. Now can be a great time to acquire, if you've done your homework and your company is ready to take it on.

Form a support team. Evaluate qualifications, define responsibilities and roles. Make a shopping list - things worth buying. Set boundaries on purchase price and terms - what the business can afford.

Consider the challenges. This includes handling people, finances, operations, marketing and sales, and making a profit. Set up the **acquisition team**. Define who moves into the acquired company. Who covers the work those people were doing pre-acquisition.

List the outside advisors, including an attorney and an accountant. Ask your current attorney and accountant how many acquisitions they've headed up. If it's only a couple, think about hiring additional advisors with more experience. You don't want to make a mistake because your experts aren't expert enough.

Think through what the **acquisition** looks like under new management. In this case, I happen to know that the owner wants to add stores similar to the ones she already owns and operates. She can set up a model of what a store should look like and cost to operate, using her existing store data. Once she gets **financial data** from the acquisition target, she can fit it into her model. That will help her to see what it will take to make the new store profitable; where she'll have to make cuts or beef up.

Go kick the tires on each target. Visit the business often. Sit outside and watch what goes on. Ask to see several years of financials and tax returns. Watch out for liabilities like unpaid taxes, vendors, and uncollectible accounts receivable.

Take the owner(s) out to breakfast, lunch and dinner and pick their brain(s). You may not be able to approach employees pre-acquisition, but do everything you can to learn about who is there, as they'll become your employees once the deal is signed. Be sure to see first hand any equipment you're interested in and check the balance sheet for unpaid leases.

Gauge what the business is worth. For example, if the business has a **customer list**, and it costs your business $50 to acquire each customer, multiply the number of customers by $50. If you have questions about the current strength and loyalty of the customer list, reduce the number of customers you multiply by, to account for that concern.

If you're acquiring real estate, equipment, or personnel, calculate what it would cost you to acquire those through other means. Add any net gain or loss. For example, you may find that the company's staff is good, but overpaid. You'll have to lower payroll to get the acquisition to work. That goes into the model as a negative number to account for reductions you'll have to make. If staff is underpaid or underutilized, put a positive number into the model to account for additional productivity.

Now it's time to **negotiate a strike price and terms**. If the seller is in trouble and the business isn't producing any profit now, but it can if reorganized, that may be a deal worth considering. Look for a realistic, motivated seller who is willing to work with you to get the deal done. Know what your business can afford and stop when you hit that limit, no matter how much promise the acquisition might hold.

Offer to pay a majority of the price over time, out of profits. This is riskier for the seller but better for you, so you may get resistance. You can overcome some of this resistance by offering to fix the value and simply vary the timing of payments depending on how long it takes to turn a profit with the new operation. Having built a relationship with the owner prior to negotiating should help as the negotiating points go back and forth.

Be sure to have a marketing and sales and personnel plan prepared, so you can step in the day after the deal is closed. Something like 70 percent of all acquisitions fail to deliver the value expected, mostly due to poor follow through. Once you own it, be prepared to move fast to make it work.

Looking for a good book? Try "The Complete Guide to Buying a Business" by Fred Steingold.

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