Buying a Business and Making it a Successful Business Purchase

Creating a successful purchase when buying a business requires smarts, discipline and a large focus on understanding the business. More than just a simple exercise of checking the books, a successful business purchase requires paying attention to the detailed minutiae including a focus on understanding expenses, revenue, asset value maximization (employees, fixed and technological), customer demand, customer value and, of course, future potential.

Personal Involvement

Most activities in a business purchase should never be outsourced or delegated. Too often Buyers fail in this respect. Entrenched and committed Buyer involvement throughout the purchase process does more than ensure that you know what you are buying, it sends a non-verbal cue to both the Seller and the Broker. A strong involvement and leadership from a Buyer who is a good manager creates an atmosphere that lends itself to success.

Alignment is required between the Buyer, the Seller and Broker. Such alignment requires regular communication of expectations versus findings. Nothing should be left to assumption. Additionally, being directly involved on a day to day basis and having minimum changes, if any, prevent disgruntled employees, employee turnover and value erosion. Ultimately, once purchased the Buyer's direct involvement will send the message to employees that minimum changes and ongoing integration are the most important items to an ongoing successful company.

After the Closing

With the timing of integration in mind, there is often a heavy focus on "day one" metrics. Unlike LINK, many brokers are notorious for a tunnel-vision focus on the closure of a deal. His/her compensation is the main motivating factor toward ensuring a successful outcome and thus the focus on pushing toward closure. Sometimes not telling anyone of the acquisition but just having the Seller tell everyone that he wants to "slow down" and is bringing in a new partner can help provide the balance of focus by concentrating on other items like preserving existing cash flows, creating value enhancements and realizing expected synergies. Stabilizing the separate entities and focusing long past "day one" and the transaction close will aid the new Buyer in avoiding some of the pitfalls associated with post-merger integration.

Even in situations where the employees are to be told of the purchase, in most instances it can be safer to not notify the organization and wait to integrate until immediately after a deal closes. Employee buy-in to a Buyer's ongoing integration will prevent hurdles toward realizing expected synergies between existing employees and new management. Accomplishing such will require a detailed analysis and strategic rationale for the "how", "what" and "why" long before the "when". That is, business issues, customer analysis and soft deal considerations (like customer and employee culture fit/clashes) should all be on the discussed and planned long before their actual attempted integration takes place. It's the old "fail to plan, plan to fail" conundrum. From branding issues to customer on-boarding, the processes and procedures for integrating require detailed analysis and proper planning, then execution. Of course, it still requires setting expectations among employees who may feel their positions are threatened as a result of the deal—a delicate balance that should be carefully weighed.

Creating a post close 100 day plan during due diligence and before closing should include detailed task creation, assignments and accountability monitoring, This could include ensuring the avoidance of losing key employees, customers and overall goodwill. It can take a lot of cost and revenue synergies to make up for losses if existing revenues are among the two entities if not properly preserved. If executed properly and managed from competent leadership, value-preservation plans that start day one can have a huge impact on the long term success of a deal.

Tech Working for Deals, Not Deals for Tech

Deal success in today's world is both managed by and harangued by technology. Critical to the integration success of any deal is the successful integration of both company's IT systems. Additionally, information technology including advanced data and project process tools can be used to manage the integration itself. In today's world, successful accomplishment of anticipated deal objectives requires both integration of IT and the use of it. The tech can be an enabler, but if not done properly, it can be a major hindrance to the original deal objectives.

Pitfalls

Anytime you have an asset sale with a Bulk Sale notification you have potential for leaked information about a deal that could scare customers and suppliers. Plus employees may have legitimate fear of potential job loss. Also failure to properly operate the business as a going concern with minimum changes throughout the due diligence, close and post-close period is likely to result in some type of value destruction. This can occur due to Seller neglect before the close or Buyer neglect after the close.

Keeping the deal under wraps until after close of escrow can sometimes make integration plans difficult, so exercise caution. Finding a good LINK Broker who provides good advice and holds your hand until the close of escrows can help save heartburn in the interim.

People & Cultures

People and culture issues can plague even the best deals. Employees may feel threatened, lack of clear communication from Buyers and the overall "unknowns" that accompany employees in a transaction can prove fatal if not properly managed. Early identification and resolution of cultural issues among employees in both pre and post-close phases can ensure the businesses at least maintain the status quo—ensuring revenues and cash flows remain intact. Business stabilization and change management issues are critical at every juncture.

In conclusion, volumes could be written on the opportunities & pitfalls inherent to buying a business, but covering the above points is an absolute necessity. In short, success is a matter of personal involvement, good planning, communications, communications and communications.