

The Ten Commandments of Acquiring a Privately Held Business

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1. Thou shall pursue diligently. Real acquisitions never happen casually. They require serious, focused and relentless pursuit and lots of effort. If you have located a good candidate, focus all of your efforts and take the process as far down the path as possible. If it is a *good* business, there will be competing suitors. Keep them at bay by offering realistic pricing and terms and by being responsive and dedicated to the task at hand.

2. Thou shall sell yourself. Often the single most important factor that secures a seller's flexibility in deal structure is whether or not they feel good about you taking the reins. Adapt your resume' to the particular target industry, and have a personal financial statement ready that shows you are a capable buyer. Even if the offer is all cash, sellers still heavily evaluate the "soft issues" of how you will take care of the remaining key employees and whether you will continue a strong reputation in the community and industry. Buyers and sellers will need to work together after the sale to smooth numerous transitional issues; time spent getting comfortable with each other will serve you well after the deal is done.

3. Thou shall plan on working very hard. Your initial foray into the industry and specifics of the business will require long hours and dedication, at least during the first year or two. Even if you plan to rely on existing management, immersing yourself in the industry will give you the knowledge base to better understand and drive the *true* (and often subtle) keys to success.

4. Thou shall get comfortable with paying for goodwill. Don't get too hung up on the "hard assets" of the business. Show me a good business and I will show you one that will command a price that includes plenty of goodwill. Bad businesses are routinely offered as "asset sales." That means that yes you are buying just "hard assets", which sounds good; but you would be buying assets that don't produce anything of interest. Truly, the best "asset" of a business is its cash flow. If the cash flow is strong, it will command (in the marketplace) value that is significantly beyond that of hard assets.

5. Thou shall avoid an 80% failure rate. The primary benefit of buying a business (rather than starting one) is to avoid the documented and dismal fact that 4 out of 5 business starts ultimately fail. You can buy hard assets anywhere; the goodwill you pay for helps assure success. Stack the odds in your favor by acquiring a going concern with immediate income, proven demand for product and services, established market position and customers, trained work force, and an established brand and reputation. Arguably it is easier to acquire a business and take it to the next level, than to build one from ground zero to the first level.

6. Thou shall look for an 80% fit. The perfect business does not exist. Buy the business that substantially fits and mold it to your desires.

7. Thou shall prepare to dive. Analysts, advisors and intermediaries are important parts of the process. However, they can only get you 80% across the river, you ultimately will have to dive in and make it work for you. Be sure to secure the seller's transitional services to help you with

the initial strokes through turbulent waters. No risk no reward.

8. Thou shall work with a knowledgeable and ethical intermediary. Check the credentials and quality of offerings of the firm and individuals you intend to work with. This will help lead to a "win-win" transaction and smooth the process.

9. Thou shall consider targeted acquisition services. If you can't locate a good fit, inquire about targeted acquisition services. It may be best to pursue the right fit than to simply buy what is available. You may have to pay more to get a complacent owner to exit, but that too may be better in the long run. Check to be sure your intermediary has a good reputation in the region of interest and a credible network. Engage that intermediary and he will be far more effective than you at actually locating and freeing up a real acquisition opportunity.

10. Thou shall offer early in the process. A buyer will not be able to get all or even most questions answered before a conditional offer is made. Formulate a realistic offer early, trusting the information provided. It will save your valuable time and that of all involved. You will have ample opportunity in subsequent due diligence and negotiations to dig as deeply as you require.

You are seeking to acquire a business that will consume much of your time and money. You worked hard to get where you are and now want to leverage valuable resources into a new, exciting and rewarding challenge. Enter the market on purpose and do it from a position of strength and secure the best opportunity available.