Thinking of Buying a Business?

By Kenneth B. Collins

If you are thinking of buying a business, selling your own, refinancing, negotiating a deal, or just wondering how the world of Mergers & Acquisitions works, then you know that the numbers of questions and issues that arise – with their legal and technical complexity – can be daunting:

- Is this the best time to buy? Or should I sell?
- How much is their business worth? Or mine?
- Which are the best prospects?
- How do I negotiate the best price and terms?
- What are the tax consequences?
- What is the process and how long does it take?
- What are "earn-outs" and how do they work?
- Do I need a business broker? An investment banker? A financial advisor?

Over the past year I've addressed a number of these topics as, together, we unravel the world of M&A and discuss it in terms that all business professionals can understand and relate to.

Believe it or not, the best time to start thinking about buying a business is now – while the M&A market is strong, plenty of capital is available, interest rates are low, and the economy continues to improve. Waiting to buy in a down market may offer bargains, but it is also a time of greater uncertainty and risk of failure.

The majority of business acquisitions actually fail to achieve the financial, commercial or strategic objectives set at the time of purchase, so if you haven't already done so, now is the time to step back and think through the entire rationale once again.

Why am I buying? Do I have a clear strategy in which the acquisition will add value? Is it to fill out a product line; expand my market; secure intellectual property; expand production capacity; or perhaps to eliminate a competitor?

If you have already identified a prospect, ask yourself why they would consider selling? Is it simply time to retire? Or is it because the business has peaked, the market is changing rapidly, or the products are facing obsolescence?

Often there are perceived synergies that are the primary motivators, but they are frequently over-estimated. Cost savings are relatively easy to identify and deliver, but sales growth synergies are much harder to quantify and achieve, often turning out to be illusory.

Here is a checklist I've compiled over the years to help clients avoid the pitfalls associated with acquiring a business:

1. Acquisitions do not solve operating problems that exist in the core business.
2. Acquisitions often exacerbate poor strategies.
3. Failure to consider the alternatives – including internal development – such as licensing and joint ventures.
4. Flawed understanding of the new business.
5. Misjudging where the market is headed.
6. Failure to identify problems in due diligence.
7. Overpaying for the business.
8. Poor negotiations that set bad terms.
9. Failure to integrate properly.
10. Lack of clear leadership and cultural fit.

Making an acquisition is very risky – and potentially very expensive – but it can also represent an opportunity to create significant added value. Anticipate problems. Best advice? Have a thinking partner who is capable of helping you through the process.

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