How the $100 Million Company Acquired the $1 Million Company

It was a dream come true for a small business owner — selling the business to a bigger printing company and walking away with a mountain of cash. It's a scenario we've seen played out in the financial headlines time and time again.

Unfortunately, what makes the headlines doesn't always represent the majority of the transactions. While there are a variety of different criteria used to measure the "success" of a merger and acquisition, approximately two-thirds of all mergers and acquisitions fail.

Yet this particular $1 million company got gobbled up by a $100 million company, and the owner was rewarded far greater than with any lump sum payment. He received a chance to continue to grow his niche business, spend more time with his family and enjoy more financial security than ever before.

So how did it happen? Two words tell the tale: Synergistic relationship. But before we get to the happy ending, let's start with the down-in-the-dumps beginning. It's not pleasant and, for many of us, it's going to sound all too familiar.

Too Much Travel, Too Much Debt, Too Much Altogether

Full disclosure on my part: I'm an intermediary for printing companies. I help buyers and sellers meet, establishing synergistic relationships that result in win-win situations. This is one of those stories, and I'm passing it along so you can avoid becoming one of the statistics I mentioned previously. Because I guarantee complete confidentiality, I'm going to withhold the names of the businesses involved. We'll call the small business owner Little Joe, and the investor Big Bob.

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I met Little Joe at a conference, and to say he was stressed was an understatement. As we talked, Little Joe told me about a terrific niche he had created. He was

Rock LaManna, President, LaManna Alliance

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a pioneer in the pressure-sensitive label business, having developed a special label adhesive for produce, fish and game. It was a unique product and his business was booming. His profit margins were in the top 10 range of all printing businesses and, with a corner on such a dependable niche, he looked like he'd have business coming in as long as he wanted it.

There was one catch. Little Joe was running himself ragged. He had started the company in the West Coast, where he met and married his wife, and started a family. He then decided to move the company to the Central region of the US to reduce costs. Soon he was commuting between his California and his new Southwest clients, spending 75 percent of his time on the road.

Because he spent so much time on the road, he missed many of his children's special moments in high school. They were now collegiate athletes, and he wanted to see them compete before they graduated.

To complicate matters, the human resource side of his business was becoming troublesome. He had moved his operation out of his residential state to take advantage of lower wages but, in the process, his talent pool shrank. He had to interview 61 people just to find 11, and 75 percent of the applicants had criminal issues, a classic case of "you get what you pay for."

When he approached me at an SGIA merger and acquisition seminar, he wanted to just chuck it all; sell the business for the most money he could make, cover his debts and get out of Dodge. It was a classic case (redundant from above – "classic case") of burn out.

Little Joe is an extremely knowledgeable technician, with sales skills, who created a highly profitable business. He was convinced his life had reached a dead end, but I saw it fraught with possibilities. That's why, when you're selling your business, it's invaluable to have a different perspective.

Opportunity Knocking — He Just Couldn't Hear it

Little Joe had tried to sell his company on his own and with a local business broker, but he wasn't having much luck. He was profitable and had a niche market, but Little Joe didn't understand those two qualities weren't enough.

An investor doesn't buy a company because of what it's done in the past. They invest because of what it can deliver for them in the future. To establish a synergistic relationship resulting in a win-win situation, I knew the deal had to be constructed so Little Joe and his expertise were part of the deal.

Little Joe wasn't aware that a synergistic buyer understands that acquiring expertise is part of the compensation package. It's why so many merger and acquisition deals involve more than just strictly cash. It's common for business owners to be hired, in some capacity, after the deal is done.

The first step in establishing a synergistic relationship is to create a certified business evaluation, and assess the organization and market opportunities with the right partner. First, we needed to establish independently verified financials to establish trust with an investor. Once that was in place, we needed to create a prospectus that meticulously detailed the strengths and market opportunities of Little Joe's company.

Under complete confidentiality, only buyers willing to enter into a synergistic relationship were contacted. This is no place for a blanket email and a mass marketing approach. Only careful research through a well-established network of investors can get results.

The process did not take place overnight. Over a 16-month period, Little Joe experienced all the tension, fear and despair normal in a major financial transaction, but he trusted his advisory team and relied on them to see him through the process.

The amount of work that went into clearly identifying Little Joe's strengths paid off. We lined up eight potential buyers — three in Minnesota; one each in Iowa, Texas and Oklahoma; and two in California. Five of them produced offers. Little Joe countered one, and a deal was done. Here's what he netted from the deal:

- He sold the business at a substantial profit. The investor understood the upside of Little Joe's business, and the arrangement helped cover all outstanding debts.
- He was hired to lead the company. The investor, Big Bob, was after Little Joe's expertise, as well as his assets. Big Bob's company was looking to branch out its distribution network, and they knew Little Joe could take them where they needed to go. They hired Little Joe with a terrific compensation package and substantially reduced his travel time.
- His employees were retained by the investor. A big sticking point in the deal involved Little Joe's employees. It turns out that the talent that Little Joe had managed to recruit were very good workers. Knowing they were a critical part of the business, Big Bob relocated the whole crew to the new location.

Since the deal finalized, the company has enjoyed fantastic sales , and Little Joe is energized and eager to tap new markets. With the resources behind him, the sky is the limit for both parties involved. The added business has already created four additional jobs in production, sales and customer service.

If there were three lessons to be learned from the tale of how the $1 million company was bought by the $100 million company, it would be this:

- You may not be seeing the big picture. Little Joe had a dream, but he didn't realize there were bigger, better dreams to be had. A deal can be structured in multiple ways. Because he doesn't work with strategic transitions every day, Little Joe didn't realize that he could sell his business and still be a part of it. The options are endless; you just need the expertise to sniff them out. Don't undervalue yourself, but also be careful not to be unrealistic or greedy. Investors are too wise to hand you a wad of cash without expecting a significant return on their investment.
- You must be patient. Several times during the deal, Little Joe felt ready to walk away. Rome wasn't built in a day, and neither is a win-win transaction. Most businesses take one to two years to sell, at minimum. No matter how desperately you want to sell, there are no buyers willing to speed through a closing. Consider liquidating as a last resort, if you need cash that quickly.
- You must learn to trust your team. Too many owners try and go the transaction alone. They become immersed in the job of trying to learn how to sell the business and master the entire process. For these individuals, I wish them luck. I surround myself with experts in specific aspects of strategic transitions because I'm well aware of how complicated and time-consuming the process can be for the novice.

Little Joe's smartest strategic move was surrounding himself with a qualified merger and acquisition team while he continued to focus on growing his business. When it came time to sell, his company looked great on paper and he could ask for a solid, market-driven price.

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If it all sounds too good to be true, it's not. It's all about finding the right synergistic relationship between an investor and a seller. Think win-win, and your dreams can come true. Just ask Little Joe.

Rock LaManna is president of LaManna Alliance, a mergers and acquisitions company based in West Palm Beach, Florida that specializes in growth strategies and succession plans for businesses in the graphics, signage and printing industries.

rock@rocklamanna.com