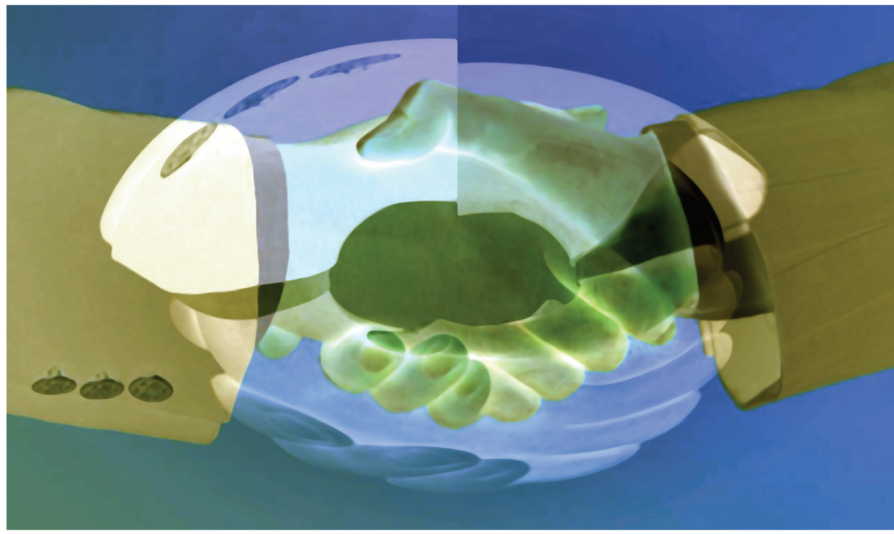
Key Strategies of Business Acquisitions



If you are a business owner, you already know that sometimes the best business decisions are not always the easiest ones to make. Many times, the result of your decisions can be years of restructuring, employment loss or other undesirable situations. The important thing is that you plan and conduct yourself with integrity.

As a professional business consultant who works with companies in the signage and graphics industry, I see companies struggling to properly execute their business transactions. Unfortunately, the business world isn't perfect, and poorly planned strategies often occur. I stress to all of my clients the importance of a well-organized plan and the commitment to follow through with it.

There are numerous reasons why business owners consider selling their companies: Declining business, negative return on investment, debt exposure, financial restructuring, partnership dissolution, failing health, personal or family tragedy, burnout, planned retirement, age, change in market and strong competition.

In contrast, there are strategic reasons why a business owner would grow a business by acquiring another one: Gaining market share or key customer lists and accounts, expanding locations, diversifying into other related markets, increasing profitable business sales, consolidation, cost-reduction strategies, increasing capacity and reducing competition.

Let's look at two real-life examples of companies that have engaged in business transactions so we can better understand these strategies' advantages and challenges. We'll also discuss the key processes necessary for moving forward to ensure transactions are successful. Company and employee names have been changed to maintain anonymity.

Company X

Company X was a successful screen-printing business — based in the Midwest — that had been operating for almost 35 years. The company was owned and operated by Gary Nelson, his son, Scott, and Gary's wife, Gloria. Company X was well-established, with a broad customer base, loyal employees and an estimated $2 million in real estate and business value.

Having built the company from the ground up, Nelson was passionate about his business, but looked forward to retirement. It always had been his intention to maintain the family business, so he passed most of the day-to-day leadership responsibilities to Scott, a highly skilled screen printer who had worked at the company for 17 years. Gloria also was involved as the finance manager.

Business was running smoothly with Scott at the production helm, and Nelson was considering retirement in the next two years. Nelson decided to hire a professional strategist who could help grow the company and prepare it for the next generation of leadership. They developed a strategy, which included organizing the company's finances and searching for another business to acquire.

by Rock LaManna, President, LaManna Alliance

Things were promising for Company X until Nelson unexpectedly fell ill and was diagnosed with advanced leukemia. Despite treatment, he died within six weeks of diagnosis. Along with grieving the loss of a father, a husband and business owner, the Nelsons still had a company to run. However, Nelson had no documented estate plan or succession strategy to determine the course of the business. While working with the strategist, Nelson had planned to complete these plans and have them fully executed, though they were not completed before he passed away.

Gloria assumed 100 percent ownership of the company, as determined by law, and decided to sell the business two years later, without discussing her plans with Scott. Nelson's legacy was gone and his son was left without a job and the company he hoped to continue.

Gloria had every legal right to sell the company, but the manner in which she carried out her actions resulted in a strained relationship between the family members and their business. Selling a business is a strategic process — one that requires care and consideration for all parties involved.

Much of the tension between the Nelsons could have been avoided. Having a fully executed estate plan could have eased the transition in ownership, and Gary's legacy could have carried on according to his wishes. An unfortunate turn of events can leave families and businesses in a critical state. That's why it's important for every company to have a documented succession plan in place.

Company Y

Company Y was a well established company based in St. Paul, Minnesota. The 50-year old company was profitable as well as family-owned and operated. Like Company X, Company Y was managed by one of the family's sons. The father was involved in the daily operations, but eager to retire. Additional family members also owned non-voting stock in the company, but not all were employed at the company. When the father wanted to retire, he and his advisory staff decided to sell the company rather than pass it on to the family.

Company Y's transaction was successful because the family worked with a professional advisory staff that was objective, experienced and independent from the company. The business sold for a profit and the real estate sold independently a few years later. The company was able to retain many of its original employees after the acquisition and has grown substantially under the new ownership.

Two Companies, Different Endings

I was the professional strategist hired by Company X and Gary Nelson to position the company for sale and I worked with him until his diagnosis. While no one can fully predict the course of events such as personal and business tragedies, preparing for them is essential. The events and their results are the ones that all business owners should understand.

The second story is based on my own family's business. I acquired Company Y with another investor, became its President and sold the business to my partner after 18 years of company involvement.

Considerations When Selling a Company

Business owners should perform five key processes when they consider selling a company.

Organize the Finances

I often refer to this first step as "getting your house in order." It is critical you have all the necessary statements and IRS requirements together before selling your business. These documents include: profit and loss statements, three or four years of balance sheets and tax returns as well as the current year's statements.

This seems like an obvious step, but many sellers do not have these items organized. This is where an independent, experienced merger and acquisitions specialist can provide you with a neutral perspective and an honest opinion of the company's marketplace value. Not only will organizing your finances help streamline the sale of your business, but it also will help you with the next step.

Define Your Circumstances

Selling a business can be a personal and emotional decision for many people, which is precisely why you need to proceed with a clear vision. Define your circumstances and determine why you want to sell. There are multiple reasons why business owners want to sell. Only you know your personal and career circumstances. Once you make a commitment to sell, move forward and be patient with the process.

Select a Team

The next step is selecting an experienced and knowledgeable team to market and sell the business. Brokers, commercial bankers, accountants, attorneys, mergers analysts and acquisitions specialists are all good resources. The key is to choose a team that is objective and independent of the company. Your team can help align you with a community of strategic buyers and investors who are in a position to acquire and lead your business forward.

Market the Business

Once you have your finances in order, determined your personal and career circumstances, made a commitment to sell and selected your team, you are ready to market the business. This is where everything comes together. All the background work you did to ready yourself for this moment pays off. Let your team work for you and enjoy the process.

Follow Through

If you successfully completed the first four steps and found a qualified and willing buyer, follow through on the transaction and stay committed to your plan. This is the most crucial step in the process, and the one that ultimately determines the success of your sale. Conduct yourself with integrity, honor your partnerships and do whatever you can to make sure the new owner has everything he or she needs during the transition and post-closing processes.

Once your company is on the open market or discreetly marketed, you may encounter some creative offers from potential buyers. Be open to these offers even if they are not exactly what you were expecting. Many people make the mistake of passing up these unique offers without serious consideration. Consider all offers or you limit your opportunities.

If you are a business owner, you already know that sometimes the best business decisions are not always the easiest ones to make. Many times, the result of your decisions can be years of restructuring, employment loss or other undesirable situations. The important thing is that you plan and conduct yourself with integrity. Follow the five key processes outlined in this article and take into account your personal goals, family dynamics, employees and business partners. Your decisions may affect them, too.

A last piece of advice before you put your business up for sale: Give yourself enough time to make the transaction a success. Plan at least one year to organize the finances and market the business and an additional year for the transition process. This is a full-time job, so leave the marketing of the business to your professional team. Remember, you want to make the sale a success, not only for you, but also for the buyer.

Rock LaManna, a Harvard Business School OPM, has been in the signage and graphics industry for more than 30 years. He began working for his father's company in the 1970s and, as a consultant, now advises companies of all sizes on growth strategies and mergers and aquisitions.

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