



Business acquisitions: where to start

If you're growing your business, you can choose to do it internally, which could be a sluggish, high-risk strategy in a fast-moving business world. Or, you can opt for the key advantages of acquiring an existing business.

"A business acquisition can save many of the headaches and time involved in getting a start-up off the ground, such as developing products, hiring the right people, building your customer base, penetrating new markets and financing losses until you break-even. After all, when you buy somebody else's business, many of those elements are already in place," says BDC consultant Harry Cook.

Cook foresees that the rate of business acquisitions will increase significantly in the coming years as aging baby boomers either transfer their companies to family members or sell. "We'll probably see a significant upswing in opportunities for business acquisitions in the next 20 years, so understanding the process is a good idea for entrepreneurs in order to be able to capitalize on this viable growth strategy," he says.

Clarify your objectives

Acquiring a business helps you avoid the mistakes of the trial-and-error process associated with a start-up. Since this could be one of the most significant investments of your lifetime, Cook advises that "you want to make sure that you pay the right price and that you will ultimately get your money back with a decent return on your investment."

The first step, he believes, is having clear and concrete objectives in place that you can realistically achieve. "You should have a vision of what your business will look like down the road, whether it's improving your services, increasing market share or developing new but complementary product lines," he says.

An expert such as a **BDC consultant** can help you through the acquisition process in areas such as due diligence, business viability assessments, strategic planning, marketing and integrating the new business into your existing company.

Make the right fit

Cook believes that a key part of the successful acquisition of a business is ensuring that you choose one that meshes with your personal and business philosophy. "You want to feel comfortable with the company. For example, if you're environmentally conscious, you would want to avoid buying a firm whose products harm the environment."

He also highly recommends staying in a business arena that you know well. "By choosing unfamiliar territory, you also increase your risk of failure," he adds.

Do an internal and external analysis

The SWOT Analysis (strengths, weaknesses, opportunities and threats) is a useful tool for entrepreneurs. Cook recommends first doing an external analysis of factors such as the trends in the marketplace and the competition. "If you've got too many businesses in your market competing on price, for example, then you may have a difficult time succeeding and making money."

The next step is to do an internal analysis that looks at important aspects such as "hard" assets. "Equipment could be old and have lacked a maintenance plan. You may even come to the conclusion that you would be better off starting a new business with less expensive equipment," he says. As part of the due diligence process, he recommends physically visiting the premises to take a closer look at what you're buying.

Make due diligence a priority

"If you're very excited about getting into business you may overlook important details. And that's very risky," says Cook. Conducting a thorough "due diligence" is the most important part of a business acquisition. He defines due diligence as "satisfying yourself that there is value in what you buy and that

the asking price reflects that value."

Apart from assessing hard assets such as equipment, due diligence should also be done on undisclosed liabilities, key working capital elements such as accounts receivable and inventory as well as financial structure. "You don't want to be spending your time on the telephone negotiating with creditors after you've made your purchase because the financial structure is inaccurate. You need to know the state of the company's finances upfront."

Another important factor of due diligence is carefully assessing the employees who make up the business. "Get a good sense of the people in key decision-making positions when you acquire a business." Cook suggests that entrepreneurs take precautions, for example, when buying family-run businesses in particular, that may have unqualified people in key roles. "You may discover that the daughter or son of the owner is in a crucial management role but lacks the skills needed to properly do their job."

Get professional help with the final deal

Entrepreneurs tend to want to do everything themselves, but Cook feels that getting professional help in the final stages of the deal is crucial to success. "A third-party opinion is the best strategy," he says. If you have to assess equipment, get an equipment supplier who can help you value what you're buying.

A lawyer is a must when developing a shareholders' agreement. "If you intend to have other shareholders in the business, a properly signed and executed shareholders' agreement is essential. You may start on a positive note with your partners but then later on have a falling-out. You need to have a signed agreement to protect yourself and reduce risk," he says.

Seek the right financing

When financing your business, it is essential that you have the right combination of debt (both long and short term) and equity financing. Bankers will be looking at a number of factors but one of the key things is the debt-to-equity ratio, which measures how much you've invested versus how much has been invested by lenders, says Cook. "BDC offers a number of creative financing solutions that gives you the right balance of working capital and equity needed to finance your new business," he says. One option for example is **subordinate financing**, which combines the characteristics of term financing with those of venture capital.

"With all of these factors adequately addressed, you will be better prepared to make a successful business acquisition," he concludes.