

## ***FAMILY BUSINESS FORUM***

### **Successful Business Acquisition**

By Donald Levitt

#### **The Issue**

Buying a business can be a shortcut to growth – faster, less expensive and less risky than traditional growth strategies. When the existing business and the acquired business can take advantage of economies of scale, the entire enterprise becomes stronger and more profitable.

Buying a business can also be one of the most difficult, costly and disappointing approaches to growing a business. Let's learn some key lessons – and potential mistakes – from an accountant who specializes in mergers and acquisitions, and from a family business which has grown successfully through acquisitions.

#### **The Expert**

Royal Barber, CPA, is the founder of Royal Barber & Company, a Toledo-based firm providing accounting and financial services to clients across the country.

“The typical acquisition starts when a buyer wants to expand their business in the same industry. They see an acquisition as a way to grow which can be faster than adding sales people and fighting the competition head-to-head,” says Barber. “Their problem is often finding the right company to buy. There are a lot for sale – buyers find “targets” at trade shows or among their competitors -- but many of these are financially unsound.”

“After identifying a target, there is a preliminary meeting to determine if the cash flow can support the acquisition price. If that looks good, then the purchaser gives a letter of intent to the seller, and starts the due diligence process. We review the books to determine if the numbers accurately reflect the business; we look at the customer list, accounts receivable and accounts payable, etc.”

“If this has been the seller's only business, they can have an unrealistic understanding of the value of the business. We run into this a lot,” notes Barber. “Most of the time we look at the value of the business based on cash flow.”

“Buyers who acquire a business in a different industry, where they are not familiar with the methods of operation, may not be successful. If you are not able to run the acquired business as efficiently or more efficiently than the previous owner, you may end up closing the business shortly after the acquisition.”

## **The Business**

Kay Toledo Tag is a tag and label manufacturer established in Toledo in 1945. The five sons of the founder – Ken, Tom, Dan, John, and Bob – all joined the family business. Over the years they have purchased the equipment and accounts of two businesses, and last year four of the brothers purchased a tag and label manufacturer in Neenah, Wisconsin which is larger than their Toledo operation.

“We first heard they were for sale through the industry grapevine,” notes Tom Kay. “The parent company wanted to spin it off because it was too small for them. They wanted someone to buy it and keep it open, which is what we wanted to do.”

“We spent a couple of weeks in a room at their location looking at nine binders of information and requesting copies. Because Royal Barber had been doing our books he understood our industry. We looked at inventories, suppliers, prices. It was fairly simple because we already knew them as a competitor. We saw the potential to increase sales and improve margins,” says Kay.

“After the purchase, one of my brothers went there every week. Because this business was so similar to ours, we knew where to look for the strengths and weaknesses. The biggest challenge was upgrading and integrating our information systems. With four brothers this acquisition was easier to take on. For a single owner it would have been more difficult to cover both locations.”

## **The Tip**

Acquisitions can be a good way to grow your business – if you do your homework, get good guidance, and know how to integrate and run the new business.

*Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month's topic, and other family business issues, can be found at [LevittConsulting.com](http://LevittConsulting.com)*