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Why is a "Buy Out" a Potentially Smart Move?

By John Hadfield

In the most simplistic form the acquisition of a competitor, suitable opposition company or a strategically placed compatible aligned manufacturer, can expand your business in a positive and progressive manner. Sure you need to be cautious of how, who, why and when and assuming you are diligent in your approach and a check list of "must have items" is ticked in all the right boxes, then it is reasonable to expect good results. Traditional growth is exceedingly more difficult in a marketplace that is changing as rapidly as today's business environment. Some could see it as a "short course to growth" however, like any growth plan a wise and structured approach is the best course of action.

What are the Reasons?

Sign and print companies often build strong relationships with clients. This is one of many structural advantages for the parties. Let's look at other strong points – the driving synergies generally include the simple premise that the sum of all is greater than the sum of its parts. These synergies may include economies of scale, and one company may have technological advantages while the other may have organisational advantages, as well as position in the marketplace coupled with growth, driven by new products into their trusted relationships and loyal clients who may not have ever 'switched' suppliers.

The real "go" buttons can be more fundamental in the form of cost savings, which in turn drive profits skywards. A simple example is assuming most businesses work say eight hours a day and therefore the owners have to balance the overhead costs precariously over those limited hours. If you consider overheads over a realistic output of only 6 hours a day x 220 production days a year = 1320 hours. Assume 10 manufacturing staff = 13,200 hours of potential output at an overhead cost per hour, use your own cost rate here.

Now, let's run the same business and adopt a second shift. It's safe then to assume that due to increased volumes whilst not changing the overheads to any great degree we have now added an additional 100% of hours within the same fixed overhead – no surprises here. This simple change should give you at least a 50% reduction in the hourly overhead cost (not including wages of course). Reality and experience dictates that when this is well executed the staff costs will also reduce. In addition there is likely to be an increase of machine running times and obviously savings due to volume discounts on raw materials.

In its simplest form the aim is to add output via the increased sales volumes while utilising your existing business structure by ramping up machine running times and restructuring the traditional opening and closing times.

I haven't even highlighted the real asset of gaining skilled people. The up side can be both gaining new skills and perhaps shedding some counter productive work practices and even people – perhaps a change is as good as a holiday?

Case Studies – Will it Work For You

Many years ago I sold my own 30-year-old sign manufacturing business to another high profile Sydney sign company. Our business with 20+ staff, years of high profits, quality assurance certification, an excellent database of quality clients together with premium prices, service and quality was a home run for the purchaser. I am glad to report most of the long-term and quality clients are still with the new owner and likewise they have treated the skilled staff well and gained considerable expertise and knowledge. No doubt this sale was a great result for all parties.

In March this year we worked to assist a client to sell his 10-year-old business to a consortium of a high output digital sign and print manufacturers and a highly skilled marketer and entrepreneur. In many cases it's the matching of opportunities that are specifically aimed to be mutually beneficial with a planned outcome. At the end of the day the balance point is to ensure it's a win, win – win. Idealistic you say? Sure, but the clear and defined approach often highlights one person's needs may well be opposite in direction, however if the right approach and structure is put in place with a fair to all contract, well YES there can be many winners.

Are You a Buyer or Seller?

Our observations offer a few simple insights into why, and in particular who, is a seller and who and where the buyers are. People who drive their business with marketing, strategies and plans are typically the buyers – "we like to organise" whereas the more traditional trade based high skilled people – "we like to make stuff" are the sellers!

Ok, Ok I have oversimplified it sure and there can be a multitude of reasons. See if any of these ring bells for you:

Buyers

- Planned growth analytical types
- Out of industry experience
- They challenge the status quo
- They are the marketers
- Generally innovators of new products
- Have regularly reviewed where they are now!
- Have a quest to get to the next level
- Driven "A" personalities

Sellers

- They may have lost a large or their only client
- Older established business or owners seeking retirement
- They use words like – I'm over it!
- Perhaps an illness in self or a family member
- See other opportunities and seek change
- They may struggle with change
- Have hit the glass ceiling or lost passion

Time honoured practices and traditional skill sets generally don't teach the upcoming young business people the skills they require to understand growth, and there is every likelihood a skilled 'technically' able craftsperson who is great at making the products but generally struggles at managing the process. The reverse is true for those of us who relish the organisational challenges and the routine of sales, estimating, job documentation and management. The risky point for many is what we call the implosion point or that awful reality of imminent self-destruction!

Be Creative With Your Approach

OK, it is not going to be all roses! Traditional wisdom is often termed in tones of the quicker the growth the more likely the risk is higher, generally a truism. The path of acquisition as a general rule is less risky, as the variables are generally exposed for the buyer to assess clearly. As an example, a small business with say $600,000 in sales and low to moderate profits is generally seen as a no-go zone to buyers. However, leaving the poor balance sheet aside and focusing on sales offers another perspective. Or put another way – how much will it cost and how long will it take your company to add $600,000 in sales? A good Sales person and car package at say $120,000 - are they guaranteed to bring in the sales? Perhaps, and often not, in that case a purchase price mid $150,000 may well return a quicker, more stable and better outcome. In addition you will also gain the scope to up sell your products easier to your new clients.

Some must have items on your checklist:
A key to ensuring you tick all the boxes is creating your own personal checklist. Your accountant and trusted financial advisor should have one, or checkout Google, or better still send us an email and I will send you one. Now, it's your checklist and therefore it's important to personalise to your needs.

These are just a few we like:

- Have a clear vision for the business, as without this you won't know what kind of leaders to identify and develop.
- Decide what you want out of life, define your circumstances and requirements
- What role does your business play in assessing this decision and are the needs of the business widely different?
- How will the business be sold, what is included and the tax consequences of this e.g. will premises be included in the sale, is there a tangible asset register?
- Is it a sale of the company or only the business activities?
- The potential to increase the economic value of the business – define it in writing
- Any potential barriers which could arise to hinder a successful outcome – make a list
- What tax liabilities (e.g. capital gains tax) may be generated?
- Do you have any fears and/or doubts? Make a list.
- What is your proposed time-horizon for your own exit and do you have a plan?
- Or do you or the other owner planned an ongoing involvement in the business, will there be a transition phase?
- What is the timing of the transfer of ownership, when do you propose to fully step down?

Put plans in place for managing the sales process, negotiations may not always be successful therefore include contingencies if the sale falls through.

Summary and How to Move Forward

The smart and easy path is to bring in an expert! Why? One of the most emotionally charged business environments you will ever find yourself in is buying and selling businesses! The apprehension, questions out of left field and unexpected issues seemingly arise adding to the drama. Worst of all is the feeling of exposure and being in a place where you feel exposed both financially and personally. The roller coaster of "it's on - it's off" can push people to breaking point, as inexperience creates instability.

We would like to offer you a step up, we have a comprehensive worksheet available and we do offer assistance to get you understanding your options. The worksheet is available free to the first 10 people who email:
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Call us now on free call 1300 546 276.