Taylor & Morgan's Guide to Buying a Business

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Introduction

If you are tired of the same old nine to five job, toeing the line that your bosses draw, then you are probably seriously considering owning your very own business and being your own boss. Talk about owning a business and nine people out of 10 think of starting from scratch. That's surprising, given that buying an existing business presents so many advantages. Not convinced yet? Well, take a look at the top reasons why smart entrepreneurs look for existing businesses to acquire rather than create their own company from bottom up.

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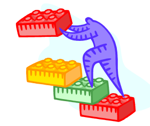

Reason 1:

Existing Business = Established Clientele

What makes your business a success? Its customers, of course. When you buy an existing business, it has its own established clientele. That means you have buyers for your products / services ready right from day one.

All Systems Ready to Go

A business that has been functioning already has its basic systems in place. If you set up your business from scratch, it is bound to take a good amount of time to identify a system that suits you, your team and your service / product, put it in place, test it out, iron out glitches and finally arrive at a viable solution. An existing business eliminates the need to go through this complex process.

Existing Cash Flows

Any action you wish to take with your business as soon as you take over needs to be backed with finances. An existing business has a cash flow to fund your 'ideas' and actions. Take this a bit further and consider what happens when you need finances to fund your acquisition of the business. A business with cash flows makes for a far more impressive argument when you meet your prospective lenders since it represents less risk than a company that you are going to create from scratch.

A Team That Knows What to Do and How to Do It

An existing business comes with an existing team of employees who are already working in sync; know what their jobs are and what the business is all about. No need to hire new employees, train them and hope that the various new members of your company can gel well together so that your business operations happen seamlessly.

Existing Relationships With Business Partners, Suppliers, Associates

Every business depends on several other individuals or businesses for its smooth functioning. Starting a business from scratch means that you need to scout for great partners / associates / suppliers, who can match your pace, your pricing, your ethics and your quality standards. Again, this takes, time and effort and money. Buy an existing business and you already have all of these peripheral relationships in place.

Apart from all of these great reasons, buying an existing business is far less risky venture than starting from scratch. After all, the previous owner already did all the homework about market conditions, demand, viability, costs and everything else when he set up shop! These are some of the key reasons why it makes sense to buy a company that is already 'in business' rather than start afresh although the former might put a bigger hole in your bank account.

Chapter 1: Finding the Right Business to Acquire

If you are now convinced about why buying an existing business is a better idea than starting from the drawing board, it is time to look at the first steps to buying one. The very first thing to

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know is that you have a distinct edge when you acquire a business that is really a good match for you. What does that mean? Well, when you are familiar with the business and the industry niche it belongs to, several things become much easier.

For example, let's assume you are thinking of owning a baked goods business. Familiarity with the industry will tell you what kind of products sell well and are viable to make and store. If you would love to own a fashion design company, a good grasp of the market dynamics, knowing which seasons bring the best demand and what the trend is like at present all help you align your products to the marketplace so that your chances of profit making are higher. So, the first point to note is look for businesses that belong to an industry you are familiar with. Also make sure you have a fair idea of the business and its operations.

Playing to your Strengths is also Important

Another important fact to keep in mind is that you should play to your skills, i.e.: pick a business where your inherent skills can play a key role in success. Have a gray eye for design? Then choose businesses where this skill can come in handy- interior designing, fashion, jewelry and home renovation. Remember, if you do not have the skills that are crucial for the business you will have to hire someone who has them. That translates into costs for your business apart from the fact that you are heavily dependent on an outsider for the continued success of your company.

Where do you Want to do Business?

The ability to gauge the market trend stems from your knowledge of the market and this is easy when you are familiar with the area where your business has the most clientele. This is especially important when you plan on owning a business that depends on developing close personal relationships with your clients, i.e.: a restaurant or catering service. Of course, the choice of business location also depends on where your clients are located or are likely to visit most often. For example a restaurant located in a business district may have far more customers than one in a quiet residential neighborhood. Factor in the costs of doing business in your preferred area before you make a final decision.

Once all of these parameters have been determined, you can start looking in the local papers / online ads for businesses that meet your needs. Talking to business brokers may also be a good idea at this point since they will not just guide you to businesses that match your needs but also help with negotiations.

Chapter 2: Doing the Ground Work before the Purchase

Now that you know which business you want to buy, it is time to start delving deeper from a buyer's perspective by carrying out a preliminary due diligence. The very first point to cover is: Why is the seller selling? Find out if there are reasons behind the sale that will impact your ability to stay profitable at present / in the long run, or your ability to keep the business open.

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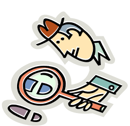
For example, the seller has got wind of a possible government acquisition of the land where the business is located and this is the reason behind the sale. Any such future acquisition by the government will impact you badly too. Familiarity with the industry and neighborhood help you uncover reasons for the sale that the seller may not be willing to share.



In fact, while you are at it, find out what the Better Business Bureau has to say about the business. Does it have a good reputation in the market? Are suppliers / customers happy with it? If the business has a really bad reputation in the marketplace it should be evident at this stage. Remember that good or bad reputation, it does tend to stick to the business, change of ownership not withstanding!

Getting the Industry Talk about the Business

If possible, talk to industry gurus and find out what the talk about town is about the business and while you are at it, pump them for information about the growth prospects for your prospective new business. Taking time to explore how the business can grow in the future and how conducive the marketplace is to such growth / expansion is a great idea at this time. Think about how you would like your business to expand in the coming years and assess if this is a reasonable expectation given the business itself and the marketplace conditions, with emphasis on consumer demand and the competitive landscape. Take a look at competitors and see where they are going with their business ideas. This should tell you more about how others in the same industry perceive future opportunities. Remember, there may be some challenges and positives that are more evident to those who are already engaged in business within the industry than to you.

This is also the time to take a wholly practical look at the business prospects with the bigger economic picture in mind. For example, if the economy is clearly heading for a slump to beat all slumps, investing in a business that sells luxury products may not be a great idea. Until the economy recovers (which could take years) you could be witnessing a dismal drop in customers who are, understandably, too cautious to spend on anything but essentials.

Chapter 3: Getting down to the actual purchase

Part 1 - First Steps

You have now identified the business you want to acquire and you have also conducted a basic overview of it from a buyer's viewpoint. It's now time to get down to the actual business of acquiring it. The very first thing to do is to make your interest in the business known to the business owner or seller. Keep in mind, there is nothing wrong in putting an acquisition proposal to a business owner even if he has not advertised his interest in selling. Given the right offer, he may still be willing to make a deal.

Once you have established yourself as a prospective buyer, you can get the seller to give you access to detailed reports and documents pertaining to the business. With these you get a much clearer picture of its real worth. You also get to know how well the business is doing, how many assets and obligations it has on the books. Use these documents to get a more comprehensive "feel" for the business's regular operations and its current stature in the marketplace. The latter helps you decide on a price that makes sense for you to pay for acquiring the business factoring in its profit potential, future growth and operational expenses.

This is the stage when you need to think about the risk you undertake when you buy the company. For a business that has very few valuable assets (including equipment, immovable property), paying an acquisition price that is way over the actual value of these assets is a big risk. The same is true for a business that caters to a very specific, elite group of customers or depends on a handful of key employees, suppliers or business associates. Of course, if the business you are looking at has been making losses for a long period now, a very serious look at risk factors is absolutely necessary, on the other hand, such a business may come deeply discounted too, thus mitigating your risk!

Part 2 - Valuation

The price that you pay for the business plays a key role in determining how successful it turns out for you and how quickly you can start making a profit. Valuing the business is a critical task you undertake in the business acquisition process and there is no doubt that this valuation has to be done accurately. Inaccuracies here can result in you paying a far higher price than the business deserves which means that you may never be able to recover your investment in it. Undervalue the business and the seller simply moves on to another buyer who is willing to pay a price that is more on par with the business's true value, leaving you with a missed opportunity.

To value a business correctly several items need to be taken into consideration. Take a look at the most commonly viewed items:

The Balance Sheet: Is a snapshot of the company's financial state, it tells you a good deal about several key financial metrics pertaining to the business including the assets, liabilities, inventory, fixtures, machinery / equipment, accounts receivables, accrued liabilities and more. Ask for balance sheets from the past five years to know how the business has progressed (or degenerated). Comparing them will give you a fair idea of where the business has improved and where it has faced problems. When you are looking at inventory, pay special attention to the quality apart from the quantity. Making sure that the inventory is still usable is critical because you will be determining a cash value for it and factoring that into your price. This is especially true if your business requires inventory that has a short shelf life.

Income Statement: Also called the Profit and Loss Statement, it tells you the business' revenues from sales, the expenses incurred and the net income for a specified period, usually a financial year. At a quick glance this statement tells you whether the business is in the red and also how much profit or loss it has made. Looking at income statements for the past five years should help you predict the business' potential earning power reasonably well.

Ratios: Financial ratios help analyze the data and tell you where the company's strengths and weaknesses lie. Most commonly, the current ratio, accounts receivable ratio, quick ratio, inventory turnover and sales / accounts receivables are calculated for the purpose of business valuation. You can compare these ratios that you have calculated for your short listed business with industry ratios to see how well the business is doing in comparison.

Sales History: Take a look at sales records over the past 36 months (at least) to get an idea of business cycles and sales patterns for the business. If there are many products / services, get a break down of sales per product / service to know which ones are the most viable for the company. Sales history gives you a clear idea of the business' current activity levels. Compare with industry data to assess if the company is making full use of market opportunities.

Tax returns: These tell you whether or not the business has been paying the right amount of taxes at the right time. Keep in mind that any outstanding tax dues of the business to the IRS will have to be paid by you once you buy the business. Pay attention to details here or get a professional to do it for you to make sure that no personal expenses / set offs have been included in the business' tax returns by the owner.

Personnel: While it is difficult to put a price tag on the employees of the business, they do represent a clear cash value to the business. Experienced employees, a successful sales team, a meticulous accounting group- these are great assets to the business and a higher price tag for a company that has such a tried and tested team is justified.

Insurance and Legal Issues: If the business has any kind of insurance (on products / services, assets, key person, business loan), your risk is mitigated to that extent. Keep this in mind while determining a reasonable price for the company.

Examine the contracts of the company and all its legal documents to see if any potential problems exist. Lease / purchase agreements, distribution agreements, sales contracts, employee union contracts, employee contracts and any other that bind the company legally should be assessed at this time. Take a detailed look at the trademarks, copyright, licenses, patents and incorporation documents as well and check if any pending or likely legal issues exist.

Goodwill: When it comes to intangible assets, there is nothing as valuable as goodwill that the company has earned over its existence. It may be a complex task to assign a dollar value to this asset but good reputation does translate into revenues for the business. A business that enjoys excellent repute in the market and among its business associates and customers is definitely worth far more than a business that has yet to establish itself in the marketplace.

As you can see there are items in this list that are difficult to assign dollar values to. For example, the seller may believe that his company's goodwill is worth a whole lot more than you do. It is necessary to keep room for discussion and revision when you are discussing the price with the seller.

When you make your first offer for the business, make sure you have enough room for negotiation. The seller is sure to quote a higher price and point out all the reasons why his price is justified. Take all of these reasons into consideration before you make a second offer. There may be some factors that you have overlooked. However, you have the freedom to quote a second price that is in line with your finances, your evaluation of the business' actual worth and your prediction for its future profitability and growth. Above all, do not get pressured into agreeing to the seller's price unless you are fully convinced that it is justified.

Analyzing the tax aspects of the acquisition

- A key point is that the buyer and seller are taxed only if income is earned and there is a gain on the sale.

- When you buy a business, you don't have to pay federal taxes. But you are responsible for state and local tax liabilities, which are dependent on your business structure.

- If the seller is a C Corporation, you assume responsibility of tax liabilities arising from the corporate stock. After selling the company's stocks, the seller is released from current and future tax debts.
- Purchase of tangible assets from the seller will impose tax liabilities on both parties. Negotiate a fair price on tangible assets with the seller to lower the tax implications.
- Keep in mind that some states require all tax debts to be paid before a buyer can conduct business. Request the seller to provide letters from tax agencies verifying that tax debts have been settled.
- Discuss with the seller and assign a business value to all assets transferred. You will need to then report it to the IRS.
- You can write off intangible business assets you purchase over 15 years.

Get professional advice on tax matters to make accurate valuations and informed decisions.

Structuring the deal

The most common transaction structures are asset sale and stock sale. In the former, the seller retains the legal entity and you buy individual assets of the company, such as license, equipment, inventory and trade names. You don't take on potential liabilities. In a stock sale, you acquire ownership in the seller's legal entity, and take on assets and liabilities (known and unknown). Buyers prefer asset sales, sellers want stock sales.

Seller's note: You can pay the seller a portion of the purchase price in a series of installment payments. A majority of seller's notes are interest-only loans amortized over a specified period after the purchase. In some cases, the buyer and seller may agree to defer payment or make interest payments for an initial period following the transition.

Earn-out: An earn-out can bridge the gap in situations where there's a valuation difference between how much a buyer thinks the business is worth and the profit the seller expects to make. In this arrangement, the seller finances the business and his /her payment is based on the earnings generated by the business. For instance, if you agree to a purchase price of $500,000, you can pay back the seller this price over a term, based on a percentage of the business earnings. A minimum percentage earning may be set for each year, starting with the smallest minimum in the first year.

It is prudent to engage the services of a third party escrow agent specifying how the funds can be released to the seller. If you discover during due diligence that income was overstated by the seller, or perceive a future risk such as an outstanding lawsuit or product liability, the funds can be returned by escrow quickly to you. Also consider adding a non-compete clause to defend yourself against the owner's future plans to set-up a similar business and become a potential competitor.

Doing Due Diligence

Know what you are getting into before committing to the purchase. The last thing you want is to be saddled by a company with debilitating financial and operational challenges that cannot be fixed easily. Once you've shortlisted potential acquisition targets, conduct due diligence into each to spot risks, opportunities and ultimately make a final, informed decision.

- One of the first things to consider is whether the company is in good standing with the state in which it is incorporated, and whether the owner has the legal authority to sell it. You also need to see the company's Articles of Incorporation, bylaws, resolutions and other related documents to ascertain its legal status.

- Request for a copy of the office lease or retail space. Check the term of the lease, options to renew, terms and restrictions. Also check if the owner has been making rent payments on time, or it could end up being your burden.

- Request for the company's audited financial statements. Look at the balance sheet, cash flow and income statements, accounts payable and receivable, and business tax returns from the past three years. Watch out for outstanding liens: if creditors have filed a UCC-1, they can seize the company's assets even under a new ownership.

- Verify if the company's licenses and permits are current, and that it is adequately insured. Request for a schedule of pending litigation, details of any threatened litigation and a list of unsatisfied judgments.

- Request for a list of all existing products and services and those under development; copies of regulatory approvals or disapprovals of the company's products /services; details of warranty claims or complaints.

Chapter 4: Financing the Purchase

Before you can create a shortlist of potential acquisitions, you need to figure out how to secure financing. Here are three options you can explore.

Debt financing: You can seek private debt financing from banks, family /friends, SBA (Small Business Administration) and private lenders. It is similar to taking out any other loan, with an agreement to repay the principal and interest at an agreed-upon interest rate.

- When soliciting lenders, go prepared with a comprehensive business plan. You can get help from an accountant to present important financial data such as projected cash flow. Your business plan should outline why you are planning to buy the business and how you plan to grow it. Showing lenders that you have a clear, structured plan of action mapped out indicates that you have done your homework and know what running a business involves. Your business plan also does the important task of showing the lender how and where you intend to utilize the funds while giving a glimpse at the kind of profits you expect to generate. All of these tell the lender why loaning money for your business is a viable business deal for him.

  Meeting prospective lenders with a comprehensive business plan in hand tells them that you are serious about the business. As a result, you present yourself as a good risk to a lender, which means that you increase the chances of getting the loan approved quite significantly.

- Good personal credit is an important criterion that SBA loans, in particular, demand. So make sure you have a copy of your credit report when you meet the lenders. Verify your credit report to ensure that it is correct and that all the outstanding payments / dues taken into consideration to arrive at your credit score are actually still outstanding. If you can improve your credit score in any way, doing it before you start shopping for loans is a great idea. With a good credit score backing your loan application, you can negotiate for a lower interest rate as well as softer loan terms far more easily.

- No matter how good your credit score, no lender will advance funds without a down payment. Typically, your lender may ask for anywhere between 15 to 20% in cash as down payment to prove your commitment to the loan and lock you into the arrangement with a partial stake in it. It is in your best interests to make arrangements for at least 15 per cent of down payment well before you approach lenders so that you can take the loan process further quickly once the lender is satisfied about your 'credentials' as a reliable borrower! Keep in mind that if you have an exceptionally good credit score which indicates that you are a very good risk as a borrower, persuading your lender to agree to a lower down payment becomes much easier.

- Demonstrate your ability to run a business with evidence of management experience or knowledge. If you have completed a business management course from your community college, make sure you mention it. If your personal contacts have some kind of business experience, you can list them as your 'Board of Advisers' to show that you can turn to resources for assistance in making informed business decisions. Meanwhile, you can enroll in SBA and SCORE (Service Corps of Retired Executives) courses.

  If you have previous experience running a business, especially one that was profitable, this should be highlighted when you make your loan application. Mention what kind of business it was and how profitable it was. All of this indicates that you have proven capabilities as a successful business owner and it makes your loan application an attractive proposition for any lender.

Owner financing: In owner financing, the owner carries back a note you make payments on. It works like a mortgage, which is secured in this case, by the assets of the business. Typically, the buyer makes a 25% down payment and the seller maintains a 75% balance on the note to him / her.

Some reasons for not making full payments in cash to the owner at the time of assuming ownership of the business are:

- You get a transition period where you can learn about running the business from the person who built it from scratch and knows it best. When you opt for a cash out payment, there is no incentive for the original owner to provide a transition period wherein you can get the hang of the business. The owner simply walk away with the cash and has no further interest in ensuring that you adapt to and operate the business efficiently. When you keep making payments on the note, the owner has vested interest in your business success, and will therefore assist - even if for his / her personal gain - in the transition process.

Asset-backed financing: If the business inventory or equipment is unencumbered, i.e. free of debt or financial liability, you can consider asset-backed financing from a private lender. This is a great option when the business is such that a substantial portion of its capital is tied up in immovable assets like machinery and equipment. For instance, if the appraised value of the equipment / inventory is $70,000, you could get an asset-backed loan amounting to 50% of this value, i.e. $35,000. Another option is allowing the owner to retain ownership of the inventory at its real value and making payments as the inventory is worked off. Given that inventory is part of the asking price, this will allow you to make a bigger payment more flexibly.

Post Acquisition Strategy

Once you acquire the business, you must focus on applying profit margins towards business debt. This allows you to cut down expenses that do not contribute to the production of a saleable product or enhance operational efficiency in any way. Once you have your debts well under control, every dollar of your investment goes towards generating returns for the business either directly or indirectly.

You cannot do anything about fixed costs like rent and employee salary. However, it is essential for you to have complete control over these expenses and trim them down wherever and whenever feasible so that they remain in the right proportion to the overall cash outflow. Audit your budget, hold off unnecessary purchases and invest money back in the business - at least initially - to manage debt effectively and keep your business strong.

Chapter 5: Covering Legal Requirements

Before you enter into a business agreement, do the due diligence expected of you to prevent legal hassles in the future. When you are taking over an existing business, this aspect assumes great importance because the business may already have ongoing relationships with vendors, suppliers, partners / associates as well as customers and competitors. Any of these relationships may come with legal complications attached and unless you pay special attention to this area, these could remain hidden until it is too late for you to carry out damage control. For example, what if the business is in the midst of a copyright infringement lawsuit with a competitor? If the case is decided in the competitor's favor you may face the loss of some significant assets which you expect will be part of the business.

There may also be several legal requirements that you need to comply with to merely carry out your business in its existing location. Take a look at some of the key areas to focus on when it comes to legal matters:

Obtain the requisite licenses and permits

Depending on your industry and state in which the business is located, you may require specific licenses and permits to operate. Check if the business has these permits / licenses and, if it does not, verify that you can get them in time without legal complications.

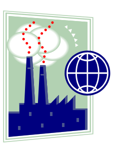
Federal licenses and permits are applicable to businesses whose activities are regulated and supervised by a federal agency. For instance, if you sell alcoholic beverages, export wildlife products, operate an oversize vehicle or broadcast information through media like radio, television, cable, wire or satellite, you will need to obtain the necessary license from the federal administration or commission supervising the particular industry. Understand if you need a business license or a permit quickly with this tool.

If your business will function as a limited liability company, corporation or a limited partnership, and share ownership with people not actively working in the business, you will need to comply with federal and state securities laws. Certain kinds of ownership interests are required to be registered with the Securities and Exchanges Commission (SEC).

Keep zoning requirements in mind

Zoning requirements are an important consideration for entrepreneurs choosing their business location or renovating the existing property. To ensure that you don't fall foul of the ordinances and regulations in your area, contact your local planning agency before making any financial commitments or implementing improvements to the property. If you have plans to expand the business or it has recently been expanded right before your purchase bid, this is a critical area to focus on. Check if the previous owner has complied with the zoning requirements and verify that he has received all necessary permissions legalizing his new extended business premises. If you intend to expand, check if such permissions can be obtained.

Comply with environmental regulations



As part of your due diligence process, you would have already checked the owner's environmental licenses and permits. If, after acquiring the business, you plan to produce products that could potentially harm the environment or there is a requirement to dispose of hazardous waste, non-hazardous waste or pollutants, you must comply with certain environmental regulations. Use this link for more information.

Review by Legal Professionals at the time of Closing

At the time of closing, have legal counsel review the documentation for transferring the business. Items that need to be addressed include:

Adjusted purchase price, which includes utilities, rent and inventory up until the time of closing. A 2010 study by the American Bar Association revealed that more than 80% of purchase agreements executed in that year contained a post closure purchase price adjustment. These can vary from business to business depending on whether you choose to base them on the net working capital, net assets, net worth, or any other financial measures that both you and the original owner agree upon. Sometimes, the post-closing purchase adjustment is based on events that are expected to happen in future, for example, easing of government regulations in a sector where the business has substantial interest. However, the most common practice is to base the adjustment on net working capital.

Review Required Documents, which includes a written statement approving the sale and evidence that the business has complied with all obligations and has unabated powers to conduct its activities, among other information.

UCC Financing Statements, which are legal forms recorded with the public office of the state where you'll be purchasing the business. UCC forms are critical because they are the indicators of any lien that a debtor has over assets that are used a security for a loan. If the business has loans that use its assets as collateral, you should be able to find out by taking a look at the UCC financing statements which are public records. These statements are filed with the specific purpose of preventing the borrowers from selling (or otherwise disposing) off the property / asset without first paying off the debt linked to it.

Lease, whether you are taking over or negotiating a new one. Both landlord and owner should be in agreement about the lease transfer or change. Where your new business has several leased properties all of these agreements need to be checked thoroughly. Any litigation with the lease holder in the future can result in you losing a valuable store front, warehouse or office. Keep in mind that there are several businesses where the geographical / physical location of the store / office / company offers a crucial advantage.

Bill of Sale proving the sale of the business. This is the actual title to the business and only when you have the bill of sale does the ownership really get transferred to you, the new owner. This important document mentions the purchase price, lists the assets (tangible and intangible) that form part of the sale deal and affirms that the assets are lien free. The Bill of Sale is your defense if, in future, a third parties lays claim to the business or any of its assets. A breakdown of how the purchase price is worked out, i.e.: how much of it is allocated to various 'items' purchased, is attached along with the Bill of Sale.

Patents, Trademarks and Copyrights must be transferred as part of the transaction. This is very critical to continue the business uninterrupted and to enjoy the competitive advantage its branding has in the marketplace. Any lapses here can result in serious legal repercussions at a later date.

Non- Competition Covenant is often drawn up to prevent the seller from setting up another business that will directly compete with your brand new one and cannibalize your customer base. This is especially important if the business is such that the major asset is the seller's concept or design or intellectual property of similar kind.

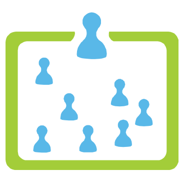
Closing or Settlement Sheet listing all financial aspects negotiated prior to the closing. This documents ensures that all money matters between the buyer and sellers are put in writing to prevent any misunderstandings so that the sale process can take place smoothly.

Chapter 6: Post Closing Integration Issues

The success of your acquisition is highly dependent on *what you do* after you have bought the business. There are two common strategies used by new business owners: one, leave the business alone so that it runs just the way it used to; and two, make significant changes so that the company blends seamlessly with your unique style of operations. Either way, it is very important to keep in mind that one of the major assets of any business is its work force. Understanding their level of comfort and satisfaction with the current operational style and learning how they will respond to any dramatic changes is key to successful integration.

When the acquisition is nearing completion, it is wise to have a post-closing integration checklist drawn up. This check list helps you shape and time action plans that will truly take your new business on the path to success.

Organizational Design

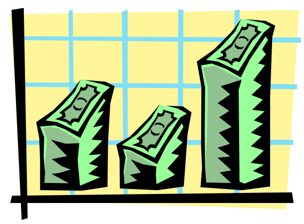


Assess the current corporate culture, organization and hierarchy. Avoid imposing changes unless you have a strong reason to do so. If changes are necessary, make sure you understand the internal relationships between employees well. Promoting a highly skilled but young employee ahead of more experienced, less talented ones may result in a mass exodus of veteran staff. At the same time, failing to recognize and reward true talent and failing to utilize dynamic employees who are already with the organization is not in your best interests either. Bringing about changes to the existing hierarchical system can be rather like tight rope walking and it is important to maintain balance so that you do not bring the business tumbling down.

Investigate and manage issues around control to ensure that the management team is not demotivated or hostile. Keep in mind that your employees are used to a specific type of management, control, decision making and direction from the previous owner. Interact with them openly so that mutual respect and understanding develops between you and them.

Communicate your reasons for major changes (if any) so that your employees feel that they are part of the team and that their contribution is the basis of any success that the business will earn under its new leadership. Let them know that you are keen to acknowledge and reward their continued loyalty to the company.

Finance



Review the operating budgets and revise if and where necessary. This could be an inevitable part of the acquisition process if you intend to restructure the production / marketing / operations process or include a range of other products and services with the existing line.

Take control of and review purchasing, sales, banking and other accounts. Understanding the business's cash flow patterns and identifying weaknesses and strengths here is an important post- integration step for you to take. This understanding helps you make business decisions quickly when opportunities arise because you are already aware of whether or not you have the funds or can manage to divert funds from other areas to finance the new endeavor.

Develop a cost saving plan and communicate it effectively to concerned personnel. Every business, no matter how successful, can always do with cost cutting measures. As the new owner, you can look at finances with a fresh perspective and come up with ideas on how and where to cut costs.

Identify the key financial metrics you'll be measuring. Different business owners use different metrics to measure the financial success of their business. Once you take over at the helm it is time for you to identify the approach you wish to take and communicate this to your finance / accounting team so that they can align their practices to your methodology.

Employees

Keeping the employees happy is a priority task for every new business owner. They represent a vital asset of the business because they already know their responsibilities and have been carrying them out for years. In fact, experienced employees can be a huge support system during the transition period, and you may use them as a valuable resource to familiarize yourself with the new business, its practices and operations. Interacting with employees often and keeping lines of communication open for them is critical.

It is also important for you to understand the existing hierarchy and reporting structure. If you are looking to hire more people create a reporting structure that keeps the existing team happy while distributing responsibilities in line with everyone's skills and expertise. Disturbing the business' flow of authority can have some far reaching consequences that impact your production line, operational efficiency, customer relations and much, much more so extra care needs to be take before dramatic changes are brought about here.

Review employment contracts. If you suspect a rise in exit rate, use bargaining power and figure out strategies to prevent employee exodus. It is equally important to identify if worker dissatisfaction exists. Give dissatisfied employees the assurance that their grievances will be addressed quickly and fairly and act upon your assurance as soon as viable. Keep in mind that if you hire new employees, you have invest time and money in training and grooming them for the role. Establish a system for periodic interaction from employees at all levels and implement rewards programs for those who excel at their tasks. Draw up strategies for keeping your employees motivated and happy at work.

Review training requirements while you are looking at employee satisfaction, retention and hiring aspects. Check if the training is in line with present day requirements and enhance where real benefits can accrue from up- to- date training methodologies.

Marketing and customers

Make sure deals that the acquisition does not disrupt deals under negotiation. This is an aspect to consider even before the final transfer of ownership takes place since the second party to the deal also has a say in the matter. Consider if you can postpone take over until after a lucrative deal is completed if you feel that the change in ownership will impair it in any way. If the second party to the deal is keen on the association only if the original owner is involved, consider having him / her on board in a different capacity, perhaps as a consultant or advisor.

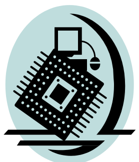
Review customer communications, offline and online marketing collateral. Incorporate the necessary changes reflecting new ownership and a bright future ahead for the business.

Examine the impact of existing cross-selling partnerships, if any. Again, there may be changes here when the ownership passes into your hands. Communicating with such partners before hand and discussing how the relationship can be allowed to continue for mutual benefit helps make the continuation of the business post transition easy and seamless.

Public Relations

Every business needs to maintain a strong social presence and getting the support of media is critical in this respect. Right from the time of business ownership transition, you need to invest attention in public relations using the powerful tool of media. Whether you are canvassing your existing audience and convincing them of the continued success of the business post transition or indicating why the business has better prospects now that new management is at the helm, a comprehensive public relations exercise is necessary. The very first step is to publish a joint press release on the acquisition with a positive tone and outlook that sets the tone for favorable perception of the business sale.

Review existing communication protocols with key stakeholders and customers and enhance wherever necessary. Keep in mind that feedback, support and advice from these key persons is critical for your business success. Visiting key stakeholders and customers to explain the strategy behind the acquisition and assuring them that it augers wells for them is also important. This gives you an opportunity to discuss any concerns they may have and reassure them before they decide to pull out.



Systems

Address exposures identified in due diligence so that the previous weaknesses in the business can be eliminated and a more reliable and sophisticated system established in its place.

Develop an operational plan around systems so that future weaknesses and gaps can be identified in time before they impact your business. The plan should factor in the need for adapting to new technology quickly and without disruption to operations.

Implement security measures around customer databases and systems holding sensitive information to prevent departing staff from accessing the same. Implement customer feedback in this respect and reassure your clients that their sensitive data will be granted complete confidentiality post transition of ownership too.

Legal

Create a checklist of leases, trade contracts, obligations, employee contracts, change of control provisions and other issues of interest to the business and verify if they are suitable given your plans for the business. If any associations are being terminated ensure that you and your business are fully protected under the terms of the contract that make the association legal. If new associations are being established you can refer to existing ones to see the nature of the agreements made until now and to understand how the business has been addressing these relationships until now.

Conduct insurance and risk exposure assessments and take action where necessary.

If you believe that the employees are dissatisfied with the any changed policies you have newly implemented, you must communicate openly with them and with stakeholders to head off legal troubles. You can also appoint an employee to champion the integration process. Entrust this task to a manager with the authority and responsibility to resolve unanticipated issues. A manager who has been with the company for several years and who has earned the trust of his colleagues is a good choice.

It is also important that you measure post-acquisition results to understand if your efforts to successfully integrate have paid off. If you have not met expectations, prescribe corrective action at the earliest. Every business has realistic expectations from its acquisition; by measuring post-acquisition performance, you can gain valuable insights and make better corporate decisions.