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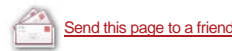
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Mergers & Acquisitions

Principles of purchasing

How to use a cautious approach when vetting acquisitions

By Erik Cassano
Smart Business Cleveland | April 2008



When Rick Voigt vets an acquisition opportunity, he lets the other guys talk first.



Voigt, co-founder, president and CEO of 38-employee Today's Business Products, wants to hear what the leaders of the company he's considering purchasing have to say about their company — its money-making points, the areas that need improvement and, above all, what they think is a fair asking price.

"Think about buying a car," says Voigt, who has completed two acquisitions since 2004. "If I tell you I'll give you \$10,000 for your car, you might say, 'Sure, but I was only going to ask for \$8,000.' So that's why you have to ask what they have in their mind as a fair price. After you establish that as a base, which is really the most you would pay for it, then you can work it out to a number that works for both of you."

It's all part of Voigt's philosophy on acquisitions: Take it slowly, listen constantly and gather as much information as possible.

When you are purchasing a company, Voigt says you're not really purchasing the company itself. In fact, because of potential legal liabilities, you might not want to purchase the company pound for pound. What you are purchasing is the business of its customers. As such, you want to make sure that you can adequately serve the new customers you are absorbing through the acquisition.

One of your first steps when vetting a potential acquisition, Voigt says, should be the company's customer lists.

"After we've signed the confidentiality agreement, we'll sit down and look at their customer lists," he says. "I try to find out about the relationship with each customer. That's where the '80-20 rule' comes into play. You can probably assume that 80 percent of their business will come from 20 percent of their customers. So you really have to look at the top 80 percent of the business, how long they've been an account, what is the relationship with them and are there additional opportunities."

Voigt says that due to attrition, you can only safely assume that 60 percent of an acquired company's customers will shift to your business. The remaining 40 percent might not be the right fit for what you offer.

To maximize the number of customers you are able to bring over to your business, search the management staff of the company to be acquired for potential leaders who could fill roles on your management team. They will give you valuable insight into the history of the business, and they might be able to bring additional customers with them.

"If they have some quality current staff, we let them interview. If we can use them, we bring them on," he says.

Customers and employees are the first groups of people you have to consider when vetting a potential acquisition. But Voigt says the litmus test of whether you pull the trigger on a purchase will be in the numbers. If the numbers you see don't equal the words you hear, walk away.

"It all goes back to trends," he says. "If the owner is telling me business is great, and I look at his trends and they're going the other way, I can see that what he's

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Lessons of acquisitions

If you have the financial clout, purchasing another business is a way to quickly increase your company's size and customer base.

But the road to a successful acquisition can be covered with booby traps, says Rick Voigt, president, CEO and co-founder of Today's Business Products, so you have to go on the defensive and remember that your first responsibility is to protect your own company.

Voigt has completed two acquisitions since 2004 and has learned a number of lessons along the way. Here are a few of them:

- **Do what you say you're going to do.** "If you make a promise, you have to fulfill it. The last acquisition we made, we went above and beyond our promise to the owners. The first acquisition, we had a retirement party for the owner. He was just shocked. He said, 'I can't believe you'd do that for me.' We invited his customers over to see us. It was very well-received, and he was very happy. Now, we tell potential acquisition candidates to call him, and he'll tell you how we work."
- **Hold the other party accountable.** "When you're talking to a potential buyer, once they have made the commitment to sell, if they've changed their minds, it has to cost them something to get out of it. You've put the time and money into making this proposal, and you have to say that you're not going to let them do this and just walk away from the table. That clause has to be in the contract."
- **Hire an experienced attorney.** "Make sure you are purchasing only what you want to purchase, that you're not purchasing bad debt, tax liens or impending lawsuits."

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