

Small Business Advantage

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From: Marcia Turner

Q: I'm considering buying a business and want to know what factors I should consider.

A: Are you excited about it? Believe it or not, that's probably the most important consideration. Yes, financials are a factor, as are reputation and assets, but whether this business is one you can be passionate about is key. Because if you're excited and enthusiastic about the business, you're much more likely to be successful.

Julie Juergens, the new owner of the Curves for Women location in Harrison, New York, is a prime example. She began working out at Curves, a health club for women, in early 2006, and fell in love with it, but was dismayed when someone told her the two owners were looking to sell the business. Afraid it might be shut down, Juergens stepped up and inquired about buying it.

Although she was passionate about the company, she took steps to make sure it was a viable business before signing on the dotted line.

She looked at the profit and loss statement (P&L) and saw that the company was losing a little bit of money each month. However, she was confident she could turn it around by initiating some marketing and advertising, which hadn't been done.

Juergens also talked with fellow members to assess their likelihood of staying. She discovered that not only were the members happy with Curves, they were very willing to help bring in new members and promote the business. "All I had to do was ask," she says.

"All signs pointed to a very fixable situation," she says, so she negotiated a good purchase price, which included all the equipment, the customer list and contracts, and took over the lease and liability insurance.

But not all companies need fixing. Some just need new growth strategies.

Pamela Constantino and Harry Veldkamp, president and CEO, respectively, of Polycomp (www.polycomp.net), of Roseville, California, took over the company back in 1998 by buying 100% of the stock. Polycomp is a third-party administrator and provider of customized retirement plans and benefit administration. Constantino and Veldkamp were both long-time employees of the company and were intimately familiar with the business's finances, marketing, and operations.

The purchase of the stock entitled the new owners to all the company's assets, as well as its liabilities, such as its employees, retirement plans, and obligations. At the time, the company was doing \$5 million in revenue. Eight years later, the company is now doing \$10 million, in part due to strategic acquisitions of seven more companies, which have been brought into Polycomp.

What Constantino does first and foremost when evaluating a potential acquisition, she says, is to get to know the owner. Getting a feel for how they treat their employees and how committed they are to customer service gives her a sense of how well that company might fit with Polycomp's culture.

"Finances are easy to evaluate," says Constantino, but assessing how strong the company's relationships are with its employees and customers can take some more digging. She goes so far as to pour through files of customer correspondence, to see what the process is and what kind of communication has been going back and forth.

Although Constantino and Veldkamp bought all of Polycomp, today they prefer to buy a company's assets – just the client list – rather than be obligated for the liabilities, too.

Fred Willey, president of Invader Pest Management, Inc. (www.invader.net) of Glendale, Arizona, takes a similar approach to buying a business. Willey has bought three companies in the last three years as part of Invader's plan to grow through acquisition.

One of the first criteria he uses is the type of service the company provides - acquisition candidates need to use integrated pest management techniques rather than traditional spray methods of pest control to be of interest. It's hard enough to keep customers, he says, and trying to convince them to change to a new type of service may be too much change at once.

He also looks carefully at the company's customer list to see what percent have ongoing contracts in place and what percent are serviced on an as-needed basis. He has his accountant take a look at the financials and has his attorney draft the purchase agreement.

In some cases, Willey also signs a consulting contract with the former owner to help customers transition between companies. Such an arrangement helps reduce attrition and can have positive tax ramifications, allowing a portion of the deal to be tax deductible.

In the end, he says, "I look for a company I can bring in and not have to spend a lot to marry the two businesses."