What Factors Enhance Value and Acquisition Success

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Business value and acquisition success are about measuring risk. Less risk increases value and makes the company more attractive to potential buyers. The following are significant factors when measuring risk:

Motivated Realistic Seller

Sellers go through many emotional stages before they are realistic and motivated to sell. I have witnessed many successful business sales and some spectacular failures where intermediaries were involved. Both were the fault of the intermediary. The intermediary that does not recognize an unmotivated and unrealistic seller will fail. That said, the rest of this article will assume a motivated and realistic seller as you can't enhance value and acquisition success without this.

Organized Up-To-Date Professional Financials

In-house quick books financials are useless as many accountants make changes at the end of the year. There should be no item on the financials that the seller cannot explain and provide backup. This is where a professional appraisal will be the best.

Management

The Company has capable management that handles the day-to-day operations of the business in the seller's absence. A marketing person or sales force does marketing and generation of new business. In other words, a buyer with reasonable skills can replace the owner.

Is the Company's management efficient? Are they motivated and ready for the challenges of the future? Many companies have employees that grew up with the business, but now the company has outgrown them. They do not have the education or expertise to take the company to the next level.

How many of the key managers are relatives? If all or most of the key managers are relatives, and will be gone after the company sells, there is no management. The average age of the managers is important. Are they close to retirement age? Many managers, after years on the job and close to retirement, do not want the perceived changes by new ownership.

Employees

Will the key employees stay if the company is sold? Key employees having a long-term relationship with the owner may feel like they are starting over and have to prove themselves again and their tenure will not be rewarded. When this is the case, many employees feel that employment with a larger competitor would be more lucrative.

Like management, age is important as well as skills and education to meet future challenges. Many companies are highly technical and require special education and skills that are not available in the area or may be scarce in the industry. However, depending on the company, can they outsource or use virtual offices in any part of the country?

Are employee and management salaries competitive and considered fair market or is a significant salary increase due? Many companies have employees performing jobs such that accidents and injuries are common in the industry and face significant liability. If this is the case, have the employees been trained sufficiently in safety procedures? Is safety an on-going program for the employees?

<u>Diversity of Accounts</u>

Having some large prestigious accounts may be flattering, but if you lose one or two, is the company out of business? If ownership changes, will these accounts stay with the company?

<u>Competition</u>

How strong is competition? What is the level of ease of entry into this industry? Are technological changes going to give a major competitor with more cash a significant advantage?

<u>Predictability</u>

What has the historical financial picture shown? What would it tell a buyer as to what he or she can expect in the future? Based on industry and economic forecasts, is the past performance of the company feasible in the future?

<u>Marketability</u>

How hard would it be to sell this company? How many buyers would be interested in this type of business? Does the company have a unique niche? What is the future of its customer base? Do they manufacture sewing machines or medical equipment?

<u>Future Outlook</u>

In business appraisal, value has its basis in "anticipated future benefits" (earnings). What the company will do in the future is what its value is based on. The risk factors mentioned in this article are the key to the projections that have to be made in the appraisal process and are all critical points that the appraiser must consider.

Acquisitions are successful when there is the assumption of economic benefits (earnings) in the future. The likelihood of these economic benefits occurring is based on perceived risk. The lower the risk, the more confident a buyer is in the assumptions, and the more attractive is the company.