

Eight steps to buying a business

Management issue paper

Avoid costly mistakes – take it one step at a time

Considering buying a business? Looking to gain a strategic acquisition for your existing business? Making a business acquisition can be an exciting opportunity - if it goes well. But costly mistakes can be made by not following these eight essential steps. So do it right and take it one step at a time.

Develop and implement an acquisition strategy

Before you do anything else, you need to establish the why, what and how of the business acquisition. Your strategy must marry your overall strategic objectives with the purchase. It is of paramount importance to establish clear criteria to focus your search and to measure potential targets against. This up-front thinking will save a lot of time and frustration later in the process by truly making the process a rational one.

Identify suitable targets based on your strategy

Searching for a suitable target is a time consuming project. It is also a sensitive part of the process – showing too much interest too early may “up” the cost you have to pay for an acquisition. It is often

beneficial to bring in business advisers like Grant Thornton LLP who have the contacts and know the market and can help you find a real fit with your strategic criteria and a seller’s objectives. Using the Grant Thornton Business Buy & Sell tool can be the first step in your search.

Begin discussions with potential targets

Potential targets must be carefully assessed based on your acquisition criteria. Emotional decisions based on a “gut feel” have no place in serious business acquisitions. Then the targets must be approached on a confidential basis to determine if they are interested in your possible purchase and if they are willing to enter into serious negotiations.

Arrange for a business valuation of the target

Using the skills of a chartered business valuator, conduct a valuation of the target business. This will help you determine what the target is really worth and provide a quantification of the likely synergies that will result from the purchase. A Grant Thornton chartered business valuator can help you with this step in the buying process.

Secure financing

Without proper financing, no business acquisition can move forward successfully. There are usually several funding options. They must be carefully scrutinized to determine the best fit for your needs. Again, your Grant Thornton adviser can help you make the smart choice. It is important to consider both your short and long-term needs. Failing to consider long-term implications of a financing choice may impact on the viability of future business plans.

Conduct due diligence

Due diligence will help you ensure that you are buying what you think you are buying. It is conducted through reviews of the target's financial information and on-site visits. The process should guide your decision making by providing valuable insights into the new business and give you a heads-up on risk issues. It can give you a good estimation of the value at which a transaction should be undertaken and the warranties and indemnities that should be obtained from the vendor as part of the deal. Grant Thornton advisers have extensive experience conducting due diligence for purchasers as well as negotiating and structuring deals. Bringing them in early in the process is a wise move.

Negotiate, structure and close the deal

This is where things get really interesting. You have determined that this is the business for you – but without careful scrutiny of the deal structure it may not turn out to be the right fit for you. Determining and negotiating the most suitable structure for the deal (the timing and form of consideration) are critical for future success. Tax consequences of the

deal structure need to be explored as well. The road to completing a deal is usually not smooth. Having your strategies and objectives in mind at all times, as well as getting the facts straight through due diligence can go a long way towards making the potential deal a reality.

Plan and implement a post-acquisition strategy

Having a good strategy up-front and making a good deal will go a long way towards ensuring success. But, without proper planning of the post-acquisition strategy, a good deal can quickly start to seem like a bad one. Having a well-thought out plan and then managing and implementing it effectively is a key part of the whole acquisition process. Neglect it at your peril.

Buying a business can be a once-in-a-lifetime event. It makes sense to do it right. Perhaps the most important thing to do before you begin any of the eight steps outlined above, is to talk to a Grant Thornton adviser. We have brokered many acquisition deals for mid-sized businesses across Canada and internationally – let us bring our experience to the table for you.

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