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Business Acquisition Secrets—Manhattan Style

by George Ross

Around the country, I'm known from my appearances with Donald Trump on The Apprentice. I must admit that I enjoy that role very much. It's a lot of fun. And, I'll also admit that it's nice to be recognized wherever I go and hear people's well wishes. So being on The Apprentice turned out to be a great experience for me.

But in New York, I'm also known for my business knowledge, negotiating skills and vast experience. I have negotiated many, many deals over my long career. And, I have bought and sold various types of properties and businesses in all kinds of circumstances.

And, it's true; not all deals have been a pleasant experience. Sometimes, things didn't turn out as I thought they would. But in most cases, the deals were successful. But that didn't happen by accident.

Sure, surprises and direction changes happen, but that's part of life. You just have to learn to deal with them effectively. It's also true that no one can control everything all the time. But because of that, it's important to master those elements of a deal that you can control.

Gathering as much solid information as you can gives you more control. The more you know about the deal or business, the better off you'll be.

This is true no matter what business deal is on the table. The following principles apply to any business opportunity and any person. It doesn't matter if you're a multi-millionaire, or a small investor. If you're considering buying a business, a stock of a publicly traded company, real estate, a franchise, or even going into business for yourself, you need to know what you're doing. It could be a simple—or complex—deal, or just the straightforward purchase of a business. In every case, the more you know about all aspects of the deal, the better position you will be in to make the right decisions.

Let's suppose that you are considering buying a business. What is your starting point for an acquisition? It depends on what you are looking for…

Are you interested in old company or a new one? A profitable one, or a turnaround? Do you want a business in an established industry, or a brand new one? You will also want to know what kind of market share it has. What is its potential? Who are its competitors?

To properly answer these questions, you need to drill down and get the details of that particular business. The fact is, changes are always happening in the business world; it's dynamic and quick.

A lot of businesses change hands for all kinds of reasons. As someone who has a lot of experience in acquiring businesses as investments, I can tell you that there are many ways to blow it in business acquisitions if you're not careful. Knowing that, how should you go about an acquisition?

The evaluation process is a crucial part of your acquisition strategy. What should your evaluation process be? How do you find out all that you need to know to make sure that buying that business is really the smart move?

As a rule, people make money by being clever and smart. When buying a business, you have to be clever and smart too. In my experience, I have found the following evaluation process to be very effective.

Know what you're getting into

First of all, determine if the business is in a dying or thriving industry. For example, if you bought a VCR manufacturing business in say, 1990, that would have been a disaster. That particular industry niche was dying. It was fast becoming obsolete. So you have to know what the prospects are for the industry.

But, don't confuse an industry's condition with the current business climate. And certainly don't believe what the media says about the overall business climate. They're in the business of selling newspapers, magazines, or airtime; a lot of their information is hype and not useful for your purposes.

Business climate? Which one?

People ask me about the business climate all the time. What does that mean? The business climate where? For which industry? For which business in that industry?

I tell them that the business climate is always good somewhere for some business because the business climate changes all the time. So, pick where you want to go into business and work with the situation there.

Chase opportunity

But which business?

Should you stick to considering a business that you already know? A lot of people say that, but I disagree. You can't just stick to what you know; you won't go anywhere. You have to go where the opportunity is.

In my case, I earned my law degree, joined a real estate investment firm, and closed over 700 deals for the firm in ten years. But in the meantime, I also bought and sold a broadcasting company for a very large return. I also did the same with a material company that made different kinds of surfaces: floors, countertops, and so forth.

Did I know any of those industries before I got involved with them?

No.

Did I go where I saw opportunity, learn all I could about each one, and become successful?

Absolutely.

So, what is the first thing you should look at when acquiring a company? Find out who they are doing business with. Are most of their sales from one source? What if the source goes away? You need to know how a company is making money and from how many customers.

You also should find out the current market share of the prospective company and how it might be expanded. Therefore, you need to find out what the company's advantage is to really understand what you're actually buying and why.

For example, if a company owns a patent, how long is the patent valid? If special knowledge is their advantage, how are competitors are getting their market share? Do a competitor analysis to see how you can compete more effectively.

If the company you want to acquire is a distressed company, why is it distressed? It may just be that revenues are fine, but cost controls are the problem. Or, as is often the case, a company branched out away from their core specialty, lost money, and found themselves suddenly in need of a buyer.

In all cases, you need to know that there's an excellent chance that the firm is or can be profitable. To answer these questions, though, you will need to dig deeper.

Management is crucial

Management is the key element to any successful business. Who are they are and what have they done? You need to know how they have made the company successful, if it's a successful company.

You should find out where they were before. Do they have a track record of success, or is this their first success? Ask them what their most important business decisions have been and why. How do they view the industry? What are their main concerns for the company's future? Will they be around in the future and what are their strategies?

These questions will give you an inside look at how well the company is run, and how well you can expect it to be run in the future. In fact, most problems in a company can be traced to poor decision making, lack of control, and a lack of clear direction. All of this is directly due to management.

If you have great management in place, chances are very good that you're going to be successful.

Talk to everybody

But don't just talk to management.

Also talk with employees; get their viewpoints about the company. They will tell you things about the company that management probably won't. Like the culture of the company. Is the overall environment a positive one? Are the employees self-motivated, or are they unhappy and on edge? Are they recognized for their achievements? Is there high turnover, and why?

Talk to shipping; find out how smoothly orders are processed. Talk to sales people, find out how territories are being managed, what obstacles there are, and how things could be improved.

It's also wise to speak with customers. You want to know what's right with the company and what could be done better. Ask them; they will tell you.

Speak with vendors. Are they paid on time? Are there any issues that haven't been resolved? How does the company compare to others in the vendor's territory?

And, talk to competitors. They will give you additional insights into the company. Anybody who could have an insight into the company, try to talk to.

After all of this, you will feel like you know what the company's about. But don't be in a hurry; it's all part of due diligence.

Scrutinize the numbers

In the process of negotiating with current ownership, you should insist upon access to their accounting process and their books. You will even want to talk with their CPA. This is not an unusual request and you must insist on it.

When a company applies for a loan from a bank, the same process is required. The bank wants to know how it will be repaid on the money it lends.

You want to know exactly how much money is being made, and how it is being made. And, if some is being improperly spent, you want to know that too. Looking at their books will help in that area.

Verify the numbers

As everybody knows, numbers can be fudged. They can be misleading. Numbers can tell whatever story someone wants them to tell. What do people say? Figures lie and liars figure? It's true.

For example, revenues can be stated incorrectly. Sometimes, revenues and/or costs are inaccurately attributed to different sources or products, for all kinds of reasons. Remember, the company wants to attract a buyer; it will do whatever it can to make itself look attractive to you, so you need to know exactly what the numbers are.

And by the way, if you're not an experienced CPA, you won't know what the numbers really are, but don't ever let a business talk about average return on units or average costs. Those statistics are almost useless and irrelevant when you are looking at a specific opportunity or business deal. You need to know what the details are for a particular business.

For instance, why was one quarter, or year, more profitable than another? What was different from one quarter to the next? If the company is making money, you want to know exactly why. Which part or product in the business is profitable and which is not?

From a management perspective, which decisions or factors were responsible for the profit? Is that profit margin likely to continue? Or, if the company is not making money, what are the reasons for that? Can those problems be corrected at a reasonable cost? If so, what is the potential for profit?

Understanding the numbers will help answer these questions. That is why you need to get specific, verifiable facts. Averages don't help you understand more about a particular business, whether it is making money, or even if it can make you money.

Have your staff check the veracity of the figures for the business in question.

Know your expected ROI

In all cases, I ask myself "will this investment provide me with a decent return on my investment (ROI)?"

What is a decent ROI?

I have always had an ROI target of 20-30% for every business I acquired. Is that reasonable? I think so. The return should be enough to justify the time, and your or your investor's money, and all the effort needed to acquire it and turn it around if necessary.

But your time frame should also be included in your ROI calculation. How long do you want to hold the business before you sell it? How long are you able to hold the business before you have to sell it? You need to determine what ROI is realistic. Is there enough "cushion" in the profit margin to cover problems? What if the ROI is lower than expected?

In my calculations, I always start from my worst case scenario. If the numbers are, let's say, thirty percent less across the board than what you're seeing, ask yourself, "is it still a good deal? Can I still make money in the deal?" You have to be able to say with as much certainty as possible that the deal is a good deal and that you will make money from it.

If your ROI is higher than you expected, great. But if it is lower, then, although you're making less money than you had hoped, it's not a disaster.

The Zone of Nirvana

You need to know the worst that can happen, and how it will affect you. If the whole thing blew up, where would that leave you? Would you be able to survive financially? You need to include this possibility in your planning so that you know where you will stand if that happens. You have to know where that zone lies between your best and worst case scenarios.

Ideally, you want to stay toward the higher number, but definitely above the lower number. I call that area between the two the "Zone of Nirvana," because if you are in it, then you're making money and things are going well.

Common Mistakes to Avoid:

A successful business acquisition isn't always a result of doing everything perfectly; it can also be a product of avoiding common mistakes. Business people make mistakes all the time. Here are a few to avoid:

Mud Puddles...
What My Father Taught Me

One day when I was a kid, I was out walking with my dad. I must have been five or six years old at the time. It had just rained, and along the sidewalk in our neighborhood, and even on the sidewalk, were deep mud puddles. Parents of other neighborhood kids told them not to walk through the mud puddles, but to go around them.

But not my dad.

He encouraged me to walk through the mud puddles. He said that you learn more by going through them than by avoiding them. So, to my great delight, I went through them. I don't recall if my mom was as delighted as I was...but probably not.

Dad was right.

I learned that if you face your obstacles, you will know how deep they are, and how dirty. And, you may get soaked; but you'll get through them.

George Ross

Don't be cheap

One of the biggest mistakes in business is trying to do things by spending as little money as possible. People try to do everything by themselves. They can't. No one can. But if you won't spend the money on getting good people on your team just to save a few bucks, well, you're making a big mistake.

Your team is your biggest asset. Jim Collins, in his book From Good to Great, understood this, and so do I; and so should you.

Jim writes: "If you have the right people on your team, you don't need to worry about motivating them. The right people are smart and self-motivated: Nothing beats being part of a team that is expected to produce great results."

Without a strong team, you are weak. Being cheap can be very costly.

Why?

Because you have gaps in your knowledge that will affect your decisions and negotiating positions. And both can end up costing you a lot more money than you think you saved.

Know your weaknesses

Everybody has gaps. Just because you have been successful in one area of business doesn't mean that you will be successful in another, or continue to have success. I have seen this many times. Some of it is just ego; other parts are just stupidity or being cheap. So, be honest with yourself. Know your gaps.

Then put the best people you can find, around you, to do very well what you can't do well at all. Not delegating your weaknesses is a common mistake.

For example, if you're not good with numbers, don't take the word of their CPA. If their CPA says the business is doing great, how do you know it's the case? What's great to him may not be great to you. Therefore, get a good CPA on your team.

Again, that is why you need great staff to fill the gaps, to know what you don't know, and to help you understand what you don't know and why it's important.

The same rule applies after you've bought the business. Don't be cheap and think you can do marketing, for example. If you're not experienced in marketing, go out and hire a marketer. You get the idea. Fill your gaps. Otherwise you're setting yourself up for problems.

I see it all the time. Businesses fail because they run out of money. They run out of money because they are operating on false or incomplete information. They don't have an idea of what things cost, what the best use of their money is, and how to be efficient.

Know when to cut your losses

Just as important as buying a company is knowing when to sell it, and why.

If you can sell the company for an ROI that meets or exceeds your targets, then it is a reasonable time to sell. If the profit margin is narrowing, but the business is still profitable, that is another good reason to get out while the numbers are in your favor.

However, if the business starts losing money; or the distressed business you bought has not turned around as expected, get rid of it and cut your losses. As much as it hurts, not every deal is going to be a winner. Some will go south.

At the end of the day, it really doesn't matter why. Holding onto a losing situation is another big mistake people make. Don't hold onto a losing firm that you hope will improve the next year or the year after that. Losing money on a deal is painful; but losing more money on the deal is more painful.

My rule on losses is simple: The first loss is your best loss.

inventor + company = big headache

Businesses are often started by the inventor of a product or service that grabs the market's attention. The inventor starts a company, runs it for a while, and then has all kinds of problems.

What I've found is that inventors are usually not good business people. They don't know the first thing about how a business is organized, how it should be run, or how to make it profitable. Letting the inventor run a company is another mistake I've seen people make. If the inventor was such a great business person, why would he or she need you in the first place?

In almost every case, they have no idea about how to market their product or do anything else but invent products. Running a business, however, requires a different set of skills, which includes people and management skills, education, and hands-on experience that inventors rarely possess. Therefore, it is wise to limit their role in the business as much as possible.

Human nature

Another big mistake is one that I learned the hard way. You should always assume that people will always do what's in their own financial interests. That includes family, friends, whomever.

I ignored that rule once, and learned a very expensive lesson. I put a friend—well, I thought he was a friend—in a position to handle a business matter for me. Well, he took advantage of the situation and took advantage of my trust. It ended up costing me a lot of money, but I never forgot the lesson. Regardless of who it is, people will act in their own best financial interests.

Period.

It doesn't matter if it's family, friends, whomever. Whenever there's a lot of money at stake, the fur will fly.

Listen to your instincts

This mistake also involves human nature. Always listen to your gut, regardless of what the numbers or anybody else says. If you feel uncomfortable about a deal, don't ignore that feeling. If the numbers all look good, but the deal still doesn't feel right, walk away.

Trust your instincts.

Everyone has stored knowledge and experience about life, people, and business. If you feel that something is wrong, then it probably is. And if everything else checks out, but you still have a bad feeling in your gut, then it's probably about the people on the other side of the deal.

And this is very important: You can't do business with a thief or someone who exaggerates what is real. You just can't. If you find that a seller has misrepresented a fact, everything is tainted from there on out. Therefore, sometimes the best business decision is to not do business.

Manage the process for success

By now you realize that the act of buying a business is less of an event and more of a process. How you manage this process will play a huge role in your successful business acquisitions.

If you want to get into the business acquisition game, you have to be prepared to do your homework and understand what you're putting your or your investors' money into. You've got to know what the business is about. You need to know why it's making money, if it is; or why it's not making money.

If it's losing money, you need to know how you're going to change the company, the business model, marketing, or any other inefficiencies that need to be fixed so that it does make money. But no business is exactly the same as another. They all come with their unique set of circumstances and challenges, opportunities and downsides.

There is not one exact formula for every acquisition. But the process I have just given you, works. These are very specific guidelines and strategies, and are the right steps to follow in order to make sure that you are getting as much of the picture of any given company that you can.

All the best,
George

The Gorrie Details

by James R. Gorrie

Corpse-Man Economy

Several months ago, President Obama comically mispronounced "corpsman" as "corpse-man." Yesterday, he less comically mispronounced the remedy for what ails the US economy.

In the midst of Market Meltdown 2.0, the President called for higher taxes and more deficit spending…

And the market drop accelerated as he was speaking. The day was marked by financial stocks taking huge losses. Bank of America was down by 20%; Citibank, 16%. But even normally solid, defensive stocks were hit hard.

This indicates that panic selling was in play; with broader fears driving the selling.

But America is not in a financial crisis…it is in a political crisis.

So say bank investment managers, traders on the floor of the New York Stock Exchange, and even the nominally "Communist" Chinese Government—they have all figured out what Congress and this Administration can't: That deficit spending does not lead to financial solvency.

The Democrats in Congress as well as the President apparently have only one answer: raise taxes. Will this insanity ever end?

Deepening the hole

Perhaps the "historical" President should spend less time looking in the mirror, and more time looking at history.

Take the Great Depression, for example…No, not this one; the first one. In June of 1932, the country was in a deep depression. What did Hoover—a Republican, by the way—do?

He raised the top income tax rate from 25% to 63%, and quadrupled the lowest income tax rate from 1.1% to 4%.

And the result?

Disaster.

Hoover's tax increase devastated the fragile US economy. A "double-dip" recession and sky-rocketing the unemployment rate to well above 25% occurred within a year. Individual income tax revenues fell by over 57% by the end of 1933.

Not a smart move.

Ah, but government spending was the Keynesian key to the nation's recovery, wasn't it?

Well…no.

Even Christina Romer, former chief economic advisor to President Obama admitted that "fiscal policy played a relatively small role in recovery," in the Great Depression.

So, what's the government's next move? Deepen the hole were in. It's the only move it knows, apparently.

QE3 Coming

The Federal Reserve will keep interest rates low. And, it is ready to write more large checks to "stimulate" the economy.

Does the economy need more liquidity?

Did the economy really ever get any of the last rounds of quantitative easing?

The answer is 'no.'

Most of the money went to overseas banks. The rest of the money "eased" US banks' and other large US corporations' balance sheets.

And are banks lending more?

Not really.

SBA lending has plummeted since big banks got their free money in 2009.

So, what benefit will stimulus bring?

Will any of it even reach the US economy?

Or will it go (again) to European banks are still struggling with their own financial crisis? Whether it stays here or not, the economic climate is so uncertain that banks just are not lending very much. Like the Great Depression before it, government spending will not lead to recovery in this one.

Don't believe me? Then believe the words of Henry Morgenthau, Jr., FDR's Secretary of the Treasury from 1934-45:

"We have tried spending money. We are spending more than we have ever spent before and it does not work…I say after eight years of this Administration we have just as much unemployment as when we started…and an enormous debt to boot!"

And he was right. The unemployment rate in 1931 was just over 22%. And in 1939, when World War II began, the US unemployment rate was over 22%. But today, in Obama's Corpse-Man economy, employment now has a different meaning…

The "new employment"

Many white collar jobs are gone, and they're not coming back soon. When workers find "other employment" after losing their job in the Corpse-Man economy, it is often at a fraction of their salary. Therefore, the "employment numbers" don't begin to tell the whole story. It's much worse. This is especially true for those who have lost their white collar jobs.

Those workers' subsequent salaries have fallen dramatically. Therefore, former white collar workers take whatever work they can find…once their unemployment runs out.

But in extending the unemployment benefits to well past a year, that benefit has become the "new employment" for many unemployed white collar workers. And the flip side? A stock manager at a big home repair chain said recently that he had 6 former financial brokers on the floor stocking merchandise from 10PM to 6:30AM for $10 an hour. And those shovel ready jobs you heard about in 2009 and 2010? Where did they go? Were they ever there? Have you heard anything about them since? Hardly.

China getting US businesses

And how serious is the Administration is about jobs? Obama's "job czar" and CEO of GE Jeffrey R. Immelt decided to move GE's 115 year old X-ray division out of Wisconsin to…China. And has plans to move other GE units to China.

And those billions of dollars that GE gets from huge government contracts? Mr. Immelt will invest $2 billion of them in factories…over there.

But, many US businesses that aren't moving to China are being bought by China under the watchful eyes of Obama and job czar Immelt…

I am all for business, but resent GE getting taxpayer dollars and then taking American jobs overseas…

Worse, what businesses China is not buying, they are stealing.

Recent reports of China's fraudulent Apple stores and other US retailers is just the tip of the iceberg… And the US economy continues to flat line.

What's to be done?

By now, even the Left knows that high taxes and deficit spending lead to bankruptcy and unemployment.

What's to be done?

A real tax cut in personal income rates would have an immediate positive impact on the economy.

It worked for Kennedy.

It worked for Reagan.

It even worked for Bill Clinton.

Remember, the Clinton economy really picked up steam from 1997-2000, after taxes were cut in 1997. And, it will work today. How much should taxes be cut? 30% across the board. Same with corporate taxes. (Which Bill Clinton also favors.)

A five-year tax-free window on new small businesses would also stimulate jobs. Spending cuts on entitlements would help, too. In fact, it is necessary.

But financial common sense is elusive in the US… for a while yet.

The good news—if you can call it that—is that if the US isn't burning in 2012 like London is today, then we will finally bury Obama's Corpse-Man economy.

Talk about a shovel ready job.

And those are…*The Gorrie Details.*

Member Mailbag

Questions for Empire Report? Submit them here: http://www.theempirereport.com/questions/

Q: George, I have several businesses and I don't know how much time I should allocate to each one. I have hired a new Director of Operations to help me with this. Also, I'm trying to build a business team to help grow. How long should it take to get a solid team in place to help me manage all my businesses?

GR: Don't rely on your Director of Operations to tell you what project or business requires how much of your time.

Have your CFO run an analysis to determine where you're making the most money, where you're not, and where your costs are too high. Then, have your CFO create a Revenue Recognition Model to match expenses with revenues. Make sure the model is scalable so that as your operations grow, it grows with you. The system should also identify where and how you can drive costs down. All revenues should automatically run through that system. And it should be automated.

Once you see what each dollar of revenue is costing you and why, your choices will be clear.

You may find you're not doing as well as you thought you were; which is often the case. If your CFO can't do this, hire an outside firm to do it; it will be worth every penny, and much more.

But explain to your people what the findings are. Let them know your expectations and what the new protocols are going to be. You might eliminate the businesses that aren't making money. In that case, you may lose some people, too.

Or, if margins are tight but you want to keep your good people, you can give them a choice: leave or take a pay cut. It's not pleasant, but you have to do what you have to do. Donald Trump presented his people that same choice a couple of years ago. Some left the organization…I took the pay cut.

Regarding building your team, it can take a long time to get a top notch team in place. It took Donald ten years to do it. You not only have to find the best people, but you have to be able to hold onto them, especially when times are difficult. They have to know that they're valued and you have to earn their loyalty. But once you have it, you will be in a much better position to handle growth as well as any obstacles in your path. —*GR*

Q: George, I'm trying to grow my business. I have to work with others outside my own company as well as those within it to accomplish my goals. I find that personal conflicts or jealousies come up seemingly out of nowhere among people that have nothing to do with me, but who can influence others who I do need. Problems are arising out of this.

And, within my business, I want to get the most out of my people, but I don't know if it is better achieved by fear or love. My view is that if you want love, get a dog. How should I handle these issues?

GR: You've stated two problems, but they're really one problem. Let's call this area "personality tactics." A big part of business is building relationships, and dealing with people with all kinds of personalities. People who are jealous of your success view you as a threat to their own success. They may be right. Or, they may just be small minded, or both. But if they can cause problems for you, you have to deal with them on some level. When a problem comes up, let all the parties involved know that whatever the issue is, that you did not intend to insult them, or whatever the perceived offense was, and apologize.

Why do this? Because it is smart. If the offended person can influence a person you need, then you need to apologize, say it was unintended and that it won't happened again. This tactic will hopefully preserve, and even enhance how the person you do need, regards you. Remember, some people feel threatened by you, and if they can hurt you, some will. A small-minded person can still cause problems for you. So on the one hand, you can't respond to every criticism, but you must respond when it affects your ability to do what you need to do. But also realize that you won't be able to win over everyone. That's just a fact of life.

Now, within your business, with your own people, the same rule applies. Should you take the time to know who your people are? Sure you should; it lets your people relate to you. Now, I suppose that some people work better if you yell at them, but most do better with encouragement. You need to know what works with each person, but generally, you want to get the most out of your people and build loyalty at the same time. You need to let your people know what you expect, but also show some interest in them as human beings. Also, not everyone inside your business, or outside of it, will move the same speed as you do; in fact, most will not. Don't make the mistake of just running over them. You create unnecessary friction and then problems develop.

This is a difficult lesson for some people to learn, but you must learn it and make the adjustment, otherwise the problems repeat themselves. The more successful you become, the more you will need to develop your personality tactics; it becomes a necessity. —*GR*

The Empire Report

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