

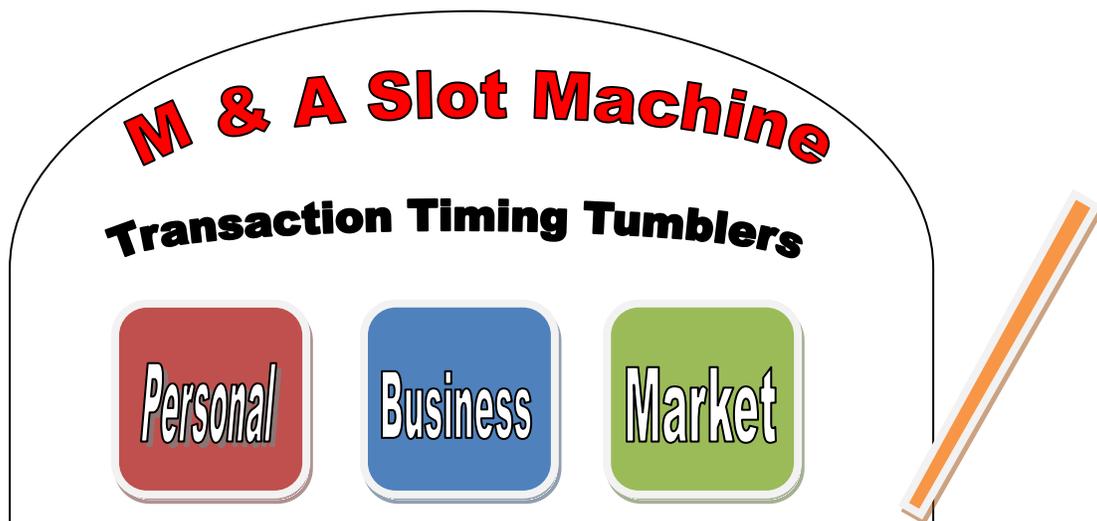


The M & A Slot Machine-- Gamble at Your Own Risk

By Dan Maloney CPA CFP® CM&AA CBI

All business owners eventually face the prospect of transferring ownership of their business. If you ask entrepreneurs if they wish to sell their business, some will say they're always ready if the price is right. Some will say that they plan to sell in 3 years. Others are in the "3 Years Forever" club, i.e., their answer is always "in 3 years". Even these procrastinators eventually enter the M&A casino.

Some owners look internally to family or management buyers, others look to the outside M & A world. Either way, in today's environment owners face a depressed economy and stringent lending standards. With the concerns about excessive risk in today's business world, the business transfer process can be likened to games of chance in the nearby casino. What's the difference between traditional casinos and the risks in mergers & acquisitions? A new type of slot machine - The M & A Slots.



Personal, Business and Market Timing Slots

There are three tumblers in the M & A slot machine. The first slot represents the owner's personal financial and life planning. The second slot involves the strategic and operational planning of the subject business. The likelihood of these two slots lining up can be affected by proactive planning. The third slot, market timing dynamics, is out of the reach of the individual entrepreneur's control. The opportunity for astute entrepreneurs is to work on calibrating the first two tumblers as the economy works on the market timing tumbler.

Three Key Factors - Timing, Timing and Timing

In playing the M & A slot machine, timing is everything. In real estate, the critical factors are location,

location and location. In the M&A world, the critical factors are timing, timing and timing. To maximize the value of the company and have a successful transaction, all three timing tumblers must line up. This takes both a proactive approach and coordination. If any one of the tumblers is out of calibration when the lever of the proverbial "One Armed Bandit" is pulled, the chances of success are greatly diminished. For example, if the market timing slot shows up on the machine but either the entrepreneur is not financially and mentally ready, or if the business is not properly documented and operated, the entrepreneur risks having an unsuccessful transaction. If the business is ultimately sold, the entrepreneur risks receiving a less than optimum valuation and a diminished cash reward.

Opportunity Lies in the First Two Slots

If the personal and business slots appear, but the market slot is hidden (i.e., due to poor market conditions, the tumbler isn't calibrated to facilitate a M&A transaction), it's time to go to work harder on the other tumblers. Entrepreneurs must be physically, mentally and financially prepared to act quickly when the market timing slot is favorable. The business must also be prepared and have attributes such as accurate financial records, documented policies and procedures, and motivated employees. The personal and business issues should be attended to well in advance of the time the entrepreneur decides to face the M&A slot machine. If these two slots are carefully and strategically calibrated and the market timing slot appears, the lights on the machine flash and the entrepreneur gets rewarded. The entrepreneur greatly increases the odds of success by being prepared when he or she "pulls the lever" and the market timing tumbler comes up.

Calibrate the Tumblers to Make Luck Happen

The M & A slot machine isn't 100% random. Although there is some luck involved in winning the M & A jackpot, it's not pure chance. You can help "make luck happen" by focusing on the two tumblers you can affect. Even if you are in the "3 Years Forever" club, attending to strategic plans for both the personal and business slots will help your business thrive and give you peace of mind as the market slot resets. Being in business is a gamble. Increase your odds of winning by calibrating the two slots you can control.



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