

HOW TO AVOID THE POST-SALE BLUES

Plan Ahead: Give Thought to Potential Pitfalls of New Business

By Wayne J. Unze



Buying a business can be stressful, especially when you are entering an industry or profession in which you possess limited knowledge or experience. Initially, your time is consumed by the rigors of training and little thought is given to the pitfalls new business owners may encounter if they don't plan ahead. Here are some steps that can be taken to reduce post-sale stress. The names are fictitious but the events actually took place as described.

- 1. Know your key customers and vendors.** Ask the seller to immediately arrange face-to-face meetings with these key people, especially if you have exclusive or semi-exclusive agreements in place.

In a past sale of a supply business, the purchaser acquired three exclusive product lines that were all integral to the company's continued success. Each product line had a long and successful history with the company and was represented by a trained sales person. Following some earnest lobbying by the seller, the three suppliers were willing to maintain their exclusive status with the buyer on a probationary basis. Unfortunately, seven months later, the new owner discovered one of her sales people was cutting his bid margins so thin that the company was actually losing money on some of his jobs. When confronted with the problem, the sales person got mad and quit, threatening to take his product line with him. Fortunately, through phone calls, letters and emails, the new owner had developed a personal relationship with this key supplier in the months following the sale and was able to retain the product line despite this serious threat.

- 2. Create a budget and a comprehensive accounting system.** Running a small business without an understandable plan and accounting system is like trying to sail a ship without a rudder. Too many business owners receive monthly income statements, check out only the "bottom line" to see if they made any money, and toss them into a file. It's important to pay close attention to all budget deviations, especially as they pertain to the cost of materials and payroll. Randy bought a cabinet shop and within the first six months his payroll costs were soaring in comparison to sales. Upon further inspection,

Randy discovered that in his haste to get product out the door, he was incurring huge overtime charges that severely impacted his profit margin. A frank meeting with his shop foreman quickly corrected the situation. He was simply being tested by the employees.

You will also want to keep a wary eye on both the age and amount of your accounts receivable and payable. Accounts receivable more than 45 days old spell trouble. On the other hand, early payment of your invoices may result in attractive

discounts. Also, be sure you ask your CPA to highlight any aberrations on your monthly financial statement that he feels should come to your attention. The best CPA is one who can spot problems in your business before they become destructive.

- 3. Make changes slowly.** I typically advise new owners to spend at least six to eight months learning their new business before making any major changes. There is a tendency for new owners to want to make sweeping changes in order to release the vast ‘potential’ that so enticingly looms on the horizon. Resist that urge or the unrealized potential may turn into a mirage. Bill was just such an owner. After a month of training from the seller, Bill decided to flex his own entrepreneurial muscles by “simplifying” his company’s price list. However, Bill was an ex-government employee who simplified his price list the way the IRS periodically simplifies the tax code. Bill’s customers were not amused, and although many would have profited from new volume discounts, his changes were more irritating than stimulating. Bill should have consulted with the seller before making such a strategic change in the business.
- 4. Assess your own capabilities.** Some of us see ourselves as gregarious and friendly, when in reality we should be down in the lube pit and let a more affable employee greet customers and write invoices. Jeff and Tina bought a service business that required extensive customer contact. Jeff decided to work the production side of the business while Tina covered the front counter. After their second week in business, the seller (who was training the couple) alerted me to the fact that Tina was driving customers away with her surly attitude. When I tactfully broached the subject with Jeff~ he replied, “I know, but what can I do? She’s my wife so I can’t just fire her~” But after three more weeks, in the wake of increasing customer complaints and declining sales, Tina was running production and Jeff was at the front counter.
- 5. Nurture key employees.** If the business is sailing smoothly, don’t replace the people at the helm or in the rigging. Marilyn, the owner of a small manufacturing business, discovered that lesson the hard way when she decided to personally replace her experienced production manager. Within days the plant was running behind schedule and the money Marilyn was saving in payroll was more than offset by plummeting sales. Good employees, like derby winners, are extremely hard to find and expensive to train, so treat them like a precious resource and try to overlook their idiosyncrasies. The Romans espoused the philosophy, *festina lente* (make haste slowly) and they conquered the world. By exercising a bit of caution and planning, you should be able to conquer your new entrepreneurial world.