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MINDING YOUR BUSINESS

Business buyers get jump on profits

Entrepreneurs who don't want to build a company from the ground up are taking interest in acquiring existing enterprises

By Ann Meyer
Special to the Tribune

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Small-business owner Eric Ginn has come to the same conclusion as many major corporations: If you're looking to move in a new direction, it's easier to acquire an existing business than to build a new enterprise from scratch.

"I've done start-ups before. I'm not willing to do another one," said Ginn, a former information technology professional who grew tired of the ever-changing nature of that industry and decided to switch careers.

Ginn's purchase of Verlo Mattress Factory Stores of Naperville in December was the culmination of six months of research and scouting for a promising venture. When he set out to buy an existing company, he never thought he would end up in mattresses, he said. But the franchise he bought had been successful for years before the original owner sold it and the business started to decline. Now it was on the market again.

Ginn liked the service aspect of the company, which custom-produces each mattress, making adjustments for each customer. And he saw big potential in the fast-growing Naperville market.

The business already is taking off.

"It's been better than I thought it would be. I really am in a growth mode," he said. While the franchise Ginn bought includes three stores and a mattress factory, Ginn also is negotiating leases on two other stores and plans to have eight locations up and running in the next three to five years, he said.

Such swift growth would have been impossible if Ginn had started the business from scratch. A growing number of entrepreneurs and dealmakers are coming to that same conclusion. Just as mergers and acquisitions among larger companies are on the rise, so too is the market improving for entrepreneurial acquisitions, experts say.

In fact, two-thirds of entrepreneurs surveyed said the current environment is good or excellent for mergers and acquisitions, according to a survey released Jan. 17 by Thomson Financial and the Association for Corporate Growth in Glenview. Investment bankers and other dealmakers agree.

Although acquisitions declined after the economic downturn of 2001, that's changing. "The market is just strong--period," said Craig Miller, president of ACG Chicago and a principal at Oak Ridge Capital in Northbrook.

With signs that the economy is growing, lenders are more willing to finance an acquisition. Meanwhile, continued low interest rates are fueling more deals.

"We're seeing good-quality companies coming to market. That's always a good thing," Miller said.

Finding the right company to buy can be a challenge. Often companies up for sale are on the market for a reason. Chances are, they're not making money or they face a large impediment to growth. That's true for companies of all sizes, said business broker Joe McCaul, president of Joseph Associates International in Naperville.

When an individual is looking to buy a small company, it's important to ask why the owner is looking to sell.

"The best motivation for selling a business is retirement," said McCaul. Short of that, look for a reasonable motivation.

"Typically among businesses where the owner may be in his 30s and 40s and claiming burnout, that raises suspicions among the buyer and banker," he said.

Make sure you, along with your accountant, attorney and any other advisers, conduct due diligence on the company, scouring financial records and asking lots of questions. Look for hidden reasons for the sale, McCaul said. It could be the company is about to lose a major customer, or a key employee is going to quit and compete against them.

But there's another way to boost your odds of ending up with a winner, McCaul said. Approach successful companies that aren't currently on the market. Some might be willing to sell.

That's the way Randy Hoyle bought Niche Equipment, an Addison-based business-to-business wholesaler of specialized office equipment.

Hoyle, who had spent 27 years in the insurance industry before he decided he wasn't willing to relocate again, wanted to own a business but didn't want to start a new company.

"I wanted something faster to start, with revenue right from the beginning," he said.

Hoyle identified industries he was interested in, and through mailings and phone calls he and McCaul contacted 600 businesses in the area that might be a match. About 25 responded positively.

"They were interested in talking about selling their business. They were clearly open to doing it," Hoyle said.

Hoyle made personal visits to the 25, then narrowed the field to three and started the due diligence process on his first choice. He uncovered potential product liability issues that made him uncomfortable with that business. So he moved on to Niche Equipment, where he liked what he saw. He spent two weeks working at the business before agreeing to buy it in January 2003.

The on-the-job stint gave Hoyle a chance to get to know the former owner and three employees, all of whom still work for the company. Starting with seasoned employees is another advantage to purchasing an existing business, experts say.

Under Hoyle's ownership, the company's annual sales volume has doubled during the past two years to "several million dollars," he said.

From the get-go, Hoyle was able to pay himself a salary.

What's more, the likelihood of success is much greater with an existing firm than a start-up, McCaul said, noting too few customers and a lack of capital often lead start-ups to fail in the first three years.

"With a business acquisition, you've gotten through that early stage where mortality is the greatest," he said.

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