

## THE EXPERTS

## CHANGE IN OWNERSHIP

# You have acquired a new business ... now what?

## Tips for buyers to ensure a successful transition

Congratulations! You have realized your lifelong dream of becoming a business owner and bought an existing business.

You have made a wise choice, one that will set you on the path to success. Acquired businesses have a 90 percent success rate, according to the Virginia Chamber of Commerce. In contrast, it's only 30 to 40 percent chance of success for start-ups.

Acquiring a business and developing it requires a solid plan and a support system. We met recently to share some do's and don'ts for business owners who are considering an acquisition or have acquired an existing business.

### What is the most overlooked aspect of acquiring a new business?

**Rich Chinappi:** It's probably the transition period between seller and buyer. A buyer always benefits from an amicable relationship with the former owner. The former owner should feel comfortable and needed in the transition period. Sellers are usually willing to share their experience from years of operating the business. Buyers gain valuable insights during a successful transition period. New owners need to learn as much as they can from the seller on how the business really operates.

The transition is not the time to bring about changes. Wait until you feel confident you have a good understanding of the way things were before introducing changes. My advice to new business owners is to allow one year to experience the business operating cycle before making any change unless it is absolutely necessary.

**Anne-Lise Gere:** If the business has employees, they expect to be paid on time and accurately even with a change in ownership. Getting payroll right is critical for a new owner. The fastest way to create bad will is to mess with employees' paychecks. Learn how the existing payroll is done.



**RICH A. CHINAPPI**



**ANNE-LISE GERE**

Unless the payroll system is obviously broken, don't change it right away. If it is broken, do your research. See if you can get better service from different vendors. The majority of mid-size businesses outsource their payroll. Many options are available. Talk to your accountant. Get a quote from a national payroll processor, such as ADP, and a local payroll processor, such as Payday Payroll. Your bank might offer payroll services. Consider total cost and the service of service as you make your decision.

### What type of questions should the new owner ask the former owner?

**Chinappi:** As a buyer, have a list of questions ready for the former owner. Let the seller share their knowledge by asking open-ended questions.

Don't spend too much time telling the former owners how you are going to change the business. This might put them on the defensive, especially if they have financed a portion of the sales. They will be reluctant to share how they operated the business if you are going to tell them their way was the wrong way.

However, test some ideas for improving operations and profitability by asking the former owner if they had thought about trying those ideas. You may find they did. Now, you have saved yourself from a possible expensive mistake if those ideas didn't work.

**Gere:** Ask questions about your new employees. Who are the key

players? Who are the "problem children"? What's the tenure of each employee? Who is exempt? Inquire about any systems in place to manage employees related to time and attendance, tracking of employees' pay and benefits, subscription to various support services such as online recruitment or legal compliance.

### What is the first priority of business for new business owners?

**Chinappi:** Meet the staff and assure them that you plan to continue their employment with the company. Listen to their suggestions. They may have good ones! Remember, employees feel uncomfortable during the transition and can be unsure of what the future holds for them with a new owner at the helm. They might start looking for a new position elsewhere. Let employees know they are needed now and in the future. After all, they are part of the asset you just bought. Don't run them off. Be appreciative and complimentary.

**Gere:** Communication with employees during the transition is key. If the new owner is not visible and communicative, the void will be filled with rumors. Don't assume employees know or understand what's going on. Communicate more than you think is necessary. Meet the staff as a group on a regular basis. Most importantly, meet with every employee one-on-one. Get to know them personally.

Tell them about you. This should be a two-way conversation. Avoid talking about business during that first individual meeting. The focus should be on getting to know each other to create trust and goodwill.

### How should the transition be communicated with customers?

**Chinappi:** You want a seamless transition so customers don't know the business is under new ownership. Perceived negative changes

raise huge red flags for customers. They start asking employees questions about the business ownership. This is another reason to have a happy and content staff. You want the staff to say, "Yes, we do have a new owner, and it is a positive change."

### A final recommendation?

**Gere:** In industries with high employee turnover, recruiting and keeping good employees is a constant struggle for business owners. Make sure you have a good recruiting process for the get-go.

Know where your best employees come from. Those are your best recruiting sources. Establish a process for selecting candidates and stick to it every time you recruit. Just consider how time-consuming managing problem employees can be. I highly recommend background checks before any new hire starts, especially for management positions and in positions handling funds.

Regardless of industry, the new owner should affirm the basic work rules on time, attendance and discipline. This includes how work is scheduled, hours of work and breaks, time-off policy, overtime, time-keeping, appearance and grooming, discipline, and employee expenses.

If the transition is successful, the change in ownership will be seen as positive by the staff and will go unnoticed by the customer except they will find a happier and more motivated team. Positive changes are always appreciated by the customers, and that makes them more resilient to some negative changes such as price increases that may come in the future.

*Rich A. Chinappi is a commercial real estate agent with Read Commercial Properties Inc. He can be reached at 617-3237. Anne-Lise Gere is a human resources adviser and independent consultant. For more information, go to [gereconsulting.com](http://gereconsulting.com) or call 303-1635.*