



The Biggest Concern: Transferability- Will the Customers move from the Seller to the Buyer?

It does not matter if we are talking about a middle market business or a main street business, the buyer's biggest concern is that of transferability – “Will the customers transfer over to the new Seller or will they go elsewhere?” Below are Five Questions to consider:

1. Who is the direct contact for the customer base? A Buyer needs to look at the customer base and determine who the main contact is that handles the accounts. Do a majority of the customers call one person – for example, the president or perhaps a single salesperson? If there is more than a 10% revenue concentration in any one customer, then you need to determine if any non-compete agreements are in place if it is a salesperson. If they are calling the president, then the buyer must determine if their corporate culture or personality will be similar to the skill set and the “warm and fuzzy” model with which the customers may be more familiar.
2. What type of transitional period is being arranged with the Seller? - Even if you are buying a medical or dental practice, the patient base can be moved from the Seller to Buyer over time. The time necessary depends on the industry. Transition periods can range from two weeks to up to a year. The longer periods generally require putting the Seller on the payroll, unless the negotiated purchase price is higher than most. If you have to put the Seller on the payroll, the purchase price generally has to take a hit since the return to the Buyer is lower for the transitional period.
3. Do the cultures blend? – How different are the two managements? The perceptions of the new stockholders? – These questions are many times overlooked and one of the main reasons mergers or acquisitions fail. For the Main Street business, a potential issue could be payroll vs. 1099, bonuses paid in cash vs. being taxed. (yes.. you read that correctly.) For the middle market business, can the minority company in the merger adjust to the larger bureaucracy of the majority? A major obstacle can be what hoops the sales force and the accounting department have to go through to make a successful merger. Are the employees being compensated enough the endure and hold out till things settle out?
4. How do family and friends fit into the equation? This is an issue even with larger companies. The bottom line is to make sure that the customers are customers at “arm’s length”. There have been times when the business leaves once the family or friends are no longer at the helm of the company. The word “friends” can also be substituted by the words race, religion, culture, or ethnic background. Do your homework and know your environment. You can make it work if you know where you are going!

5. Are there any restrictive contracts or licensing issues?- Don't buy a business and then find out that there are contracts or licenses that cannot transfer to the new Buyer. These can be in the form of local, state, federal licenses or specific contracts with the customers. Also, there are restrictive contracts with vendors. If your supplier refuses to sell to the new Buyer, then you have no product or service to offer to your customers and that portion of the business will disappear.

Don't be scared to buy a business, just be prudent and do your homework, swallow hard and "Go For It". Just remember the old adage, "Buyer Beware".

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