Mergers & Acquisitions

Nine pitfalls in the process & how to avoid them

by: Thomas Fimian, Levifi

Over the years, my company has acquired several companies in the office technology and IT services field with the purpose of building a lasting and sustainable company for years to come. These acquisitions have helped us to accelerate growth, add additional talent and offer new services at a rate that is difficult to achieve organically alone. With M&A deals being an important part of many businesses, I want to share some of the common pitfalls and offer my take on how to avoid them.

Cultural Misfit

When the goal of an acquisition is to integrate the acquiring company's existing workforce, we found cultural compatibility to be an essential requirement. If we think that the new company's culture is not compatible with ours, we are staying away from the acquisition. It is much more difficult to follow our vision and maintain our business direction based on our values when bringing in scores of new team members who are not on the same page.

Implementation Quagmire

From onboarding new employees to letting customers know how to get in touch with the new company, there are myriad items to consider when implementing an acquisition. Working with a well-thought-through checklist helps minimize implementation hiccups and reduce frustration.

Paying Too Much in Taxes for the Acquisition

Paying for tangible assets and structuring part of the goodwill as a consulting payment can help minimize the tax burden of an acquisition. Very often, the largest portion of the business purchase price is for goodwill. A goodwill payment must be amortized over a 15-year period, therefore taking a long time before it is fully amortized. It is imperative to consult with your CPA prior to contract term negotiations to understand the tax implications.

Cash-Flow Crunch

Informing customers ahead of the acquisition and knowing the accounts payable contacts will have a big impact on avoiding unexpected cash-flow delays. If any new customer makes up a large portion of your regular cash flow, we highly recommend speaking with the A/R contact directly to confirm that the company will continue paying its bills after the acquisition.

Pain in the Fine Print

Each customer contract should be carefully reviewed for the following:

- Renewal/cancellation details (i.e., terms, auto renewals, penalties, etc.)
- Assignment limitations — Ensure that there is no limiting language in the agreement that precludes the new owner from taking over the ownership of the agreement/contract.
- Exceptions or special promises that may have been made
- The scope of work (SOW) — Make sure it is in line with your business objectives and capabilities (i.e., extended-hour services or on-site service requirements outside of your normal service area).

Old Owner Setting Up Shop Again

Adding a well-defined and reasonable noncompete/nondisclosure clause in the business sale agreement can be critical to protecting your business in case the seller decides to set up shop again and starts to compete with you. This is especially important if the new customer base is free to switch to another service provider without restrictions.

Losing Independence & Identity

We made a conscious decision to stay independent from private equity or other outside financing options. It is difficult to maintain full control over operations, decision-making processes and long-term vision when the funding is provided from an outside source. Without reliance on outside capital, we can maintain our vitality and stability for years to come.

HR Surprises

In our earlier acquisitions, we had new employment agreements executed prior to the start day. Unfortunately, one of the new employees never showed up due to medical reasons and, even though he has never worked for us, we were on the hook for his pay and medical benefits. Now, we sign employment agreements once an employee shows up on his (or her) first day. This is just one anecdote of an HR surprise you want to avoid. We have made it a habit to review any HR litigation the previous company might have had and assess the likelihood of ongoing potential issues.

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Marrying a Stranger

Acquiring a company is the business equivalent of a marriage and it takes time to build a lasting relationship. We have shied away from "matchmakers"/business brokers. Instead, we take the time to learn about a potential acquisition target. Getting to know the owner well and in different settings will reduce the likelihood of being surprised by unmet expectations after the merger. ■

Thomas Fimian is owner and CEO of Levifi, Charleston, South Carolina. It was his childhood dream to build his own business, and after emigrating from Switzerland to the United States in 1996, he had the opportunity to learn the office technology business as a Xerox consultant for Xdos Inc. Eager to apply the lessons learned at Xdos to his own business, Fimian moved to Charleston with the goal of building an amazing place for his employees and customers. Fimian is a strong believer in "win-win relationships," and is convinced that only a diverse, well-trained and committed team can provide his clients with the best results they deserve. With this principle, Fimian's team went to work and expanded the company's reach to eight markets in the Carolinas and Georgia. He can be reached at thomas.fimian@levifi.com. Visit www.levifi.com.