

Beyond Finances: If You Don't Consider a Business' Practices, You're Missing Half the Story

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By Michael N. Mercurio



It seems like a win-win: Anya is buying Barry's masonry business and both parties are happy with the transaction. The negotiations went smoothly. The sale price feels fair. Anya is getting a successful company with a clean bill of health. Nothing out of the ordinary appeared during diligence into Barry's accounts, vendor contracts, equipment, and so forth. Plus, Anya analyzed the business and found ways to make it even more profitable. Meanwhile, Barry is getting a really nice retirement package. He was able to leave the business earlier than he expected and with a sizable chunk of cash.

There's just one problem: Anya and Barry have a culture clash and neither party knows it...yet.

Anya has spent her career in the hands-off world of corporate finance, while Barry has worked hands-on in construction. The white-collar buyer and the blue-collar seller have fundamentally different attitudes, beliefs, and organizational practices and norms — none of which were discussed during the transaction. What Anya doesn't yet realize is that masons are extremely hard to come by. Much of the industry's labor force, including Barry's, is undocumented. Anya now owns a business that generates money but is not in compliance with immigration and employment laws. To say the least, the company is rougher around the edges than she expected it to be. What Barry doesn't realize is that Anya isn't like most business owners in the masonry space. She isn't comfortable with what he perceives as run-of-the-mill labor and employment risk. And once she finds out about it, he could face post-closing liability. She's going to make her problems his problems.

This kind of situation happens more frequently than one might expect. Many people don't realize there's more to business analysis beyond cash flow and financial spreadsheets. Buyers and sellers fail to appreciate the differences and nuances between their points of view and they run into trouble as a result. Issues don't get communicated because one or more parties assume those issues aren't important enough to bring up. They don't understand how apparently minor differences shape significantly divergent practices.

In mergers and acquisitions (M&A), no one can afford to assume anything. Everything is worth bringing up. This is why proper due diligence is essential. Buyers need to prepare to thoroughly investigate every single aspect of the target business from finances and contracts to worker status, organizational culture, and leadership philosophy. Buyers and sellers also need to consider working with teams of M&A professionals as early on as possible. An attorney or another close advisor can clue you in to potential issues, red flags, culture clashes, and areas of uncertainty that may seem otherwise inconsequential or invisible.

Remember: a business transaction is an unusually challenging and stressful event. Without help, it's normal for first-time sellers and buyers to overlook serious problems. There are countless legal, financial, organizational, and personal matters to manage — and it can all become overwhelming if you manage it alone. Don't wait until you meet your Barry or Anya to discuss your exit strategy with an M&A advisor.

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