

# *J* Leif Jensen and Associates

Solutions Based Consulting & Certified Public Accounting Firm

Happy 2019!



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## Caveat Emptor

Let the buyer beware, definitely something to keep in mind when you are purchasing a business.

I have a client that was working through the due diligence for the purchase of a competitor for months, only to have the business sold to an employee right before the signing of the final contract.

This client was lucky compared to another business I am



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aware of. With this purchase the employee bought the company. Talks had been going on for months, possibly years but never in too much specific detail, just general terms. Then the owner made the final decision to sell and the contract had to be drafted, finalized and signed in less than a two month period.

One aspect that was not included in the contract was a “claw back” provision which means that if the seller directly pulled clients from the buyer to move to another broker for a fresh commission, the buyer would have a provision that would allow them to get some of the purchase price back, i.e. “claw back” some of the money! (This, by the way, is seemingly what the seller did in bulk.)

Now the buyer has paid an unwarranted premium on the business.

If looking to purchase an existing business in the future make sure that you have checklists, time for due diligence and ensure that you have a team looking out for your interests and protection.



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## Purchase & Balance

A new client had purchased an existing business early last year. The client focused on running the business and spent all their time the past year, working in the business and not on the business.

Now they are putting together a team to assist in running the business.

We have been hired to create books and records for 2017, 2018 and beyond.

Having met with the client we defined a couple of achievable short term goals and a single long term goal for the business. Once we create the books and records we will create the financial dashboard to allow us to measure against our goals for future planning.

But a balance needs to be created to allow time for all owners to work in and on their business, To do the planning, maintain the books and records, invoice, pay bills, basically securing the future of the business. If you need help with any of this please give us a call.

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## Margins & Volumes

Fixed costs are relatively easy to figure out; rent, utilities, insurance, etc. The variable cost of hourly wages, workers compensation and cost of goods require a certain amount of finesse to hold down and control.

During the initial planning stages of a business, these calculations should be made and evaluated. This evaluation should also include the achievability of the volume necessary to cover both the variable and fixed costs. The business should know what its breakeven point will be.

The financial dashboard of the business should be monitoring this data on a weekly if not daily basis to ensure that costs are being contained and revenues maximized and waste controlled to the extent possible.

The data has to be good, reliable and accessible to be useful.

The client had not done the evaluation part before the business was launched. The data was not maintained on a monthly basis, so the financial dashboard was non-existent. Controls were being put into place for basic analysis. But then an offer came in and it was easier to sell, than start the evaluation and controls from scratch while running the business.

The client has learned from their initial mistakes and is looking at other opportunities and plans on doing everything in the correct order moving forward. For their next venture they plan to have us with them at the start of the process, not the end like the closed business.

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## On This Day

- On average, it is the coldest month of the year in the Northern Hemisphere, And that is surely true of this week.
- It is the second month of winter.
- In the Southern Hemisphere January is a summer month the equivalent of July. Sometimes the Saxons called January the wolf month because hungry wolves would come into their towns searching for food this time of year.
- For a long period of European history, the start of the New Year occurred in March.



## Featured Client: Alert Screw

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Alert Screw Machine Products: We're your source for precision machining and metal turning. With over 20 years in business our company has grown sizably from the family shop it started as. We can handle everything from single piece prototypes to multi-million part orders. We're big enough to serve you, yet small enough to know your piece prototypes to multi-million part orders. We're big enough to serve you, yet small enough to know you.

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