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Ten Key Qualities A Company Must Possess To Be A Smart Investment

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Buying a company — or looking for a company to acquire yours — is a lot like dating and getting married.

to a happy marriage.

However, similar to marriages, they don't always work out. For instance, the Quaker Oats Company famously purchased Snapple Beverage Corporation for $1.7 billion. That seemed like a perfectly smart move. It wasn't. Less than three years later, Quaker Oats sold Snapple to Triarc Companies for $300 million. There are numerous other examples of failed acquisitions, but I'd rather focus on what can go right than what can go wrong.

So if you're thinking of buying another company — or you're looking to sell — remember that you should, of course, be focusing on an attractive company with plenty of potential. A successful acquisition should have at least these 10 qualities.

1. A Reasonable And Fair Asking Price

It may be obvious, but if you're going to sell a business, you want to work with a company that does acquisitions regularly or a business broker who knows what the market can stand. If you're doing the buying, you should understand the market and not buy something that makes it difficult to make your money back.

2. A Good Reputation

Sure, there are going to be some situations where you want the assets more than the reputation (the "fire-sale" aspect of an acquisition). But, generally, you want to buy a business one of our locations.

Yes, I'd like to think that because a yogurt company becomes ours that the cloudy skies open up, and suddenly the town looks like a 1950s musical with everyone dancing and eating our yogurt. But the truth is that if you purchase a business that has a lousy reputation, you're often also buying the company's character — until you can prove that the new ownership has really made a difference. So, if all things are equal, buy a business that the customers like.

3. A Company That Runs Well Behind The Scenes

It helps. If you buy a company that has offices that look like a hoarder worked there, well, let's put it this way: The company's paperwork for everything from taxes to payroll is now yours. Make sure the house is in order.

4. Solid Cash Flow

This should be self-explanatory. If you're purchasing a company that brings in plenty of money, it's going to add to your bottom line. If it's bleeding cash, it will subtract from your bottom line. If you buy a struggling business, yes, your business may turn around. But all you have to do is think of the acquisition of Toys R Us in 2005 (and its recent debt problems) to see why you want to be very wary about purchasing a business that is losing money.

5. No, Low, Or — At Worst — Reasonable Debt

Many times, when a business buys a company, it's also buying its debts. That's normal and natural. I'm just bringing it up because that's something you'll want to consider. Just how

6. Market Potential For Growth

If your company is going to buy another company, you should be reasonably sure that this is a business that has a lot more room to expand. For instance — well, I hate to pick on video stores, but you have to think there are some people who purchased video franchises in the late 1980s or early 1990s who, after streaming services came along, thought: “Whoops.”

7. A Staff To Run The Business

Yes, you ideally want to keep the staff. One, it kind of stinks to buy a business and boot a bunch of people out of jobs. Two, I can tell you from my own experience navigating rebranding and acquisition efforts that I find it important to focus on buying businesses and keeping the staff. If you keep the employees and management, you have people who know how to run the business you’ve just bought. You save money on hiring and training. It’s worked well for me.

8. A Great Location

Yes, if you’re buying an online business, there’s no need to worry. But the rest of us need to be thinking about where this company resides. If you’re in retail or a service-oriented business like a restaurant, it’s all about foot traffic. If you’re purchasing a manufacturing company, you may need to be thinking about trucking and train routes and logistics. If you’re in the midst of a worker shortage, you may want to think about whether there’s enough local talent to hire for the business you’re purchasing.

9. Energy

There are several ways to look at this, and they’re all smart approaches. Are you buying a business that has an exciting vibe, or energy, to it? Maybe it has a product or service that’s trendy (not a fad but a trend). Maybe it’s the people who come along with the business who of energy. It’s all important.

10. And Finally ... The Missing Piece Of The Puzzle

This is probably the most important quality to explain. The acquisition needs to be part of your overall business strategy. It shouldn’t simply be that you’ll be a bigger company with it, or if you’re selling, that the money seems good. Hopefully, you know that you’ll be better off once the acquisition is made. In other words, you need a plan for what comes next. If that’s the case, it sounds like you have the makings of a great deal.

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