

Business Growth Alliance, LLC

Powering Business ResultsSM

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Welcome to the Inaugural Issue

A letter from the Executive Director of BGA, Manning J. O'Connor II



BGA's quarterly newsletter will include perspectives from various BGA Affiliate Members, interviews with BGA Affiliate Member professionals on key issues they are facing, and case studies about companies which are successfully overcoming strategic growth, capital, liquidity and governance needs and challenges. BGA has carefully organized a seasoned group of professional services firms dedicated to providing growth advisory and investment banking services to meet the needs and challenges of such businesses and their owners. Please take the time to read the BGA Press Release which explains our Alliance in more detail along with some background information on the BGA Board of Directors and Affiliate Advisory Board Members.

One of biggest business trends over the last 12 months has been the resurgence of the market for mergers and acquisitions. In every sector – from technology to manufacturing, from telecom to retailing to financial services – these deals are creating larger and more diverse organizations which face major integration and growth challenges that must be addressed if they stand a chance of preserving and enhancing shareholder and business value. This environment poses new opportunities for family-owned and middle market companies. Whether the rationale of the deal is to achieve scale and cost-savings or to achieve revenue growth, attention must be paid to balancing capital and liquidity needs. Not only do capital and liquidity issues need to be addressed, but also a concerted effort must be made to manage the expectations of the owners and other key stakeholders. This confluence of circumstances presents a prime opportunity to consider other issues such as strategic sourcing and intellectual property in a broader and more integrated fashion. It is also a chance to take a look at how well your sales and marketing organization is structured to sell and manage the new set of brands or services.

In this inaugural issue, we provide several articles we hope will inform and inspire – whether you are in a merger situation or just looking to help your company grow and compete more effectively. The featured article by Co-Chairman James C. Bly Jr. explains some of the major obstacles and challenges involved in a large, middle market acquisition. Also featured in the inaugural issue is an article written by BGA's other Co-Chairman, François M. de Visscher. In the article, Mr. de Visscher analyzes the question of whether it is time for your next strategic move. We hope you will enjoy the newsletter, and we welcome your comments and suggestions.

Best wishes,

Manning J. O'Connor II
Executive Director, BGA

Is it Time for Your Next Strategic Move?

Now is a great time to explore new opportunities. Consider taking some steps to prepare your company.

What's fueling this new wave of mergers and acquisitions activity? More than one factor contributes to the current conditions of the mergers and acquisitions market:

- **Companies feel greater pressure to further globalize their business.**

Today's global economy changes the definition of reachable markets from countries to continents and ultimately to the

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globe. Achieving global leadership in a sector of choice is necessary to create long-term shareholder value. External acquisitions to complement a product or enter a new market are often very efficient ways to achieve the necessary market reach.

• Companies have exhausted opportunities for growing internally.

During the past five years, companies have been focused on cleaning house, wringing out efficiencies and hunting down productivity improvements. With improved margins and profitability, family businesses must focus on growth again.

• The “Asian factor.”

The rise of Asian countries as the world’s fastest-growing economies forces most companies to rethink their own growth strategies. For some this may mean entering the Asian markets by way of a “green field” investment (constructing a project from scratch) or new partnerships. For others, it means reinforcing and expanding their technological base.

• Interest rates are still relatively low—but they’re rising.

Many family businesses are taking advantage of this low-interest-rate environment to finance acquisitions, shareholder buybacks, or both.

• Private equity financing is also plentiful.

Many private equity funds worldwide are targeting family businesses. Recently, we have seen many new types of investors entering the private equity market, including domestic and international family offices and hedge funds. Many such new private equity investors have lower (9% to 10%) return requirements than those of the traditional private equity funds.

• U.S. tax rates on capital gains remain low.

With more than a year before the next Congressional elections, capital gains tax rates are likely to remain low in the near future, enticing many families to take advantage of those conditions to sell their business or buy out existing shareholders.

• The U.S. dollar is at a historically low valuation point compared with other major currencies.

This makes U.S. dollar exports more palatable, but conversely it entices U.S. companies to create revenues in higher-value currencies. The strong value of the euro and the British pound also strengthen European companies’ interest in U.S. acquisitions.

All of these factors make this a great time to contemplate your next strategic move. Is this the time to sell, to acquire or just to buy back some shares of less interested family members? Before you dive in, consider the steps you should take to prepare your company for its next phase:

•Solidify your balance sheet.

With today’s still relatively low (but rising) interest rates, set up lines of credit and refinance expensive existing long-term debt by lengthening maturities at today’s rate.

•Solidify your shareholder base (patient capital).

This may be the time to survey your shareholders and offer share buybacks or redemptions to less-enthusiastic owners. A unified shareholder base is a most important asset as you consider your next move.

•Establish your strategic direction.

Define your core competencies and identify an area of growth that will enable you to become No. 1, 2, or 3 in your global market. There are four global strategic growth opportunities to consider, as the grid below illustrates.

Four Global Growth Strategies

	EXISTING PRODUCTS	NEW PRODUCTS
NEW MARKETS	<p>Product Expansion Taking existing products into new territories and countries requires communication technology, plus strong local distribution and marketing alliances to bridge cultural differences in new regions.</p>	<p>Company Reinvention Unproven new products and cultural novelty of new markets makes this the riskiest strategy. A family business would be well advised to share the risk with joint-venture partners.</p>

<p>EXISTING MARKETS</p>	<p>Organic Growth Growth in existing markets with existing products is often referred to as the “defensive growth strategy” against large, often well-capitalized global competitors.</p>	<p>Product Innovation New products in existing markets require strong R&D efforts and commitment of the family company. Technological leadership is critical for global growth.</p>
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Each strategy in the grid requires different types of financing. For instance, product expansion often requires outside capital, which is amply available in global capital markets because the product has been proven in its existing markets. Financing for building new plants or acquiring physical assets in new markets can be obtained most successfully from local sources, such as banks or private investors/partners. While financing for local distribution or sales organizations is best achieved through internal cash flow, more global players—such as private equity funds, family offices and private individuals—are beginning to finance the expansion of family businesses outside their local markets.

• **Value your business and its opportunity for creating shareholder value.**

Knowing how much your business is worth would help you to prepare for the integration of an acquisition or to counter strategic approaches from interested buyers. What if you can't unify your shareholders to rally around the strategic direction you want to pursue? It may be time to look for a new home for your company. The abundance of money available from financial and strategic sources makes selling very palatable.

Whichever strategy you pursue, today's economic environment is unusually inviting. It's a great time to turn your attention from harder-to-find internal growth to opportunities outside your company's—and, perhaps, your country's—borders.

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Manufacturers are from Mars; Distributors are from Venus

How a better understanding of your channel network can help your bottom line

I spend most of my time helping companies improve the way they market and sell their products or services. Frequently, this involves analyzing how well they work with some kind of channel network.

Too often, the conclusion of this analysis is...“not well.”

Channel network performance has become a growing concern. As global product development and other market factors shorten windows of opportunity, many companies find themselves at the mercy of an underperforming or even dysfunctional network of distributors, agents, dealers or VARs. For some, it is their single biggest obstacle to growth. That's the bad news.

But there's good news, too. Like a strained marriage, companies and their channel partners can improve their performance by better understanding each other's needs and communicating more effectively. And in my experience, progress can be rapid and dramatic.

Understanding the Issues

While every underperforming company/channel network has a different set of issues, most are confronted with these three:

- The company is product-centered (if not product-obsessed) and believes that it has the appropriate solution for their marketplace (“We've got the best widget in the industry, why can't they sell it?”). In many cases, this conclusion is based on too little, or highly parochial, input from the actual marketplace, and may be out of date, especially in light of a growing preference for bundled solutions over single products.
- Channel partners face more pricing pressure than ever. Because they are often ill-equipped to fend off their customers' tendency to commoditize, they will accept lower margins, demand lower prices from the company, and/or add lower priced options to their product line. All of these -- especially the last one -- exacerbate tensions between company and channel.
- New and upgraded products are being released at an accelerating pace, making it harder than ever for a multi-line sales rep to keep up with the torrent of new product information. Some rep offices we know get more than 150

e-mails a week with new or updated product information from the companies they represent. Moreover, some companies sell multiple lines into multiple markets, with different divisions sending out waves of product information. This leads to a marketplace form of attention-deficit disorder where the company believes – with justification – that their products do not get enough channel attention and the channel believes – with justification – that companies fail to package critical product information in a way that they can readily absorb.

Through it all, companies are becoming increasingly concerned that their network, not themselves, actually owns the relationship with “their” customers. The ensuing channel conflicts can make it easy for them to forget they are “partners”.

Working the DMZ

Often, when I first get involved with an underperforming channel network, I create a “de-militarized zone” between my client and their channels, where the first objective is a truce and then – hopefully – a lasting and profitable peace. From several tours of duty in that DMZ, I have learned some key lessons for getting things working effectively:

- First, revisit why you have a channel in the first place, and determine whether those reasons are still important. Your tasks are to 1) figure out whether the channel is still the best approach to your markets and, if so, 2) determine what needs to change to make it work better for the company. In every case I've seen, companies decide the channel is still the most effective way to sell into at least one of their marketplaces...but they also realize that market forces dictate a change in approach. For example, one company facing problems with their biggest customers created a national accounts unit to manage high-level relationships at the corporate level, and to coordinate service delivery across multiple channel partners.
- Check your corporate ego at the door. Markets change faster than companies, so you may be behind the learning curve. And because your channel partners are closer to the customer, they're the teachers. Ask, listen and learn.
- What you will learn are the realities of today's marketplace: longer sales cycles, the inaccessibility of decision-makers, information overload, a lack of effective sales support, no time to qualify leads...the list could be endless. Your job is to identify the ones that keep the channel from effectively selling your products, and fix them. Here are some of the common challenges for channel partners, with thoughts on how to help them:

Challenge #1: Unqualified leads

Want to motivate a salesperson? Give them a hot lead, or even a warm one. Want to motivate a channel? Make sure all of your leads have a better chance at closure than any others they receive...qualify leads, and nurture them until they are sales-ready before turning them over to channel partners. Once they realize they can bank on your leads, you will become a salesperson's favorite partner.

Challenge #2: Information overload

Adopt a minimalist approach...identify the smallest possible information set for effective sales, and provide that in as many different forms as necessary (print, electronic, Web, etc.). As for the rest of the product “encyclopedia” – detailed product/service info, specifications, applications, case studies, testimonials, manuals, et. al. -- figure out how to index it and make it available in what we call a “get smart fast” format. For an example of this solution in action, read our [BriefCase](#).

Challenge #3: Lack of effective sales support.

Sending out a pallet of sales literature to channel partners is not effective sales support. Nor is packaging all possible information about a product or service into a single, 36-page brochure. That's why salespeople spend time creating their own custom literature for every call...and that's in part why the average salesperson spends about one day a week actually selling. Instead, deliver your literature in bite-sized portions, and in electronic formats, so the salespeople can assemble a custom presentation or proposal quickly and easily. Post the pieces on your channel Extranet and track utilization...it is the fastest and surest way to understand how the channel is interacting with customers when selling your products and services.

- Keep communicating. The relationship deteriorated at least in part because the channel had needs that the company didn't understand. Establish regular “Needs” sessions to discuss challenges and solutions. Go on calls with partners to hear what the market is telling them. Track selling cycles more thoroughly and react quickly when conditions change; for example, when a 90-day selling cycle climbs to 120 days. Have your channel partners grade your sales support tools (then pass the grade along to marketing).

Among companies that sell through channels, those that continually look for and find ways to drive success to their channel partner's are more successful themselves. Often dramatically so. And even if one of you is from Venus and the other one Mars, that's a language you can both understand.

Josh Stailey is Chief Strategy Officer and a founding partner of The Pursuit Group. His 30-year career has focused on combining information and communications to build better and more sustainable prospect/customer relationships. Much of his work has addressed mature industries that face dislocating change: electric and gas utilities, manufacturing, distribution, banking, insurance and other “traditional” industries with similar challenges. Contact him at jstailey@thepursuitgroup.com.

CHINA: Top Ten Legal Considerations

Top Ten Legal Considerations for Doing Business in China

Top Ten Legal Considerations for Doing Business in China

1. Doing business in China for US companies involves considerations not only of Chinese law, but also of US law. Companies need to understand the impact of both countries' laws on their business dealings with China.
2. China's commercial laws are changing rapidly to correspond to Western commercial laws, but the process is not yet complete, and there remain many uncertainties.
3. What the law says in China and how it is implemented are not always the same, just as it is in the U.S. Although the laws have improved, implementation of the laws is sometimes spotty.
4. China has numerous laws that encourage, restrict and prohibit investments in specific industry sectors. If you are thinking of investing in China, learn whether any of these laws apply to your project.
5. China has made many improvements in its laws for the protection of intellectual property. However, enforcement of these laws remains a problem. U.S. companies doing business in China need to structure their transactions and draft agreements with their Chinese counterparts with an eye toward minimizing the risk of intellectual property rights violations.
6. China has not yet completed its transition from rule of man to rule of law, and recourse to China's court system often is not effective. Even more than in domestic business transactions, business strategies should be designed with an eye to minimizing the risk of disputes with Chinese joint venture partners and suppliers.
7. Remember that differences between Chinese and US cultural norms can lead to parties attributing different meanings to the same set of facts. It is important that in any agreement, you and your Chinese counterpart have a common understanding of what is expected of each of you and what you are agreeing to.
8. If you are going to import Chinese merchandise into the United States, determine whether these imports are subject to restrictions under US trade laws. Even if the merchandise is not currently subject to import restrictions, you should plan your business activities to minimize the risk of future import restrictions being imposed.
9. If you intend to export goods or know-how to China, even for use in your own Chinese operations, they are subject to US export laws. Many exports to China are not restricted, but exports of certain products and technology to China are restricted. There are severe penalties for violating US export laws, so it is important to check on the export requirements for the specific product or technology you intend to export.
10. Although gift giving is an important part of Chinese culture, the US Foreign Corrupt Practices Act prohibits American companies from making "corrupt payments" of money or anything of value to foreign officials for the purpose of obtaining or keeping business. This includes both direct payments and indirect payments through intermediaries. The law provides an explicit exception for "facilitating payments" for "routine governmental action" such as obtaining permits, processing governmental papers, and securing services such as police protection, mail

pick-up and delivery, phone service, power and water supply. However, the lines between “corrupt payments” and “facilitating payments” can sometimes be hazy, so when in doubt, seek advice of counsel.

Business Valuations play an important role in Buy-Sell Agreements

Establishing the Ground Rules: The Role of Valuations in Buy-Sell Agreements

The role of valuations in buy-sell agreements

In any business, an ownership transition can occur for many reasons. Retirement is the most obvious one, but sudden death or disability, withdrawal from employment, divorce, or a contemplated sale to a third party may bring about a leadership change.

A buy-sell agreement can establish the ground rules for the transition, including to whom the ownership interest can be sold and how a price is to be determined. As you might imagine, business valuations play an important role in creating these arrangements.

The standard of value

Among the most critical aspects of a buy-sell agreement is a clearly named and defined standard of value. Many agreements rely on fair market value, which U.S. Treasury regulations define as:

The price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge or relevant facts.

Fair market value also assumes an arm’s length deal. It differs from investment value, which identifies a particular buyer or seller and the attributes that buyer or seller brings to a transaction.

A regularly updated formula

Value under a buy-sell agreement is typically estimated using a formula, which may be based on book value or a multiple of net income, defined in the agreement or negotiated by the parties. The formula created when the agreement is put in place, however, probably won’t produce a fair valuation two, five, 10 or 20 years down the road.

Why? Because the company won’t likely remain the same, nor will its industry, competitors, suppliers or the economy and general market conditions as a whole. And a static valuation formula will probably fail to capture these changing conditions.

Ideally, a buy-sell agreement requires the business owners to obtain an annual appraisal, though some mandate a valuation only at the time of a triggering event (such as an owner’s death, divorce or retirement). The agreement should also outline a process for choosing a valuator.

Family business issues

In most cases, a buy-sell agreement restricts the market for the company’s stock to other shareholders, bloodline relatives and, in the case of S corporations, only those who wouldn’t jeopardize the company’s S election. Section 2703(a) of the Internal Revenue Code sets forth rules that apply generally to transfers of family-owned businesses occurring after Oct. 8, 1990, among family members.

Under these rules, a company is considered a family business if family members control 50% or more of its vote or value. Moreover, a shareholder agreement among family members that allows for a property acquisition or transfer at less than fair market value will be ignored for estate and gift tax purposes.

Agreements entered into on or before Oct. 8, 1990, that haven’t been substantially modified are considered exempt. Sec. 2703(a) defines “substantial modification” as any discretionary modification of a right or restriction that results in anything other than a de minimis change to the quality, value or timing of the rights of any party subject to the agreement.

For instance, adding an employee stock ownership plan that constitutes another shareholder or changing the payment terms of the purchase price would likely constitute a substantial modification. A change to a name of a shareholder as a result of marriage would not. This includes all family members below the youngest generation that are already a party to the agreement. (For more on estate tax issues, see the sidebar “Buy-sell agreements and estate tax.”)

Case in point

Failing to properly structure a buy-sell agreement can lead to particularly unfortunate circumstances should the matter ever arise in court. Take, for example, *Estate of True v. Commissioner*. This 2001 estate tax case was recently examined by the Tenth Circuit Court of Appeals as to the validity of a buy-sell agreement based on tax book value, which is similar

to book value but based on depreciation used for tax purposes, not economic purposes.

The appellate court rejected the buy-sell agreement's price as the stock's value, siding with the Tax Court and the IRS. Part of the reasoning for its position was that the buy-sell agreement's terms were never negotiated. The children didn't have independent legal or accounting advice, suggesting the value didn't represent an arm's length dealing.

In addition, the accountant who was consulted was closely associated with the family and stated he had no detailed understanding of valuation methods and no academic or practical experience in appraisals. The court was also critical that the buy-sell agreement didn't provide a mechanism for periodic review or adjustment to the tax book value formula. Ultimately, it determined that the agreement wasn't controlling.

Disputes and uncertainties

Without a carefully drafted buy-sell agreement, a business owner's departure — particularly under sudden circumstances — may trigger disputes and uncertainties that could very well send the business spiraling into crisis or even ruin.

An appraiser can assist in the drafting of a viable agreement by offering valuable advice on, among other things, the appropriate standard of value, how to determine a share price, Sec. 2703(a) requirements, and the mitigating effects of the company's industry and the local and national economies.

Sidebar: Buy-sell agreements and estate tax

For estate tax purposes, a buy-sell agreement is binding only if it:

- Applies during life as well as at death.
- Creates a determinable value as of a specifically determinable date,
- Contains terms comparable to similar arrangements entered into by persons in arm's length transactions,
- Embodies at least some bona fide business purpose (such as an orderly family ownership and management succession), and
- Results in a fair market value for the subject business, when executed. (Often, buy-sell agreements will generate future date of death or gift date values substantially above or below what the fair market value otherwise would have been, even though the value was reasonable when the agreement was made.)

If a buy-sell agreement doesn't meet these conditions, it may express a value that's legally binding for transaction purposes but not for estate tax purposes. And this may leave an owner's heirs without sufficient funds to pay estate taxes.

Acquiring Companies

A Special Report from Source Companies, LLC

Acquisitions. You hear the word often these days. Acquisitions are driving industry consolidation in many business sectors. Acquisitions are being used to accelerate the growth of companies and to provide sustainable competitive positioning. In fact, companies are often forced into considering growth by acquisition because of what their competitors are doing.

Does acquiring a company make strategic sense for your business? The media shine their spotlight on the advantages of this current merger and acquisition frenzy. However, many more acquisitions fail than succeed each year, or at the very least reduce shareholder value in the acquiring company. Companies overpay, improperly finance or don't properly gauge the managerial or human resource capabilities of the target company. Not much is mentioned about these risks. They are considerable and potentially fatal to any business whose owners underestimate them.

Successful acquisitions require expert know-how to originate and evaluate, and to complete business and financial due diligence. Acquisitions often demand expert guidance with regard to valuation, financial structuring and tax planning. Most importantly, since the culture within companies, even those in the same industry, is rarely the same, acquisitions require thoughtfully developed and carefully implemented post-acquisition integration plans.

WHY BUSINESSES NEED ACQUISITION HELP:

Based upon Source's many years of practice experience, we find that most companies need acquisition assistance for one of four reasons:

1. They learn that the owners of a competitor, with whom they've maintained some industry relations over the years, are thinking about selling because of health problems or for retirement purposes, or because there are no family members who wish to operate the business in the future. Because of their business relationship, the competitor contacts them before retaining a broker, however they are not experienced with acquirers.
2. Their internal revenue growth is not enabling them to accomplish their strategic goals quickly enough to keep up with competitor activity or customer expectations. They must accelerate their growth to remain competitive, diversify, increase capacity or for any one of a number of other reasons. They decide that external growth needs to be included in their

strategic plans. They have generally a limited universe of prospective companies to approach, and do not have the managerial depth or experience to develop and implement an acquisition program.

3. As part of their strategy reassessment, and without being pressured by actions of competitors, they conclude that an acquisition can enable them to lead industry change, or otherwise better competitively position their company in the future. They have relatively few targets in mind, limited acquisition experience and will probably need to refinance in order to free up capital for buying other companies.

4. They are rapidly consolidating within an industry. They are an experienced management group with plenty of acquisition experience. But they need help with some specific aspect of their acquisition program, or they have too rapidly acquired a series of companies and their post-acquisition integration results are not producing the gains anticipated.

Source Companies, LLC has nearly twenty-five years of experience in assisting clients with acquiring companies. The capabilities of our senior staff and affiliates enable us to assist with any aspect of acquisition evaluation, finance, negotiation, closing or post-acquisition integration as well as to perform effectively from start to finish. Whatever your needs dictate.

BUYOUT MULTIPLES & BUYOUT FINANCE

As has occurred during past economic cycles, since 2004 business acquisition multiples have increased as the economy has improved, buyout fundraising has skyrocketed, credit markets have been wide open, and competition for acquisitions has increased. The current market conditions are motivating sellers and capital support is available at favorable terms to buyers.



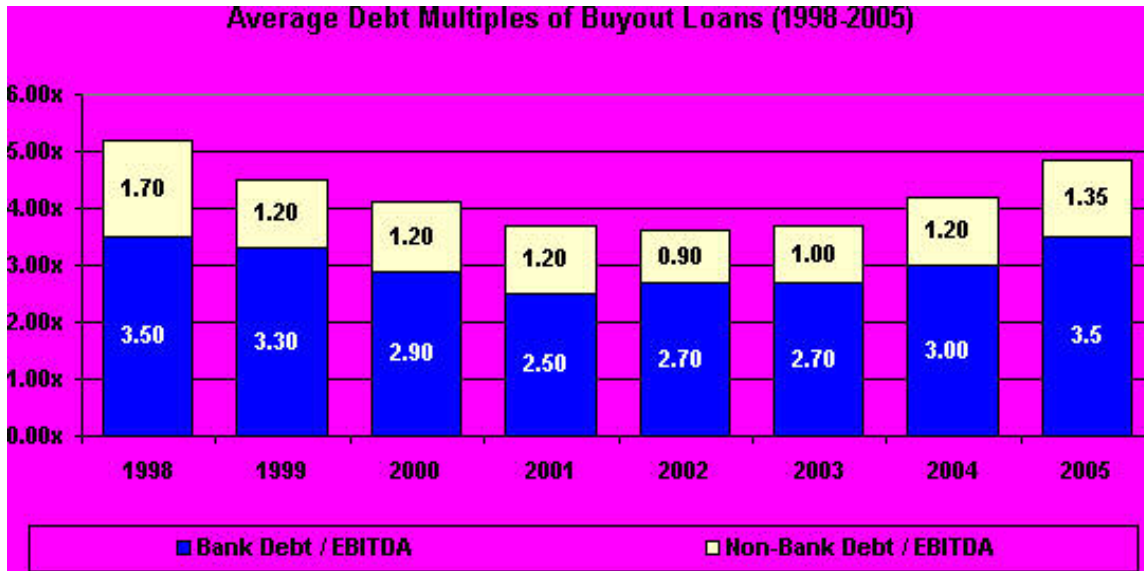
By way of background, as illustrated in the table above, during the 1997-98 period, multiples had reached a level comparable to the late 1920's. Also, during that period, as depicted in the chart below, low equity and high debt levels (supported by junk bonds) facilitated a run-up in buyout multiples.

	1988	1998	2002	2005
TOTAL LEVERAGE RATIO:				
Total Debt/EBITDA	8.0 - 9.0x	4.5x - 6.0x	2.5x - 3.5x	4.5x - 6.0x
COVERAGE RATIO:				
EBITDA/Interest	1.0x - 1.2x	1.1x	2.0x	1.1x
FCF/Debt Service	.95x - 1.1x	1.0x - 1.1x	1.2x - 1.5x	1.0 - 1.1x
CAPITAL STRUCTURE:				
Senior Debt	55% - 70%	55% - 60%	45% - 50%	55% - 60%
Junior Debt	40% - 20%	20% - 25%	12% - 25%	20% - 25%
Equity	5% - 10%	25% - 15%	43% - 25%	25% - 15%

In the 1997-98 period, although lenders required more equity in buyout transactions than in the late 80's, with more debt

available for buyouts and a flood of low-cost equity, buyout multiples were driven to their highest point of the Twentieth Century. Between 2000 and 2003, the economy slowed, loan defaults increased and credit was tightened. With less debt available for buyouts, multiples receded.

The current M&A market can best be described as highly competitive. Both strategic and financial buyers are flush with cash coming out of the slowdown in 2003, the result of which has been increased purchase multiples. As these multiples have increased, lenders have demanded higher equity contribution rates, which has been easily accepted by the buyout funds riding two consecutive years of record breaking fundraising efforts, although lenders have also demonstrated a willingness to increase their own exposure levels from 2.5-to-3.5x EBITDA in 2001 to 3.5-to-4.0x+ EBITDA early in 2006. The banks willingness to increase leverage results from loan default rates being at their lowest level in a decade, as well as increased competition primarily from the entrance of hedge funds into the senior debt markets. What defines the current M&A market from previous periods of robust M&A activity is the dispersion of activity across a wide number of industries as well as the increased number of capital structure alternatives available including the acceptance of second lien debt financing.



If external growth is part of your strategy, purchase multiples are attractive to sellers and increased competition in the capital markets can provide financial solutions on very favorable terms.

If you are planning to pursue an acquisition in the current environment:

1. In addition to buyout capital, consider asking the seller to provide some level of seller finance. This can enable you to pay the seller a bit more, which might sway the transaction in your favor.
2. In a market where the seller is “getting more,” be prepared to suggest an “earn-out” formula. If the business performs well, it will not hurt to pay a bit more based upon the future performance.

Thoroughly evaluate the company before you buy it to determine whether you can improve its operational and financial performance.

However, given the lofty expectations of sellers and the competitive buying frenzy at the moment, many business owners are seeking strategic alternatives. Three general areas of focus are:

- a. performance enhancement of current operations
- b. seeking “know-how” and development support from Fortune 500 companies under licensing agreements or joint ventures, and
- c. targeting non-core and underperforming subsidiaries or divisions of larger companies, which have recently been acquired or owned by buyout funds that are liquidating within a few years.

For more information on such alternative strategies, please contact Source Companies, LLC.

PRE-ACQUISITION IDEAS

In most cases, clients use our target company evaluation tools. These include our Value Growth Contribution (VGC)[™] financial analysis which measures management’s effectiveness to create shareholder value in the target company. Our Value Driver Analysis (VDA)[™] is a non-financial measurement which quickly helps to gauge a target company’s competitiveness relative to industry best practices in the four critical value driver areas of marketing, people, process and information. Both of these assessments provide our clients with a comprehensive understanding of a target company’s

performance strengths and developmental needs.

Our proprietary Design Measurement software enables modeling of organizational changes to isolate those which will create a more valuable company post-acquisition, and our Insight tools can be used to precisely measure the effectiveness of a target company's people, individually or in teams. Such capabilities provide competitive advantage when analyzing and negotiating acquisitions.

In other cases, our core strength in finance is needed most. Client companies, which have not traditionally had aggressive external growth strategies, typically have restrictions under their bank loan agreements that preclude the use of their bank credit facilities to fund acquisitions. Our expert guidance can aid in negotiations with existing lenders or, when necessary, quickly enable you to replace your lender or to arrange specific acquisition financing.

Our experience in dealing with closely-held and family businesses also enables us to provide acquisition search, evaluation and negotiation services to help bring about successful outcomes. We have represented hundreds of companies over the years, know many others and maintain one of the most extensive private company databases in North America. Typically, we can help broaden a company's acquisition perspective or enable them to reach targets that would otherwise be unavailable.

Because of the inherent risks of any acquisition, some combination of our acquisition and operational effectiveness services is often the most effective approach to facilitate success. Companies benefit from our operational effectiveness services by gaining the tools and systems needed to improve business performance. Hard work alone is not enough to ensure success in integrating acquired companies into your business. Desired operating results can only be achieved through a focused effort by the entire company and the one being acquired. Such an effort requires effective communications, appropriate and continuous training and development, and resource rationalization.

The key to operational success is to get all employees to know and embrace your growth strategy and to understand how it relates to their departments and their jobs. Source can provide your management team with the tools necessary to maximize their effectiveness in this regard, enhance organization performance, increase cash flow, and achieve strategic goals and objectives. All of which results in a more competitive company, a more productive work force, increased customer satisfaction, and increased revenue and profitability—the very reasons you want to acquire another company in the first place.

We offer a no-cost, no-obligation preliminary meeting and assessment which can help us determine, and you to evaluate, whether our acquisition and organizational effectiveness services can assist you in developing and implementing an acquisition program, or in getting the best return from a company you intend to or have already acquired.

As always, we are here to help. Whatever your requirements. "We'll get you there."

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BGA Affiliate Board Member, John Asher will be speaking at a Public Sales Seminar on September 20, 2006 in Washington, DC.

BGA Co-Chairmen, François M. de Visscher & James C. Bly, Jr., and Affiliate Board Members, Barry Rosen & Garth M. Tebay will be speaking at an upcoming BGA-Toledo-Lucas County Port Authority-Eastman & Smith Ltd. Middle Market Business Owner/Executive Workshop on September 20, 2006 in Toledo, OH.

BGA Co-Chairmen, François M. de Visscher & James C. Bly, Jr., and Affiliate Board Member, Ben duPont will be speaking at an upcoming BGA-Commerce National Bank-315 Research + Technology Corridor-Port Authority of Columbus-COSI Columbus-Middle Market Business Owner/Executive Workshop on October 3, 2006 in Columbus, OH.

BGA Co-Chairman, François de Visscher will be speaking and serving as the Conference Chairman at the North American Families in Business Conference on October 12 and 13, 2006 in New York City.

BGA Co-Chairman, James C. Bly Jr. will be speaking at the AXA-Paramount Planning Group Meeting in St. Louis, MO on October 24, 2006. Mr. Bly's topic is: "*Three Cornerstones: The Foundation for all Successful Middle Market Businesses.*"

BGA Co-Chairman, François de Visscher will be speaking at the Family Firm Institute Conference October 25 thru 28, 2006 in San Francisco, CA.

yet2.com EXECUTIVE BRIEFING VIII on Accelerating Innovation: *The Role of Technology Transfer* will take place on November 5-7, 2006 at the Royal Sonesta Hotel in Cambridge, MA.

BGA Co-Chairman, François de Visscher will be speaking at the European Family Office Conference in London, UK. on November 14 and 15, 2006.

Garth M. Tebay, CPA, CVA, CMAA, Affiliate Board Member of BGA, will be speaking at CPE (Continuing Professional

Education) Day on December 11, 2006 in xml:namespace prefix = st1 ns = "urn:schemas-microsoft-com:office:smarttags" /> Toledo, Ohio for the OSCPA (Ohio Society of CPAs). Mr. Tebay's topic will be: Business Valuations.



Pittsburgh, PA and Greenwich, CT. (March 15, 2006). The formation of the Business Growth Alliance, LLC (BGA), a national firm specializing in providing growth advisory and investment banking services for family-owned and other closely-held, middle market companies has been announced by James C. Bly, Jr. and Francois M. de Visscher, its Co-Chairmen. Messrs. Bly and de Visscher, on behalf of the BGA Founding Firms, are also pleased to announce the appointment of Mr. Manning J. O'Connor II as the Executive Director of BGA. Mr. O'Connor assumed his duties on December 1, 2005.

ABOUT BGA

Business Growth Alliance, LLC (BGA) is a National Affiliate Network of seasoned, professional services firms, which are dedicated to providing growth advisory and investment banking services to middle market and family-owned companies and their principals. In addition to providing core growth advisory and investment banking services, BGA Member Firms collaborate to address the strategic growth, capital formation, owner liquidity, and governance needs of such businesses and their owners.

Included in BGA's Affiliate Member Firms' Clientele are: companies owned by individuals listed among the Forbes 400 and businesses listed on *Forbes'* list of the Largest Private Companies, *Family Business Magazine's* rankings of the Oldest Family Companies in America, America's 150 Largest Family Companies, The World's Oldest Family Companies, the World's 250 Largest Family Firms, and many other noteworthy family-owned and closely-held, middle market companies including companies owned by individuals, families, trusts, buyout and private equity funds, and as subsidiaries of larger businesses.

The eight Founding Affiliate Members of BGA include:

de Visscher & Co. of Greenwich, CT
Source Companies, LLC of Pittsburgh, PA
yet2.com of Boston, MA
The Pursuit Group of Toledo, OH
Tenzing Consulting of Pittsburgh, PA
Value Defined Middle Market, LLC of Toledo, OH
Asher Training of Washington, DC
US China Business Solutions, Inc. of Washington, DC and Shenzhen, China

The eight founding firms of BGA employ over eighty professionals who are pooling experience, contacts, resources, and processes to create tailor-made, value-added solutions for existing and future clients of BGA. In addition to the eight founding firms, BGA will carefully select other Affiliate Members in the future.

"Family-owned and other middle market companies are integral participants in the US and global economies. By providing high value-added growth advisory and investment banking services, BGA fulfills its mission to protect and enhance the vitality of such businesses and, thereby, the contribution their stakeholders can make to their communities. BGA Members are committed, growth-oriented advisors rather than firms primarily interested in selling companies," said Mr. Bly.

"By combining the talents of leading middle-market advisory firms, BGA has an unprecedented opportunity to provide family businesses and middle market firms a unique value-added mix of growth advisory services, owners' capital management services and governance services. This combined service offering enables BGA to develop and nourish long-term relationships with leading middle-market companies around the country and internationally," said Mr. de

BOARD MEMBERS OF BGA

Mr. James C. Bly, Jr., Co-Chairman of BGA, is also the Founder, Chairman and CEO of Source Companies, LLC (Source), which is headquartered in Pittsburgh, Pennsylvania. Source was founded in 1982. Under Mr. Bly's leadership, Source has pioneered operating a multi-disciplinary professional practice that provides services related to the strategic growth, capital formation, owner liquidity, and business transition needs of privately owned businesses and their owners. Source specializes in providing such services to family-owned and other closely held, medium sized businesses. During his 30-year career, Mr. Bly has personally advised the principal owners of hundreds of medium-sized businesses in a wide range of industries on numerous business growth, corporate finance or inter-generational transfer transactions. Mr. Bly also currently serves on the advisory board of C. H. Briggs Hardware Co, Inc., Draper Holdings Business Trust, Energy Alloys, LLC and the National Charitable Initiative.

Mr. Francois M. de Visscher, Co-Chairman of BGA, is also the Founder and President of de Visscher & Co. LLC., one of the nation's leading independent financial consulting and investment banking firms for family-owned and closely-held companies. de Visscher & Co was founded in 1990 and is headquartered in Greenwich, CT. Over the last twenty years, Mr. de Visscher has been an active advisor and consultant to over 200 business owning families worldwide, mostly in the United States, Canada, Europe, the Middle East, and Latin America. A native of Belgium, Mr. de Visscher is a family director and fourth generation shareholder of his own family's global enterprise, N.V. Bekaert S.A. headquartered in Brussels, Belgium. Mr. de Visscher is a past president of the Family Firm Institute, current Chairman of the European Family Office Conference, and a contributor to many publications, including *The Wall Street Journal*, *LA Times*, *NY Times* and many others. He is a full-time contributing editor of *Family Business Magazine*.

Mr. Russell F. Peppet, Director of BGA, brings with him over 43 years of experience in finance and equity investment. He spent 28 years with KPMG Peat Marwick holding various positions including Vice Chairman, Management Consulting. Mr. Peppet then moved into the private equity field, as Vice Chairman, Principal at Quirk Carson Peppet Inc., and as a Principal at Churchill Capital, Inc. He initially became involved with Park Avenue Equity Partners in 2001 as a Special Advisor. He was integral in the acquisition of one of Park Avenue Equity's portfolio companies, and was Chairman of the Board of a second company. Russ has also served on the boards of numerous other private and public companies as well as the Executive Council for Foreign Diplomats, and as Chairman of American Field Services (AFS –USA) for 6 years. He is also actively involved in the Fairfield County Microenterprise Investors Council (FCMIC), a group that is involved in establishing microenterprise loan programs in Ecuador, Chile and the Dominican Republic. He holds a BS from Michigan State University and an MBA from Northwestern University.

Mr. Manning J. O'Connor II, Executive Director of BGA, an experienced attorney, worked closely with Mr. Bly for many years in developing the BGA business plan and strategy. Mr. O'Connor has repositioned a considerable portion of his law practice within his law firm in order to accept the appointment to his position with BGA. Mr. O'Connor also serves on the adjunct faculty at the Duquesne University School of Law. He has also lectured at Robert Morris University on the topic of business law and is a member of the Allegheny County Bar Association. Mr. O'Connor is a 1983 graduate of Duquesne University Law School. He earned his bachelor's degree, cum laude, from Duquesne University in 1980.

AFFILIATE BOARD MEMBERS OF BGA

Mr. John Asher, Founder and CEO of Asher Training, a professional firm specializing in sales and marketing best practices and training courses and Co-Founder and President of US China Business Solutions focusing on sourcing in China for US manufacturers and distributors, and finding US acquisitions, brands or business partners for Chinese companies.

Mr. Ben duPont, Co-Founder and President of yet2.com, which specializes in intellectual property transfers, licensing and joint ventures between Fortune 500 companies and middle market companies.

Mr. Thom McLeod, Founder and Managing Director of Tenzing Consulting, which specializes in strategic sourcing, supply chain performance and operations effectiveness consulting to improve bottom-line results and global competitiveness.

Mr. Barry Rosen, Founder and President of The Pursuit Group, which assists business-to-business enterprises with more successfully pursuing revenue growth from their base of prospects and customers.

Mr. Garth Tebay, Founder and Managing Partner of Value Defined Middle Market, LLC, a leading provider of valuation opinions, fairness opinions and valuation consulting services to middle market, closely-held companies with businesses.

To Contact BGA:

Manning J. O'Connor II
Executive Director
Business Growth Alliance, LLC
1606 Carmody Court



8 Great Ways to Improve Sales through a Channel Network

by Barry Rosen, The Pursuit Group



The Result: 6062 Holdings LLC licensed patents for an artificial biodegradable plant growth medium technology from DuPont CR&D. The agreement grants 6062 Holdings LLC an exclusive global license to the patent rights to further develop and commercialize this DuPont Technology. After a year of testing and experimenting, 6062 Holdings developed a product from the plant growth medium technology which they named (and are trademarking) "Sure to Grow." **Yet2.com brought the two parties together** in 2005 when DuPont CR&D posted information about its available technology on the yet2.com website where 6062 Holdings noticed it and responded with interest.

Innovation is the engine that drives the worldwide economy, and **yet2.com's global online marketplace** is the most efficient way to locate the innovation that you need and the most efficient way to place innovations that you want to sell, license, or leverage. Founded in 1999, **yet2.com's network of clients has access to about half of the world's R&D capacity** through the listings on the yet2.com global marketplace and through their professional contacts. To learn more about yet2.com, click on the yet2.com logo...



Business Profile

A leading producer of luxury and lifestyle wines in the world that produces, markets, and sells distinct wines from California, Italy, Chile, and Australia.

Business Challenge

Many of the company's brands were experiencing tremendous downward price pressure in the market from an influx of lower-priced import and domestic wines. Additionally, the industry as a whole faced a glut of grapes on the market, which further contributed to price pressure by encouraging the entry of more low-priced wines in the market. In response to these pressures on profit margins, the winery decided to target its supply chain to deliver significant cost reductions, and hired Tenzing to help rapidly drive several key supply chain cost reduction efforts.xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

A Taste of Success

Historically, the winery had purchased high quality labels from a handful of well-known regional suppliers. These suppliers were steeped in the industry and had done business with the winery for years. While corporate procurement coordinated the buy, the individual brands had the last word on sourcing decisions. Furthermore, the suppliers possessed a great deal of undocumented, informal knowledge regarding the winery's specific requirements.

A viable sourcing strategy quickly emerged. Thoroughly document all label specifications. Segment the label portfolio by type, quality, and volume. Combine purchasing of similar label types across brands to increase spend concentration by segment. Introduce new national players into the competitive mix.

After a highly analytical supplier screening process, a very public bidder conference, and intensive bidding and negotiations, the results were clear: the supply base could be consolidated to between one and three strategic suppliers and labels cost would be cut nearly in half without sacrificing quality. Through a rigorous post-bid site audit and press check process the team discovered that one of the incumbent suppliers, who was never compared side-by-side with the others, had a superior shop floor lean manufacturing processes that gave the winery confidence in their ability to perform on volume, quality, and delivery. This incumbent was named the preferred supplier and was awarded 90% of the winery's volume.

The bottom line: A 48% reduction in label costs implemented in five months. The winery's first taste of success.

Getting a Handle On Spend

With the label sourcing success in hand, the executive team launched a total spend assessment to find similar opportunities. This was easier said than done. Despite having an ERP system, they did very little coding of purchases anywhere in the operation, so essential commodity spend data was buried under various unrelated accounting and budget designations. In addition, a lot of field sales and distribution spend was not even recorded in the ERP system since it was routinely processed through travel vouchers.

After performing some focused analysis and making a few reasonable assumptions, the team identified several targets including point-of-sale (POS) print and vineyard chemicals. Although these sounded simple, this spend was not managed or controlled by corporate purchasing. The next challenge was to determine how to source spend that lay outside traditional procurement processes.

Who's in the Driver's Seat

Vineyard chemicals were a key component of the overall vineyard operations budget which was managed by Grower Relations. They traditionally negotiated budgets each year with vineyard management providers. This approach provided some visibility into costs, but little opportunity to influence them. The vineyard chemicals were purchased by the four vineyard management providers on behalf of the winery, so these purchases were outside the winery's direct control.

Fortunately, POS print was purchased internally, and was largely driven by the marketing and creative departments. They eagerly responded to sales and distributor needs on an ad hoc basis, without stepping back to look at the effectiveness of their overall purchasing process.

Partnering with with First-Tier Suppliers

Influencing the vineyard chemical spend would require constructively and creatively engaging the vineyard management companies, the first tier of the supply chain. At first, this seemed impossible since they had no contractual commitment or economic incentive to collaborate with the winery on reducing chemical costs. In fact, the suspicion that this was really a "margin grab" on the part of the winery was an initial barrier to implementing this strategy. However, after assuring the vineyard management companies that any savings would be passed through without reducing their margins, and that any advantages in pricing could be applied to their other customers, they agreed to participate.

Market analysis showed that the winery's combined chemical spend was larger than that of any of its individual vineyard management suppliers. This validated the assumption that a winery-based pooling of demand to establish a preferred

supplier base and volume pricing would probably result in a cost reduction that could be offered to the vineyard managers.

Once again, the team detailed the specifications for chemicals and related services and prepared a request for quote. The team created a bid that was not only for chemicals, but also separated out services, such as vineyard assessments. Historically, the chemical distributors had often thrown in those services for "free", effectively distorting the pricing of the chemicals.

The detailed quotes revealed great results: by consolidating to a few key chemical suppliers with the most competitive pricing, vineyard chemical costs could be reduced by 15%. Another win for the winery.

It's All About the Process

In the fast-paced competitive world of lifestyle wine sales, speed and visibility are a matter of survival. To be able to produce and deliver the needed POS print materials to distributors and retailers quickly is fundamental to any effective wine marketing program. In an effort to be highly targeted and responsive, the winery's creative services group had developed purchasing practices for POS print that were highly reactive to field requirements and with little supply base or cost management strategy.

Every request for POS print materials became a project in itself with the goal of finding the best quality supplier that could deliver the materials the fastest. That was the extent of the process: no preferred suppliers, no pre-negotiated pricing and terms, no segmentation of similar requirements. After examining the aggregate requirements, it became clear that there was a great deal of fairly predictable demand that did not require short lead times. Certainly, some demand required very quick turnaround, but it was much less than perceived.

Understanding the two tiers of demand, small short turnaround projects and large predictable demand, suggested a sourcing strategy. Since printers tend to have competences in either large-run efficiency or rapid set up for small jobs, the market economics could work in the winery's favor if they could structure their buying differently.

Another rigorous requirements definition and bidding process revealed more breakthrough results: by focusing on regional short-run press shops for small quick-turnaround projects and larger national printers for predictable demand, the cost of POS print could be reduced by over 50%.

The Best Way to Save Money

It's been said that the best way to save money on a purchase is by not spending the money in the first place—voila, 100% savings. That was the case for an \$8.5 million planned capital expenditure the winery was considering to add a third production line to their bottling facility. Pressure to provide quick market response for new brands, without disrupting the weeks-long production runs for flagship brands, resulted in a proposal to build a new line since it was widely believed that the existing lines were operating at or near capacity.

This proposal was given very serious consideration and garnered significant support from marketing and sales until the CFO recommended a closer look at production planning and operating practices. The investigation revealed that unresolved carton quality issues and other sub-optimal planning practices were resulting in the facility running at rates roughly 30% lower than internal best demonstrated performance showed was possible. The result was the immediate implementation of a Six Sigma quality program and the indefinite deferral of the \$8.5 million expansion program.

Overall, the team tackled a total of 11 projects, with an average cost reduction of 42%. Definitely a big win for the winery, helping them squeeze more juice for their supply chain.

Final Results:

- 42% cost reduction in critical spend areas including labels, chemicals, and print services through strategic sourcing
- Developed long-term sourcing strategies for critical packaging materials including cartons and closures
- Identified bottling plant throughput improvements resulting in an \$8.5 million capital avoidance
- Established a repeatable strategic sourcing process that will be utilized for future sourcing initiatives

March 27, 2006



Avoid a cold sales call by establishing internal “coaches” or insiders within a sales opportunity. By aligning yourself with someone internally, you eliminate many objections right from the start. Ask your internal coach specific questions that will help you prepare for a presentation. Helpful information can be:

- Personality of the buyer
- The budget available for the sale
- Specific information the prospect is looking for from a vendor
- How to dress, look and prepare for a meeting with decision makers

Internal coaches will also lobby for you during private conversations. They can act as a liaison between buyer and seller. Identifying and using internal coaches creates a stronger sales environment, faster sales cycle and a significantly higher close ratio.

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