

Features

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Successful Succession: Part 1

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Most business owners want to see their business carry on long past retirement, continuing to provide employment for loyal employees, distribute products from reliable suppliers and continue their community service. This two-part article will explore:

- Succession when it can't happen in the normal way
- Selling/transferring outside the family

Scenario 1: Transition to Family; Location Issues

Sometimes the existing location can't continue, despite the hopes of employees/family members. Often the real estate is worth more if it's not a garden center. This is a problem when multiple generations, with zero passion for the business, inherit the real estate. Our capitalistic system demands assets be used at their highest value. Therefore, depending on local conditions, selling the dirt and closing the retail operation is necessary.

When the store must close there are strategies to consider:

Sell it to your customers. It's the basic thrust of a Going Out of Business (GOB) sale. GOB sales scream, "Bargains—Hurry before they're gone!" It grabs existing customers and the low-price customers who may be strangers. Prior to the sale, some GOB operators will contract with wholesalers who provide guaranteed sale product. This way, the store isn't shopped-over and additional revenue-generating product can help offset closing costs. It's a great time to sell off all the unneeded office equipment, supplies, fixtures, equipment, etc.

The goal of a GOB is to maximize cash while reducing what goes to the landfill. Prepare your staff. This isn't like any other sale. Customer service will be at a minimum. Speed in moving merchandise and transactions is the sole focus. One retailer went in the night before and threw cigarette butts and dirt on his pristine retail floors. Why? He wanted a "distressed" look that screamed "Buy now while you can." It was an exhausting, but fun, four-day weekend generating more cash than he dreamed possible.

Support your stakeholders. Two important stakeholders are employees and customers. The retailer can be instrumental in getting employees placed with other nearby stores, ideally other garden centers. Consider selling—or make otherwise available—your customer database. In a joint marketing campaign with another garden center, advise your customers you're ceasing operations, while announcing where many of your staff will soon be working. This would include a recommendation of these places for your customers' gardening questions and product needs.

While your company name may end, the level of service and customer connection can thrive for years. Stephanie

Fleming, granddaughter of founder Albert Behnke, used a unique twist when Behnke's Nursery (founded 1930 in Beltsville, Maryland) closed. "With great sadness" Stephanie announced the store would close. The outpouring of support from customers led to BeyondBehnkes.com—a website and e-newsletter that provide gardening advice, along with unique gift items. This keeps the family name alive, helps customers continue gardening and generates a few dollars.

Scenario 2: Sell It Outside the Family

A California retailer lamented, "None of the fourth generation wanted to be involved in the family business. 'We don't want to work as hard as our parents for what our parents made.' The family business was eventually sold to outsiders and everyone was happy."

A new Midwest garden center owner stressed, "Both parties (Buyer and Seller) should have their own legal and tax consultants to help plan for the worst case while hoping for the best. Make sure you have clauses in the deal for most situations that could occur. This process helped the Seller and me identify and resolve potential challenges before they happened."

One Midwest Seller had prior sales negotiations that were never consummated. The successful Buyer observed, "The founder(s) may verbalize they want to sell. For many founders it's difficult to pull the trigger on a deal. Before investing time and legal fees, attempt to understand the motivation to sell and why any prior negotiations weren't concluded."

Retail Operations Manager Pat Pearsall at Gardener's Supply in Burlington, Vermont, has been involved in numerous garden center purchases. Frequently, real estate is involved in the transaction, which can either complicate or expedite the transaction, he said. "Usually, the existing owner can keep the real estate and rent it back to the Buyer. This keeps the Buyer's cash requirement lower and likely spreads the cash flow and (lower) tax consequences to the Seller over multiple years."

It's important who owns the property at the time of sale. It can complicate the process when the garden center operations and property ownership are in the same entity. It's not insurmountable. There are more hoops to jump through, more legal and tax advisors to pay, and it creates one more uncertainty prior to the deal closing. Separating the property and holding it as an asset for the owner's estate may facilitate the transition of generational wealth.

What Else to Consider

It's important the property owner has the same long-term goals as the garden center. When the property owners want higher cash rent it can render the garden center unprofitable, killing the potential for a viable sale. Buyers usually don't want to relocate a business shortly after buying it. They likely want the potential to expand the facility. What are the zoning or restrictive covenants on the property now? What "non-confirming uses" are there? If expansion or remodeling isn't possible without governmental approvals, can the Seller get those approvals before the sale? Sometimes governmental agencies are more receptive to requests from existing residents than to an outsider coming into the community and replacing local ownership.

"Databases are critical," Pat noted. "The Buyer needs to know who the customers are, what they are buying and how to economically reach them. POS data is also critical so the Buyer can evaluate what inventory is selling, what new products won't be familiar to the Buyer and what is the potential for product/category expansion to increase sales."

An experienced buyer of garden centers said, "Price is usually top-of-mind for the Seller. Sometimes an 'earn out,' where the Seller receives a percentage of sales or EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) over future years, can be used to close the gap between what the Buyer is willing to pay and what the

Seller will accept. The parties agree to take a mutual risk where success benefits both parties. In a post-COVID world, where a Buyer may not believe the 'COVID bump' will continue, a shared risk can be the path forward as an incentive for the Seller to continue to support the transaction. It also can be a compromise between Buyer and Seller in which they don't agree on the future promises of the business."

It's common to find employees with decades on the job who got annual "cost of living" increases, but zero productivity increases. They're holding the company back by consuming payroll dollars that should be allocated to more productive employees. The Seller should terminate these people before the sale. Otherwise, the Buyer becomes the "bad guy" and could refuse the deal.

Having "bench strength staff" able to step up into leadership roles is critical for a Buyer who doesn't plan to be on-site full time. Is the Seller actively delegating responsibilities to all the team or is the operation mostly a one-man show? Also, a Seller's family members staying on as employees can have a negative impact on the Buyer and co-workers. A logical approach is having family members become contract employees/consultants for a fixed time period (for example, six months) so there are no surprises or drama when they leave.

In most cases, IGC Sellers have put their life's work into and define themselves by the business they've created. Those individuals are looking for Buyers committed to continuing to serve the horticultural needs of their community. Transition is always challenging, no matter how "ready" the Seller believes they are to move on. **GP**

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