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Strategies for Buyers and Sellers

Bill McCurry

Clear understanding of another person's perspective brings efficient closure for mutual benefit. The other party isn't dreaming your dreams. At the 2019 Green Industry Show Conference in Calgary, Alberta, economist Todd Hirsch emphasized, "Clarity is power." Equal information doesn't mean equal power. Clarity, as opposed to information, is what's needed when buying or selling a business.

What Are the Goals?

Maybe a seller really wants to keep the company name alive, while the buyer wants to broadcast their name in a new locale. This deal likely won't work unless this difference is identified and reconciled.

A basic rule for sellers seeking the highest price is, "Shut up! Let buyers dream their dreams." Often sellers talk too much, either scaring the buyer or devaluing the business. There's a wide chasm between honestly answering direct questions and spilling everything you know. Nervous and uncertain, sellers babble about irrelevant things, sometimes treading into areas that frighten the buyer. That's why it's advantageous to have the buyer interface with a third-party. That should minimize emotions, keeping focus on the participants' major concerns while providing clarity by discussing only the big issues.

The first issue requiring clarity is: What do you want from the transaction? If you're the seller, do you want to walk away with a bundle of cash or do you want to phase out gradually? As the buyer, do you want to assume daily management or have the investment run by a hired professional manager you check on monthly?

Price determination requires great clarity and understanding of goals.

Something to Think About

Q: When's the right time to sell a business?

A: When somebody wants to buy it. Rarely is the timing perfect for both the seller and buyer. To get the highest price, the seller must give the buyer exactly what's wanted. If the seller wants to close right after the season when high cash flow starts trending down, the savvy buyer will require a discounted price.

Q: How should you operate the business if you're going to sell it?

A: The same way you'd operate it if you weren't going to sell it. A good buyer can smell when a company has stopped investing in itself. Very few buyers will pay top dollar if it's trending down. If the business is continuing successful operations and selling isn't obvious, then the buyer must make it worthwhile for the seller to consider an offer.

Q: What about convincing a buyer “it can be profitable”?

A: Buyers who'll pay a good price aren't looking for “fixer-uppers.” If the seller has been running the business, the success of that business is established in the buyer's mind. It's difficult to get buyers to pay based on potential if it hasn't happened after multiple years, unless the buyer intends to expand locations or product offerings.

Q: What's a business worth?

A. McCurry's Rule on buying/selling a business: The business is worth about 10% of what the seller thinks it's worth and about three times what the buyer thinks. This is frequently accurate.

As the seller, if you base value on the amount needed to retire, you're doomed. Your retirement needs are irrelevant to the business valuation. Say an employee requested a raise so their spouse could get a new car. Have they improved their job efficiency to generate funds for the raise? No. Your perceived retirement requirements won't impact the buyer's business payback.

Q: What restrictions might be placed on the buyer?

A: For the highest selling price and quickest closing, the correct answer is “none.” Few buyers pay top dollar if there are restrictions on what they can do with their new company.

Seller conditions make it difficult to sell a business. An example: Walter wanted all cash and a commitment to keep the garden center open. After 15 years of trying to sell, Walter met Lisa and Nathan Campbell who he had to finance—plus support their line of credit. They did promise to keep it open, as they've successfully done for the last 27 years.

One retailer was selling all his locations to a non-local retailer. The buyer believed operating costs could be reduced by handling administrative tasks from their existing office. The seller would pay severance to the long-term office team. The buyer would keep the sales staff for at least six months or pay their severance. The buyer computed the severance costs and deducted it from the selling price. The buyer had zero employees in the new locale and would need to hire people. The buyer retained the current staff, pocketing the unused severance pay and reducing the price. An outside advisor should have seen that the functioning team increased the value to the buyer, not reduced it.

Who Might Buy?

Family—What does your family really know about your business? Does it consume you 24/7 so you've missed every important family event? Do you skip vacations? Is it a constant cash drain or is it a family ATM? How you've positioned the business to your family will partly determine whether the next generation(s) want to take over. Do they purchase it or is it gifted? Have less-than-competent family members been working in the business expecting to take over? (We'll address this in future issues.)

Employees—Have the employees been running the business when the seller's absent? Do they have or can they learn the skill set to operate it? Employees who're “like family” may not be able to take over your “baby.” The biggest challenge is financing. You may feel comfortable financing your offspring, but not necessarily your employee(s). Be cautious and objective. Blood lines alone don't guarantee a payoff.

Investors—There are investors who'll cash out current owners if the business can continue without extensive time commitments from the new owner. Is the business sustainable without the seller? Some investors tend to be bottom-line driven and don't care if they buy a greenhouse or a restaurant.

Hobbyists—Some people without business savvy dream of owning companies that deal with flowers/vegetables. A buyer may need heavy guidance and training from the current owner, but doesn't know it. An unproven buyer makes financing riskier, requiring more education/coordination time from the seller.

Synergistic Buyers, Competitors, Others in the Industry—Who could benefit from what you've established? Who could leverage what you have for better results than you've generated? Many dream of finding the cash in a rich new cannabis company and flipping their ready-to-grow operation for multi-millions above true worth. Dreaming isn't a business strategy. Know the potential, but don't count on it. **GP**

Bill would love to hear from you with questions, comments or ideas for future stories. He's a Green Profit columnist and owner of the consulting firm McCurry Associates Inc. Please contact him at wmccurry@mccurryassoc.com or (609) 688-1169.