

How To Decide When It's Time To Sell Your Business

Every owner of a privately held business eventually faces the decision of when to sell the business.

My father was an intrepid entrepreneur. While growing up in Oklahoma City, I had the great privilege (which I now recognize and appreciate) to listen to his kitchen table conversations with my mother about his business dreams, achievements, daily challenges and disappointments.

When I was old enough, I worked Saturdays and summers in his warehouse, helping to pick and pack orders for the housewares distribution business he had started.....and also mowing the lawn around the warehouse.

In those days trading stamps, like S&H green stamps, were gaining popularity. Dad transitioned his traditional distribution business into two trading stamp companies he started in Oklahoma and Texas. He sold the printed stamps in pads to merchants such as grocery stores and gas stations, who in turn gave them to their retail customers based on the size of their purchases, a type of customer loyalty program. The stamps were pasted into savings books by the customers, who could then redeem them for a wide variety of merchandise at redemption outlets Dad operated and supported through his distribution business. Now my Saturdays and summers were spent auditing the filled trading stamp books people had redeemed for merchandise, then physically destroying them.....and still mowing the lawn around the warehouse.

I can remember when he was approached by a large national trading stamp company who wanted to buy him out. It was a stressful time around our house, as he negotiated with people who it appeared tried to use tough tactics to get him to sell, which he finally did. He told me much later that he saw consolidation coming in the industry, and felt it was important to harvest the business, despite his desire to continue. Today the trading stamp business has gone away completely.

Dad then started a school textbook distribution business. His company supplied textbooks to public school districts throughout Oklahoma. He subsequently expanded this business to include distribution of books to public libraries throughout the United States. My Saturdays and summers now involved picking and packing textbooks.....and still mowing the lawn around the warehouse.

The library book side of the business grew rapidly. Financing was challenging because the libraries were very slow to pay

and the book publishers who supplied the books generally offered short terms for payment. This required Dad to take out increasingly larger loans from the bank to finance the business. The library book business was also labor intensive and highly detail oriented, neither of which appealed to him. I think he ultimately decided that the nature of the library book business, and what in his eyes was an enormous amount of debt required to operate the business, just wasn't what he wanted. He negotiated with the largest national library book distributor to buy him out.

This left him with the Oklahoma school textbook distribution company, a rather straightforward business he continued to operate for many years, until it too was sold. I was off to college by this time, so he had to find someone else to mow the lawn around the warehouse.

Why Businesses Are Sold

The lessons I learned around our kitchen table, working in the businesses Dad built and sold, and my conversations with him later in life have been invaluable.

Those experiences and our company's strategy and merger and acquisition work with our privately held clients provide an ongoing opportunity to better understand the motivations, concerns and rewards that owners seek from their firms.

One of the top concerns is How to Decide When It's Time to Sell the Business.

Over three decades of business experience, and the personal stories I just shared, have demonstrated to us that there are three basic reasons why a business is sold:

1. Personal Reasons
2. Internal Business Reasons
3. External Business Reasons

We advise our privately held merger and acquisition clients to have a clear understanding of each of these reasons from their point of view. This enables them to better evaluate a prospective sale or business combination.

Personal Reasons

This is the most frequent reason we find businesses are sold.

- It could be that the owner is tired, or feeling uncomfortable with changing business requirements, or just ready to do something else and cash in their chips.
- It could be pressure from a spouse to lighten up to travel more, take time to be together, or visit the grandchildren.

- It could be a recognition that the children don't want to join the business, or are not capable of successfully managing the business.
- It could be health related issues.
- It could be death, separation, divorce or estate planning issues.

In my father's case he realized he just didn't enjoy the detailed nature of the library book business, and going to bed each night with the responsibility for what he felt was a huge debt.

Personal reasons like these are very real.

Sometimes the timing of these personal issues can significantly affect the results which can be achieved from an effort to seek a sale or business combination for the company.

If the owner is key to the ongoing the business success, how much will a potential buyer want to pay if the owner leaves right away?

Understanding and attempting to anticipate and plan for such personal reasons to sell can significantly enhance the value which can be obtained for the business.

Internal Business Reasons

Aspects of the internal business itself can motivate the owner to seek a sale or business combination.

- Maybe there are serious management or employee issues.
- Maybe the business is in need of a major reorganization, and the owner doesn't want to deal with it.
- Maybe margins are eroding and profitability is under pressure.
- Maybe significant new investments in machinery, equipment, building or new products are necessary to grow the business, and this represents an expense or risk the owner seeks to avoid.

In my father's case I think it was the realization that he needed to continue to grow the library book business beyond the size with which he felt comfortable.

External Business Reasons

Market dynamics and forces outside of the firm can motivate an owner to seek a sale or business combination.

- Maybe customers have consolidated themselves to a point where there is greater risk if one is lost to competition.
- Maybe customers are requiring the firm to service them in new ways or in new countries where they are now operating.

- Maybe customers are seeking to consolidate vendors.
- Maybe competition has become tougher through aggressive tactics or simply greater scale.
- Maybe regulatory requirements are making it more challenging to do business.

In my father's case he saw the trading stamp business being quickly consolidated because his grocery and gas station customers were rapidly consolidating.

Again, with proper planning such external reasons can often be anticipated and dealt with in a proactive manner to maximize value received from a business combination.

SUMMARY

Deciding when it is time to sell the privately held business is a decision every business owner has to make sooner or later.

We have found that there are three basic reasons which motivate the sale.....**Personal Reasons, Internal Business Reasons and External Business Reasons.**

Understanding these reasons and then planning for them, as they apply to each particular situation, can prepare the privately held business owner to achieve the best timing, value and happiness from the transaction.

We welcome your comments, observations and experiences about timing the privately held business sale.



"Never skate to where the puck is, but always to where the puck is going to be"

Wayne Gretzky

"You only live once, but if you work it right, once is enough"

Joe Lewis

"Not to decide is to decide"

Harvey Cox

THE STOKELY PARTNERSHIP INC.

BUSINESS
GROWTH
SPECIALISTS

The Stokely Partnership Inc. works with our clients to improve their performance and profitability through strategic planning, marketing, merger and acquisition services.

We Specialize in Happy Endings!tm