

MODERN DISTRIBUTION MANAGEMENT

*The Newsletter for the
Wholesale Distribution Channel*

Your family business – Not for Sale at any price?

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One sweltering August morning in Cleveland in 1998, the provocative business writer and speaker Walt Sutton treated our TEC GROUP to a presentation. The 12 group members, each owner/manager of a good-sized business, were huddled in a too-small hotel meeting room with a rumbling air conditioner. We had to strain our ears to hear what Walt had to say.

Loosely speaking, the topic of the morning was “What would it take to get you to sell your business?” This wasn’t a timely question, not when stock prices were high, interest rates low and the economy was motoring through an unprecedented long stretch of good business conditions. Most of the members’ businesses were riding the crest. Even the Cleveland Indians were in first place and in the middle of their streak of 455 consecutive sellouts. The view was great from the top of the mountain. No, not a likely time to find owners in the mood to sell.

Who would have guessed which two of the group’s members would be seriously considering an offer to sell little more than a year from that hot summer day?

Sutton jump-started the group by asking for a show of hands of those interested in selling. No hands. He squeezed us harder, asking each person to privately write a secret number on a scrap of paper. The number was to be the minimum cash offer we would consider if a buyer were really desperate to buy us out. Walt collected the papers and jotted the anonymous numbers on his white board – five million, 10 million, 25 million, even 100 million. Walt toyed with us further. “I’m prepared to wire your price to your bank account right now” he said. “No questions asked, no contingent liabilities, no obligation to continue working. Who wants the money?”

A hand or two went up, everyone looking around. Soon there were more hands in the air. There were quite a few takers, nearly everyone. No one was interested in selling; yet nearly every person in the room accepted the offer when his price was met.

Let’s say you’re very happy with your house. It’s simply not for sale. But, one day someone tapes an envelope to your front door marked “confidential.” The letter inside states that the buyer has always admired your house and would like to meet with you. You’re skeptical but agree to the meeting. The would-be buyer turns out to be very serious; a cash buyer willing to pay much more than you feel the house is worth. Sale at that price would enable you to build the customized house you always dreamed of. Would you accept?

What do you do with those unsolicited letters hinting that the writer represents a well-heeled buyer interested in buying your business? How do you respond to phone calls from prospective buyers? Chances are those letters, even the legitimate ones, go unanswered. The majority of those phone inquiries, even the ones from well-known buyers or their representatives, are (politely?) brushed off. Yet many of the people who toss those letters into the trash, or don’t bother to return the phone calls, would really love to know what price and terms their business would fetch on the market. It may be a matter of curiosity, a number that would help with buy-sell arrangements within the ownership or perhaps there is a genuine interest in selling. Yet, the feeler from a buyer is usually refused.

Why? For a variety of reasons, many business owners simply aren’t prepared to have a serious conversation with a prospective buyer. Why not?

Profit pitfalls: The bottom line this year isn’t so great, but next year it will be much better.

People problems: We have some weak performers but we’re going to replace them with real winners by next year.

System snafu’s: Our information system is out of date but next year we’re putting in a new system that will solve all of our

problems. *Inventory issues*: We have a lot of dead stock but we will deal with it in the coming year.

Receivables riddles: We will clean up our problem accounts within a year....

Legal logjams: We'll resolve these claims by this time next year -- and we'll never make those mistakes again.

Accounting aggravations: Our financial statements are always late and not quite right, but the accountants will fix it next year.

Business plan pains: We don't have a written business plan but we are definitely going to have one for next year.

Environmental enigmas: We have an old underground storage tank which probably isn't a serious environmental problem.

Do these have a familiar odor? Maybe not, but even a cursory look at almost any business will uncover a few of these stinkers. These glitches can destroy your confidence about giving a prospective buyer an inside look at your company. Hey - would you want a possible buyer nosing around your house when the basement is flooded?

When you sign a listing agreement to put your house on the market, your real estate agent will tell you to spruce things up, fix the leaky faucets, do some painting, maybe even put on a new roof or pave the driveway. You wouldn't dream of showing your house without doing everything possible to make it look its best, even if it costs serious money to do so.

But, unlike selling a house, you may not have a sellers' agent or other objective person to help you get your business ready for sale. For one thing, many times the best offer is unsolicited – so there is no time to prepare. And, in the case of a complex business, the corrective steps are difficult and may take a year or more to complete.

Suggestion: think of your company as the product, and the sale of your company as the most important sale you will ever make. Put yourself in the prospective buyer's shoes! Step away from your business and ask yourself some tough questions:

- What needs to be done to be ready for one of those unexpected phone calls or letters?
- How do you want your company to look when you show a prospective buyer around?

Here are a few other key steps to work on, whether you are thinking of selling or not:

- Ask your accountant to help you prepare your records to go through a thorough financial due diligence process.
- Get your lawyer to help you be ready to withstand scrutiny from a purchaser's legal advisor.
- Find expert help to assist in preparation of a professional business plan that will help a prospective buyer see the real value -- the potential of your empire.
- Start actively managing all those internal processes needed to support a great business: information systems, human resources, accounting, credit, inventory, facilities, etc.

The dividends from this investment are genuine: peace of mind and a great business that's more fun to own and operate. You'll be confident, and when the call comes you'll be able to reply "well, we're not for sale but I'd be happy to have lunch with you and hear what you have to say." And that's when the fun begins!