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*June 2017 - In This Issue:*

**CUSTOMERS, SUPPLIERS & COMPETITORS AS BUYER PROSPECTS**

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**NUMBERS AND NONSENSE**

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## **NUMBERS AND NONSENSE**

I'm a part time, fast pitch softball, pitching coach, having spent some years as a high school and college coach. I do it because I believe I help young pitchers understand the game and how to record outs. Along the way, I've encountered a lot of approaches to the game and, not unlike baseball, most discussion revolves around numbers.

The numbers most often heard from baseball announcers are:

- a) pitch speed and
- b) how far home-run balls traveled

Those are the numbers - the "nonsense" is that pitch speed doesn't matter if the batter misses the ball or hits into an out, and no matter how far a home run travels the batter only scores one run. It may be more difficult to hit a 100-mph fastball than a 90-mph pitch, but one might opine that it's

## **CUSTOMERS, SUPPLIERS AND COMPETITORS AS BUYER PROSPECTS**

### **Customers, Suppliers and Competitors as Buyer Prospects**

Small business owners often think their customers, suppliers and competitors are likely buyers for their business. In fact, quite the opposite is true. In most instances, those types of entities are not good prospective buyers.

By contacting customers, suppliers and competitors about selling your business, there is a huge risk of a confidentiality breach which has the potential to destroy the value of your business.

### **Others' curiosity can harm your business**

First, business owners have a natural curiosity about other businesses in their industry. If someone contacted you and asked of your interest in learning more about one of your competitors, customers or suppliers, how would you respond? If you are like most business people, you would respond affirmatively, simply out of curiosity, not necessarily out of real interest in making an acquisition. There's a lot to gain from learning about other businesses and hardly any downside. So will customers, suppliers and competitors express preliminary interest? Yes. But are they really interested in an acquisition opportunity, or are they just naturally curious and want to capitalize on a rare opportunity to learn more about your business? (Hint: it will be the latter in almost all instances.)

### **The problems with customers as buyer prospects**

Think about this. The real value of your business is in the cash flow created by selling to your customers. Those customers are one of your major assets. Many of your customers are already in competition with one another. If you sell your business to one of your customers, can the acquiring company retain your other customers, with whom they are already competitors? Not

equally hard to hit a pitch in a certain location or one that moves just before it gets to home plate.

The point: each batter and pitcher have different agendas - the former trying to get a hit, the latter trying to prevent that from happening.

How does this relate to buying or selling a business? Sellers want to sell, Buyers want to buy (a bit like a hitter and pitcher maybe). Sellers typically have a sale number - what they want. Do the numbers support it? Revenue, Profit, Cash Flow, EBITDA - all influence both what the Seller might get and what the Buyer might pay.

Understanding the numbers does help but understanding what's behind the numbers, how the business operates, steady and loyal customers, growth potential, good vendors, loyal employees, future Capital Expenditures, and many more things, influence why deals get done or they don't.

Numbers are important, but the nonsense is that it isn't the "Price". What matters to the Seller is what is retained after paying Liabilities and Taxes. To influence what the Seller retains often involves deal structure. What matters to the Buyer is whether the Business going forward can be successful - and that's where due diligence and financial planning come into play. For both Sellers and Buyers, an experienced Merger & Acquisition Professional adds value.

So, the next time you hear about a business that has been sold, ask not what the Price was, ask what the Seller retained - not that

likely. In light of that, can they afford to pay the true value of your business? Again, not likely.

### **The problems with suppliers as buyer prospects**

It is a similar situation with suppliers, except the problem is their customers, not yours. As a customer of your supplier, if they acquire your business, their other customers (some of which are your competitors) will now view the supplier as a competitor to their business. Can the supplier afford to pay fair value if they lose their own customers as a result of acquiring your business?

### **The problems with competitors as buyer prospects (possibly your worst nightmare)**

Competitors have the potential to be your worst nightmare. If contacted regarding acquiring your business, they will feign interest. Then they can hurt you in several ways. By learning more about your business and its strengths and weaknesses, they can use the information to better compete against your business. With information gained about your employees, customers and suppliers they may begin to poach all three. Consider this: Will competitors want to spend the necessary funds to acquire your business? Or with the information obtained from the evaluation, invest a little more to encroach on your business while growing theirs? There's another significant downside risk. A breach of confidentiality of your intention to sell can provide significant benefits to your competitors.

### **The risk of a confidentiality breach**

Even when working with qualified advisors who require confidentiality and non-disclosure agreements from prospective buyers, a confidentiality breach is possible. The "typical" individual buyer doesn't usually stand to benefit from a confidentiality breach. But, because a prospective "industry" buyer communicates on a daily basis with other industry insiders, it only takes a minor "slip-up" to start up the rumor mill, and seldom is it traceable. That's not meant to question the integrity of your competitors (or even customers and suppliers), but the risk exists even when there is not a lack of integrity.

For most small businesses, the risk-reward ratio of attempting to sell to an industry buyer such as customers, suppliers and competitors is way out of whack. The risk of a confidentiality breach increases exponentially while the likelihood of selling the business at its true fair market value is diminished.

Sellers will tell. Ask if the Buyer's plan for the Business is sound, if properly capitalized and financed, so as to have the greatest chance of succeeding.

**Numbers are part of it, but it's nonsense to only look at numbers.**

## WHAT IS MY BUSINESS WORTH

It will cost you absolutely nothing and there is no obligation in giving us a call or an email to request a simple valuation of your business. Relying on a professional that understands your industry is important. It is also wise to work with someone who is aware of current trends; and that is working with both buyers and sellers daily. This approach insures you plan for and receive the maximum return on the transfer of your business.

## INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE

Our presence as a Professional Business Broker is extended nationally as a result of being an affiliate of [BHarmony, LLC](#). We also bring decades of experience and functional expertise in all the popular market segments as a result. Nothing takes the place or value in that of experience.



We partner with our clients to deliver solutions that help solve their most complicated needs prior to, during, and at the conclusion of the selling process. Our services are designed specifically to help small/medium size businesses and at a small business price. We go beyond the norm to develop new insights, prepare, market and drive results in the sale, thus insuring you receive the most value at closing. [Learn More](#)

### Next Issue

## 66 OBSTACLES TO A SUCCESSFUL BUSINESS SALE

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