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March 2017 - In This Issue:

**COMMON WAYS TO LEAVE YOUR BUSINESS**

**INDUSTRY KNOWLEDGE**

**BUSINESS MODEL?**

**WHAT IS MY BUSINESS WORTH**

**BUSINESS MODEL?**

I recently **HAD** a service business for sale - "**HAD**" being the important word. Over a week to 10 day period the Owner had been in discussions with a very qualified Buyer. The Buyer asked questions and requested information - pretty typical questions and usual request for information.

The Owner came to my office and said to take it off the market - WOW that was something I didn't expect. He apologized, said he knew I did a lot of work, but it wasn't the right time to sell. Of course, I asked "why?"

He said the Buyer's questions caused him to look at his business - critically look at it. He started analyzing who he was doing business with and found that some, maybe as many as one-third, of the 17 markets he was serving were losing money. He was making money overall, but wasn't really doing a good job of looking at Revenues and Expenses in each market. The estimate was that by dropping the losing markets he would reduce Revenues by perhaps one-third and increase Profit by 25%.

**TYPES OF BUYERS**

There are numerous possibilities for the types of buyers to whom a business could be sold. Your options are often limited by the nature of your business (the industry, the company's size and profitability, the number of employees, whether you have family involved in the business, or whether you have co-owners).

Unless you have a partner or family member who you intend to transition the business to, most small businesses with valuations below \$3,000,000 will be sold to a third party individual, although some might be sold to employees. Businesses with valuations between \$3,000,000 and \$5,000,000 have more options as they might be sold to wealthy individuals, larger companies or private equity groups (PEGs). Middle market businesses with a valuation of \$5,000,000 or more typically are beyond the reach of wealthy individuals and are acquired by larger businesses for strategic reasons or by PEGs looking for significant returns on their investment. Another option for businesses with at least 15 employees is to structure an Employee Stock Ownership Plan (ESOP).

Let's take a closer look at the various types of buyers:

**Co-owners**

If you own a business in conjunction with other shareholders, it's a good idea to have a buy-sell agreement that details the expectations of what occurs when one of the owners desires to exit the business. The disadvantage to selling to a co-owner is you may not receive full market value and you may not "cash-out" immediately; instead, you may be likely to carry a note that pays you over several to many years. Because of the level of trust with your co-owners, sometimes the need to involve professional advisors in completing a transaction is overlooked. That's a huge mistake. Horror stories abound! Always utilize professional advisors; they can provide necessary objectivity as well as the required expertise.

**Family members**

Similar to co-owners, ownership transfers to family members frequently occur at less than fair market value and retiring owners often find themselves financing a major portion of the transaction. If you intend to carry a note from your family member, you need to have confidence that the relative assuming control of the business is capable of maintaining the same level of success you have achieved, otherwise you may never see your funds. Transitioning the business to family members is fraught with perils and should be viewed ... not as an event ... but as a process requiring consultation with professional advisors with family succession planning experience.

**Employees**

A key employee (or employees) capable of buying and running the business can be a viable option. If the employee can handle a cash investment of

He concluded that his Business Model just wasn't working, and realized he needed to rebuild it. Rebuilding the Model for him means he is looking at pricing, probably "firing" some customers, seeking new customers that "fit" better, embracing others, maybe entering other markets, and critically looking at costs.

So how's your Business Model? Hopefully you are making a Profit, but do you know where it's coming from? Do you know where Expenses can be cut or better managed?

One of the things that Business Owners learn from the sale process is that buyers ask questions that maybe the Owner should have asked or should be asking. And a Business Valuation does the same thing - forces a Business Owner to produce information for the appraiser and answer questions about the Business. Often asking questions is the first step toward better performance - actually making changes is step two - and measuring results is step three. If you would like to have a conversation about Business Value, what it is, how to increase it, or any matter, let's talk.

## 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.

about 25% of the purchase price, a transaction might be able to be financed through a Small Business Administration (SBA) lender, allowing you to "cash out." However, in many instances, employees do not have the liquidity to invest in a business acquisition. As a result, you may have to finance a substantial portion of the acquisition and run the risk of failure to collect on your note if the business struggles. Failure to negotiate a successful transaction with an employee (and it is never easy) can result in the employee departing from your company or a confidentiality breach of your intentions, both of which can have a significant detrimental effect on the value of the business. Unless you have a high confidence level in your ability to conclude a successful negotiation with an employee, the risks may outweigh the rewards. And don't go it alone - get your professional advisors involved.

### Employee Stock Ownership Plan (ESOP)

Although there are no specific size requirements as to employees or revenues, many advisors suggest \$5,000,000 in sales and 50 employees as the minimum size to be able to sustain the costs of an ESOP. However, other advisors suggest ESOPs might work for companies with as few as 15 employees. If you have a strong management team, the company is profitable with a positive outlook, you are interested in a gradual exit from your business and you have more than 15 employees, consider looking into an ESOP. The complexities are far beyond the scope of this newsletter but it is an option of which you should be aware. To learn more, talk with professional advisors specializing in ESOPs.

### Individual Buyers

Most small businesses (valuations below \$3,000,000) that are saleable (and are not sold to co-owners or employees) will be sold to individual buyers.

### Middle Market Buyers

Private businesses with valuations above \$5,000,000 are likely to be acquired by larger corporations for strategic reasons or by PEGs.

### Customers, Suppliers or Competitors

Many owners think their customers, suppliers or competitors might be interested in acquiring their business.

Determining the type of buyer to whom you desire to sell your business is one of the first steps to planning your business exit. To achieve your goals, planning at least three to five years in advance is recommended, but it is never too early to start. Because of numerous perils beyond the scope of our newsletter series, such as the potential for family disputes, gift tax laws, etc., if you are considering transitioning the business to a family member, even five years of advance planning may be insufficient to maximize your goals.

## 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

***Next Issue***

***ABOUT  
INDIVIDUAL  
BUYERS***

**[CONTACT US](#)**

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](#)**

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