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February 2020 - In This Issue:

TOP 33 OBSTACLES TO A BUSINESS SALE

THINGS THAT INFLUENCE BUSINESS VALUE

FEB 2020 THINGS... By John Zoellner

FEBRUARY 2020 THINGS...

By John Zoellner, BCA, MCMEA

It's February - January seemed to fly by. Maybe it's because January for me, and I suspect a lot of other small business owners, is when we have things to do to transition to the new year. This includes year-end reports - 1099's, payroll reports, getting info ready to prepare tax returns. For me, I do those things, which takes time - so I just work more hours.

Readers - did you create a Business Plan for 2020? Why or why not? Is it written? I've done a few seminars on Business Planning and the first question I ask is "What percentage of Business owners have a business plan?" Answers vary - my answer is 100% have a plan. For some it's well thought out and detailed and on the other end of the spectrum it might be "What are we doing today?" I've heard, and said, that a Business Plan is not absolute but has to adjust as conditions change. How do you think your business will perform? What are the opportunities and what are the likely challenges? The United States economy seems to be strong - if

TOP 33 OBSTACLES TO A BUSINESS SALE

The overriding reason businesses don't sell is failure of the owners to plan their exit strategy, which results in failure to identify the obstacles to a successful sale. If the obstacles in a specific situation are not identified and adequately addressed, the business owner is highly unlikely to successfully sell or exit his or her business with the desired financial security.

The top 33 obstacles are listed below, to some extent, in order of the frequency the obstacles are encountered:

- 1) Business Owner's Failure to Plan for a Sale
- 2) Inadequate Seller's Discretionary Earnings (SDE)
- 3) Low or Inconsistent Gross Margins
- 4) Inadequate Marketing and Sales Efforts
- 5) Owners with Unrealistic Price Expectations
- 6) Business Acquisitions that Cannot be Financed
- 7) Owners Unwilling to Provide Partial Financing
- 8) Owners Who Cannot Afford to Sell
- 9) C-Corporation Tax Implications
- 10) Inadequate Record-keeping / Accounting Systems / Financial Reports
- 11) Inadequate Second-Level Management
- 12) Customer Concentration Issues
- 13) Asset Value too High vs. Return on Investment
- 14) Real Estate Value too High vs. Return on Investment
- 15) Large Working Capital Requirements
- 16) Excessive Personal Expenses and Skimming Cash
- 17) Burned-Out Owner Ruins Business Value
- 18) Owners Who Try to Sell the Business Themselves
- 19) Owners Who are not Committed to a Sale
- 20) Choosing the Wrong Intermediary
- 21) Trust Issues from Inadequate Disclosures before Due Diligence
- 22) Inadequate Preparation for Due Diligence
- 23) Losing Focus - Business Decline during Sale Process
- 24) Lack of Flexibility in Negotiations
- 25) Seller's Lack of Emotional Control
- 26) Sellers Don't Understand Buyers' Motivations

225,000 jobs added in January are an indication. From what I have experienced and have heard and read, it's been difficult for many businesses to find and hire employees. And the cost has gone up as employers such as Amazon and Wayfair are paying higher starting pay - nearly double minimum wage. What impact will that have on business performance - i.e. profitability in 2020 and beyond?

Traditional retail stores are battling on-line sales. Macy's just announced they will relocate their headquarters from Cincinnati to New York and eliminate 500 local jobs. Maybe some of those soon-to-be unemployed will fill available positions - a not-so-bad result?

Interest rates continue to be low and if the constant referral requests I get from lenders are any indication, obtaining funds to acquire or grow a business are available. Does your business need to look at your Line of Credit and Loans and payment obligations to see if they need to be restructured? It's a good time to review what you have and what you might need.

Not to bring politics into this newsletter, but it is also a Presidential election year. In the past that has often meant a strong economy. The recent impeachment of the President and his trial and acquittal - will that have an impact on anything that matters to business owners? Tariffs - now in place or being discussed - are they politically or economically motivated and will they affect your business?

Looking back, whether it's months or years, it's difficult at best to imagine we could have forecast the business, economic and political conditions we have today. I would opine that two constants we have is that 1) change will continue and 2) the speed at which change occurs increases. Looking forward it might be very difficult at best to try to figure out what will happen. Maybe the best

- 27) Owners Don't Sell Business' Growth Potential
- 28) Difficulties Transferring the Facility Lease
- 29) Real Estate Transfer Issues
- 30) Bad Timing - Waiting too Long to Sell
- 31) Confidentiality Breach and Employee Suspicion
- 32) Lack of Required Approvals from Stakeholders
- 33) Unproductive Assets

Can All Obstacles be Overcome?

With proper planning to identify the obstacles, most are within an owner's control and can be adequately addressed over time. The key is to identify the obstacles so you have the time to take the appropriate steps to overcome them. Many are interrelated and can be easily addressed at the same time. For instance, Low or Inconsistent Gross Margins (Obstacle #3) can be one of the causes of Inadequate Seller's Discretionary Earnings (Obstacle #2).

THINGS THAT INFLUENCE BUSINESS VALUE...

Whether you are considering Selling or Buying a Business, or need a Business Valuation for any purpose, it's important to understand what influences value. One influencer is, or could be, your inventory and Suppliers.

Listed below are a few related items to consider.

Inventory Considerations

- Do you have any obsolete items?
- How often do you "turn" your inventory?
- Do some items turn often, and others seldom?
- Do you often or seldom have to order items to satisfy an order from a customer and other aspects?
- When it comes to inventory, value is generally higher if inventory is current and not obsolete. The same goes for more frequent inventory turns as it requires less working capital. The percentage of items that turn more than average should also be considered.
- Stocking what customers order most frequently can also solidify your business relationship. You should consider inventory averages and trends for the industry you are serving; some businesses in some industries carry more inventory than others.

Supplier Considerations

strategy is to "keep on keeping on" - focus on providing superior products and service to our customers, all the while taking care of our employees, vendors and all valued partners.

We would love to hear, confidentially of course, your thoughts. What is the 2020 plan for your business and what do you think we will have to reflect on this time in 2021.

- Do you have contracts with them?
- Can the contracts be transferred?
- Is there a territory, exclusive or not?
- The number of suppliers you regularly buy from.
- The percent of purchases from each supplier, amongst other things.

Contracts with suppliers cannot only add to business value, but they also can detract from it. Assignable contracts are generally more valuable since they are transferable. Territories often exist but can be changed at any time by a supplier. Major suppliers can be a plus or minus, depending on volume and cost.

So, if you are considering **Selling your Business or Buying a Business, or need a Business Valuation** for any purpose, please contact us. There is no cost or obligation or commitment.

Call (513) 852-2400 or

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Look in our next Newsletter for more

THINGS THAT INFLUENCE BUSINESS VALUE

NEXT ISSUE

Business Owner's Failure to Plan for a Sale

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