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**THINGS THAT INFLUENCE
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**MARCH 2020 THINGS... By John
Zoellner**

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By John Zoellner, BCA, MCMEA

**It's March - the beginning of
Spring in the Midwest & Baseball
Season, a time of hope!**

Sometimes I see an article - I'm always curious and want / hope to learn something. Sometimes / often those things make me think - a Business Acquisition involves evaluation and planning and perhaps "hope".

I get a notice on my phone called "Morning Brew". It's a summary of the prior day's Stock Markets and articles about business things, for the most part. Recently there were a series of articles about Business Mergers. In order they were:

- Why Do Companies Merge

They merge for Efficiency, Scale, Diversification, and sometimes Desperation.

**- Swipe Right to Merge - How
Companies Find Love**

Merger opportunities are sought, or someone sees a benefit and the process starts.

Business Owner's Failure to Plan for a Sale

Simply stated, the reason most small businesses are not saleable is because owners do not plan for the sale of their businesses.

Some do not even realize planning is necessary. They think a business can be sold just like a residence or a used car is sold. That is not the case. Business sales are much more complex, much harder to finance, and there are lots of obstacles that can preclude the possibility of a successful sale.

Excuses

Other owners may have a general awareness of the need to plan their exit, but they never act on it. Owners have many excuses: "I'm too busy running the business on a day-to-day basis." "What would I do if I sold the business?" "I'll never retire." "I'll deal with it when necessary." *Excuses go on and on.*

For many, it's a subconscious emotional issue that they don't want to face - their own mortality. How many people put off writing their will? Exit planning is similar in nature. It forces owners to consider their retirement or death. Many entrepreneurial personalities dread facing those types of considerations and will only do so when something unexpected, such as illness, disability, near death, etc., forces them to face reality.

In the previous issue we listed the Top 33 Obstacles to a Successful Business Sale. Almost all businesses will have an assortment of obstacles that need to be addressed to make the business saleable, or to maximize the value of the business. Once the obstacles are identified, it takes time to develop and implement plans to overcome or minimize the challenges.

Obstacles might preclude the sale of your business

- Planning for a Merger is Planning for the Unexpected

No matter how much things look good, it's impossible to know everything.

- How a Merger Actually Works

No matter what it's called, most of the time one Company acquires another - Asset Purchase or Stock Purchase.

- After the Honeymoon: Why your Merger Needs a Culture Prenup

The "culture" of each business is different, no matter how much they look similar. Merging them is critical

- It's Not You, it's us: When Mergers Go Wrong.

Mergers can and do go wrong - for a lot of reasons. When they do go wrong, what are the options and costs, and most important, can the Business survive?

Most if not all transactions we are involved with are a purchase of Assets, although we have been involved in a number of Stock purchases. Many are a purchase by a buyer that doesn't then own a business. Some are an acquisition by a buyer that owns at least one other business, but it's a purchase, rarely a merger.

Most acquisitions are successful. Even though the current business climate is generally good, there are businesses that close or otherwise go out of business. Reasons - never easy to know all the reasons but here are a few examples.

- A Business had a major customer - 40% of Revenue. Two months after the acquisition, this customer lost its large Government Contract. The 40% decline in Sales couldn't be replaced soon enough, and fixed costs could

- If you do not know the value of the business, or if you are unclear as to how much you need in retirement to maintain your lifestyle, or if you are unaware of the tax bite you will incur, how can you know if you can afford to sell the business?
- If you have unrealistic price expectations and are unwilling to change them, the business will never sell. For more information, read this article: Issue #60 - Owners with Unrealistic Price Expectations.
- If you have other partners, or you own a franchise or have exclusive licenses, your ability to sell is significantly influenced by third parties.
- If you have a C-Corporation, the tax implications are significantly negative and may preclude your ability to sell.
- If the business is too dependent on you, and you have no strong second-level management or organizational depth, you may not be able to sell.
- If your Seller's Discretionary Earnings (SDE) is less than \$100,000, it may not be saleable; if it is, you may have to provide significant financing yourself.
- If you have very few customers or customer concentration issues, it will have a noticeably negative effect on the sale of your business. For more information, read this article: Issue #68 - Customer Concentration Issues.
- If the timing of your decision to sell is bad, it can negatively impact the sale. Especially waiting too Long to sell.

It takes time to address and minimize obstacles!

There's good news, though. These obstacles and many others can be addressed if you identify your issues and then implement steps to overcome or minimize them. But, effective implementation takes time. It's best if you have at least 2 years and much better if you have 3 - 5 years to work on the business to minimize the obstacles to a sale.

Don't let your lack of attention to developing an exit plan be the primary obstacle to the sale of your business. Identify your obstacles immediately. Whether you intend to sell in 2 years, 5, 10 or 20, identifying and minimizing obstacles will not only improve its salability, it will also improve your business cash flow and enable

not be covered at the lower Sales level.

- Purchase terms involved the Business after the sale paying higher than market Rent as part of the Purchase Price. Revenues declined and the higher Rent - a fixed cost - couldn't be paid resulting in the landlord / former owner of the Business, filing suit.

- The first-time business buyer, a Vice President of a large Corporation, thought he could entrust day-to-day operations to employees, as he had done in his previous employer. One issue he had was that he hired employees from his church and family members. They didn't know or learn what needed to be done, and some thought they didn't have to work as he couldn't or wouldn't fire them.

Buyers sometimes immediately want to make changes - to personnel or how the business operates or other aspects. Some changes can be made at any time. For others it might be better to wait until the buyer becomes more familiar with the Business and gains an understanding of how changes might affect the Business.

Buyers, in order to acquire a Business, need three things - Money, a Plan, and be willing to take a Risk. The key is often the Plan - a Business Plan. Is the Plan based on Due Diligence, sound principles, is it achievable, and are there adequate reserves when something changes? Something always changes and Plans always needs to change and adjust.

We would love to hear, confidentially of course, your thoughts and experience with buying a business or being employed when business ownership changes.

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you to pay yourself more. In addition, you will be prepared if something unexpected happens that forces a sale in the near term (illness, disability, death, etc.).

THINGS THAT INFLUENCE BUSINESS VALUE...FIXED ASSETS

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 always is Fixed Assets - Personal Property & Real Estate. Personal Property is everything from office furniture, computers and other related technology items to production equipment and vehicles. Everything that's typically depreciated is considered a Fixed Asset. Listed below are a few things to consider.

Personal Property Questions & Considerations

- What condition are your Fixed Assets in? Is their general condition & specific condition good or bad?
- Who provides maintenance on your Fixed Assets?
- Are they "state-of-the art" or dated?
- How do they perform and are they efficient compared to current versions?
- What needs to be replaced or upgraded and what is the estimated cost?
- What have you spent on major repairs, replacement, additions in the past 3 years?
- Do you have items you aren't using that could/should be disposed of?

When it comes to Personal Property, function is important (Do they do what they are intended to do?). Age is always a factor as is production efficiency and that is precisely why you should be considering overall cost projections for the next few years.

Real Estate Questions & Considerations

- Is the facility used by the Business owned or leased? Who owns it? Current location and does it meet the needs of the Business?
- Is the business at full capacity and is there room to expand the Business?
- Is it the right size? (Too big or too small)
- How easily could the business be moved?
- What is the occupancy cost - rent, taxes, maintenance, insurance, etc.
- What is the condition? How does it "show" to customers, vendors, lenders?
- What do employees think of it? Is it attractive? Is it safe?
- How Fixed Assets function is important. Image is equally if not more important - more often than not it sets the tone for everyone that comes in contact with the Business and defines its brand.

The EBITDA produced by a business is always important in

***Inadequate
Seller's
Discretionary
Earnings (SDE)***

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determining business value, no matter what the purpose. It's also very important to consider the likely upcoming cost to maintain, rebuild, and replace Personal Property & Real Estate. Those costs reduce EBITDA and impact business value. When we begin the process of appraising or selling a business, we look at all aspects, and Fixed Assets are important.

If you are considering Selling your Business or Buying a Business, or need a Business Valuation for any purpose, please contact us - we have experience. Everything we do is confidential.

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