

Greetings!

Please take a moment to review the valuable content in our newsletter.



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Opportunities & Risks

A few years ago, we were advising the owner of a business that wanted to sell. We had located a buyer and had an exceptionally good deal in place. Literally three days prior to the closing the seller backed out. He cited two very legitimate, personal reasons. Unfortunately, I learned last summer that he ultimately had to close the business and liquidated all assets. Covid literally negatively impacted ALL of his customers and sadly his business was no more.

Many businesses have experienced similar circumstances this past year and business owners have been left to sort through what's left and make difficult decisions. What should we do? What changes do we need to make? Is it time to consider selling? What if we wait – do things change – get better or not? These are almost always critical decisions that are certainly not easy to make. Everyone owning a business will eventually not own it. For most, they will sell to someone or transfer it to the next generation. Some businesses will close or be liquidated. For some, they will pass away while still owning it, leaving heirs to deal with it.

Customer Concentration Issues When Selling a Business

In small businesses, a customer concentration obstacle is not all that unusual. Does any single customer represent more than 10% of your revenues? More than 20%? From an evaluation standpoint, some prospective business buyers would consider a single customer accounting for 10-15% of a company's sales as a major negative. Almost all prospective buyers would consider concentrations of 30% or more in just two to three customers as a potential problem maintaining the business after the sale, and that could have an impact on salability and/or the terms and structure of a sale.

Dealing with Customer Concentration Issues

Customer concentration can be a significant obstacle to the successful sale of a business and to the price a buyer will pay. Always look to diversify your base of customers. Any efforts to reduce customer concentration by diversifying your client base will be beneficial to salability, valuation, and maximizing the cash received at closing. It helps to understand the buyer's risk perspective and do what you can to address the issue. As discussed in Issue #59, improving your marketing and sales efforts can help to reduce customer concentration concerns.

If there is a customer concentration concern, a lender will likely deem that there is a higher risk to the loan, making approval more difficult. One way to address the concern is for a portion of the purchase price to be an earn-out, that is, for a portion to be paid on the future performance of the Business. The problem with an earn-out is that if the buyer uses SBA financing, the SBA rules do not allow an earn-out.

An alternative to the buyer borrowing funds is for the seller to provide financing. Negotiate an acceptable down payment and structure the rest to

Now – March 2021 – it could be argued that it's a good time to consider selling. Buyers are plentiful and have money. Lenders are aggressive and wanting to finance acquisitions. Interest rates remain low and terms are attractive. Covid may have affected the Business in the past year – for better or worse, but business transfer activity is high, and prices are less affected if at all by what happened with Covid than one might think.

This might not be the time to consider selling your Business, but we do believe that it is something to be considered so as not to miss an Opportunity.

Let's get together to discuss possibilities – call or E-mail any time.

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be a combination of guaranteed payments and some in an earn-out. To provide seller financing in any amount there are two questions – 1) are you selling a good business, and 2) do you have a capable buyer? If you have two strong "yes" answers, the risk for the seller is reduced. And an earn-out could be structured to provide an overall higher price than with no seller financing.

Evaluate your customers – how long have they been with you, what alternatives do they have, do you have a strong relationship with them, and similar considerations. If you have one or more customers that represent 10% or more of your business, it may be an issue to buyers or lenders. As the percentage of concentration increases, so does the risk for buyers and lenders. Your risk of failing to sell your business also increases.

As the old saying goes, "there are many ways to skin a cat". Our vast successes working with sellers to a desirable, successful sale are many. Exploring them is the key.

Do you have Customer Concentration Issues?

NEXT ISSUE

**ASSET VALUE TOO HIGH
VS. RETURN ON
INVESTMENT**

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