

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



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Business Planning

Planning for the upcoming year often starts in the last months of the year. As advisors to businesses, we've seen planning well thought out with assumptions and "what if" scenarios. The planning process for a business owner starts with history and current status of the business. The next step is looking forward. The REAL VALUE OF A PLAN is the process – looking at what the business does, how it does it, and what might need to change to be better in the future. The planning process for the owner is a valuable management tool.

Business buyers won't buy a business unless they have a plan to operate it that they are confident with. Like the business owner, they start with history of the business, then look at the current status. More importantly, they look ahead and anticipate and measure what could happen going forward. They look for possible risks and attempt to measure

CHOOSING THE WRONG INTERMEDIARY

A good broker can identify the pieces of the puzzle that must be satisfactorily addressed to manage the complexities of a business sale.

Earning a living as a business broker / M&A intermediary can be tough. For the most part, it is a straight commission business. Many people enter and exit the profession within their first year or two. The key to success in the business brokerage field is representing good businesses that have good cash flow and helping owners set realistic expectations.

A Business Broker / M&A Intermediary should manage sellers' price expectations

Inexperienced or less than diligent business brokers / M&A intermediaries think the key to success is representing good businesses with good cash flow, regardless of sellers' expectations. There are far too many business brokers who ask about sellers' expectations (nothing wrong with that), but then, based on the sellers' responses, adjust their presentation/approach/evaluation and their own expectations to match sellers' expectations.

For example, if a business should be valued at \$750,000, but the seller indicates he wants \$1,000,000, the business broker may accept the engagement at \$1,000,000 just to obtain the listing. The broker may figure that, over a period of time, prospective buyers (the market) will adjust the seller's expectations. To some extent, the business broker may be right. Over a period of time, the seller's expectations may change. But, that period of time is painful for the owner of the business. Until his expectations change, he's wasting his time, he may lose good prospective buyers, and the best prospective buyers, realizing the business is over-priced, may not even bother to look at the business.

A Business Broker / M&A Intermediary should identify obstacles to a successful sale

In addition to the problem of listing over-priced businesses, some business brokers / M&A intermediaries may fail to prepare the owner for the 33 obstacles we identify and discuss in this newsletter series. Obstacles like Owners Who Cannot Afford to Sell, C-Corporation Tax Implications, Lack of Second-Level Management, Large Working Capital Requirements, Customer Concentration Issues, and Excessive Personal Expenses and Skimming Cash are all representative of some unpleasant aspects of the sales process that should be discussed between the owner and his intermediary prior to the owner making the decision to sell his business. To avoid wasting everyone's time, an owner needs to have a complete understanding of the

them. If their plan and associated risks are acceptable, with prospects good and maybe exceptional, they will make an offer to buy it. Without confidence in the plan being successful, they will not move forward.

As advisors to business owners wanting to sell, we learn a lot from possible buyers, in some cases we learn more about the future of the business than we learn from the owner. Buyers look at the business and how it will operate under their plan.

If you are a business owner looking to sell, or someone wanting to acquire a business, let's meet and discuss opportunities.

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NEXT ISSUE

**Trust Issues from
Inadequate Disclosures
before Due Diligence**

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obstacles that may be encountered in the sale process. An experienced business broker will identify and prepare for obstacles upfront. An inexperienced business broker can only react (often inadequately) to circumstances that could have been anticipated and/or avoided.

A failed attempt to sell your business can be painful

Selling a business is never easy, but it doesn't necessarily have to be painful. For many reasons, some business brokers may fail to sell the business. That creates the worst possible pain - the owners invest considerable time and effort in trying to sell the business, but it all ends up being a huge waste of valuable time. If businesses are priced right and obstacles are identified upfront, it doesn't have to be that way. To the contrary, with proper preparation, a sale can occur relatively painlessly. But almost all transactions will reach a "touch and go" stage (or several) where negotiations become heated and need to be delicately handled. An experienced business broker / M&A intermediary can finesse those negotiations to a successful conclusion. An inexperienced business broker might lose a transaction that should have been successfully completed.

This series of previous newsletters have concentrated on obstacles to a successful sale of a business. You should expect "tough love" from your business broker / M&A intermediary.

After completing an evaluation of your business, an experienced business broker / M&A intermediary should be able to tell you, in terms, you can understand and within about a 5% range, how much your business can be expected to be sold for and why. He also should be able to explain the obstacles (prospective buyer's objections) that might be encountered and how you can counteract them.

If in the process of considering an intermediary, you get the feeling the business broker is "playing to your ego" or "blowing smoke", run the other way - fast. The broker is not helping you set realistic expectations, is setting you up for disappointment down the road, and is not likely to succeed in selling your business. He will waste your time, his own time, and the time of any prospective buyers that take the time to consider the business. Most qualified buyers will not even look at businesses if they sense the existence of unrealistic expectations and/or major obstacles without solutions.



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