

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



Zoellner, Garten & Co.
Cincinnati & Dayton OH
513-852-2404
937-677-2400

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Observing & Advising Businesses

Since 1988 our Company has been advising business owners that wish to sell their businesses as well as others looking to acquire. We also perform Business Appraisals and Machinery & Equipment Appraisals.

To be effective advisors and to thrive in this market we have learned that its critical to observe all aspects of a business.

The "why we observe" is obvious. In order to perform our duties, we need to learn and understand what a business does, its strengths, weaknesses, and prospects for the future. We use that information to advise the involved parties to achieve their objectives, the sale of a business or an appraised value.

The "how we observe" is just as important. We have to be independent, neutral and not advocates. We first request information, ask questions, listen to all involved parties prior to verifying and evaluating data. We look for alternatives and provide feedback that benefits the parties and helps accomplish their objectives.

The "purpose" is to achieve the desired outcome, accomplish a sale that benefits everyone, or develop an appraisal value that

SELLERS DON'T UNDERSTAND BUYER'S MOTIVATIONS

In making the decision to pursue an acquisition of an existing business, buyers have multiple motivations, among them: controlling their own destiny; more freedom and flexibility in their daily lives; recognition and status; and obviously income and security. If they succeed in making the right acquisition, each of those are achievable goals. However, by the time a buyer is looking seriously at your business, the motivations behind the decision to pursue an existing business are already present.

As they get serious about buying a particular business, the primary motivation becomes risk aversion. Knowing there are significant risks in any business acquisition, buyers are fearful. Especially in face-to-face meetings, buyers endeavor to identify risks that might magnify their fears.

Buyers want to minimize risk

Understanding a buyer's motivation to avoid risk is particularly important when, after reviewing the confidential marketing package and financial statements, a buyer requests to meet with the seller on the company's premises. Having reviewed detailed information provided by the intermediary, the buyer has preliminarily determined there is a reasonable chance the business fulfills its goals. In a first meeting with the seller, the buyer hopes to confirm his initial good feelings about the business but is primarily concerned with identifying downside risks that would preclude him from acquiring the business.

Most buyer risks are really obstacles that have already been identified in this series of newsletters. If you have adequately planned for the sale of your business by addressing identified obstacles and disclosing known but unresolved issues in the marketing package, the meeting with the buyer is likely to go well.

Avoid "war" stories

In any face-to-face meeting with buyers, it is important to be forthright and honest, without volunteering irrelevant negative information beyond what's been specifically asked. Be very positive about the business and avoid unnecessary war stories you might have encountered. Buyers are picturing themselves in your shoes and it's better for them to hear the pleasant aspects of your role while minimizing the unpleasant aspects.

Disclose all known issues

Do not try to hide known obstacles. When obstacles arise in buyer meetings that have not been previously disclosed, it can be very detrimental to successfully conclude the

everyone understands. Do we have all the answers? Of course not but that's secondary. We want to do as much as we can to identify the questions, so nothing is overlooked. With literally decades of experience and having been involved in hundreds of transactions we have seen a lot! We look at Advisory Services as the most important aspect of the services we offer.

If you are considering selling your business, or growing by acquisition, or would like to know the value of your business, we'd love to hear from you. Feel free to get in touch, and as always, with no obligation!

Morgan Vaive, Vice President
Morgan.vaive@zoellnergarten.com
859-957-9657

John W. Zoellner, President
jzoellner@zoellnergarten.com
513-382-3797

NEXT ISSUE

**OWNERS MUST SELL
BUSINESS GROWTH
POTENTIAL
SUCCESSFULLY**

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transaction. For disclosed obstacles, be prepared to discuss them in the most positive light with positioning that enables the buyer to see future opportunities for increased profitability if the obstacle can be overcome. Again, always maintain your integrity and answer all questions honestly.

Know your reason for selling

Every buyer will ask why you are selling. It's important to have a smooth answer to that very important question. The buyer needs to know that you look forward to transitioning your life. If the buyer feels you are just looking to run away from the business with no other legitimate motivations for selling, it raises all kinds of risk questions in the buyer's mind.

Be prepared to sign a non-compete agreement

The buyer also wants assurances that you will sign a reasonable non-compete agreement and has the right to expect you will. If you waver on that question, the buyer will fear he will be competing against you (unsuccessfully) in a short period of time. It's another reason why your answer to your reason for selling the business needs to be solid.

Be prepared to provide a training transition period for the buyer

Most buyers will want assurance that you will be available to help train them during a transition period after closing. Depending on the nature of the business and the buyer, the period of time can vary significantly. But, again, it is important to answer affirmatively without hesitation.

Be prepared to respond to seller financing questions

Most buyers will ask whether you will consider seller financing. As discussed in Issue #62 of this newsletter series, it is best to answer affirmatively, but to a very limited extent (for instance 5% to 10% of the purchase price). Some buyers won't even really want your participation in the financing. By inquiring, what they are really asking is, "Do you have confidence I will succeed?" If you answer the financing question negatively, it will raise a big red flag about your confidence in the future success of the business.

Be prepared to answer questions about your employees

Buyers will ask questions and be very concerned about employee capabilities and retention. They will want to know that the business can run without you, and occasionally without their own presence while they are on vacation. In a previous newsletter, we addressed issues regarding the lack of second-level management. Hopefully, you've addressed that already, but you need to be prepared to answer buyers' questions regarding that very common risk element.

Be prepared to discuss customer concentration issues

Buyers will be concerned about customer concentration as well as customer retention. They will be concerned that customer relationships are too dependent on the personal relationship with you. To diminish doubt, assuming that is

not the case, you need to answer affirmatively and with confidence that they should have no need for concern.

Risk aversion is a major factor in buyers' decision-making. Sellers need to appreciate how important that motivator is and prepare for buyer meetings accordingly.



John W. Zoellner
Zoellner, Garten & Co.
Cincinnati, Dayton OH
513-852-2404



James R. Sachs, Sr. Vice President
Morgan Vaive, Vice President