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## JULY 2022

### **Inflation, Recession, Interest Rates**

Economics is the social science that analyzes the production, distribution, and consumption of goods and services. Inflation is the term used to refer to the general increase in price level and the corresponding decrease in purchasing power. Recession is a significant decline in economic activity (the sum of all goods & services) for typically two consecutive quarters.

We've been informed by the media that current economic conditions are changing, and not for the better. Inflation is over 9% and many economists say that a recession can and likely will happen. Most if not all businesses have already been dealing with cost increases for the past two or more years. Employee wages and benefit costs have been going up and adding employees is difficult at best. The cost of almost everything a business needs and uses has been going up. And let's not forget interest rates are also rising! Yes, we have inflation!

What can we as business owners do about it? Most if not all businesses in the retail, distribution, manufacturing, and service spaces have raised prices to offset the increase in costs. Most are concerned that increasing prices will drive their customers to look for alternatives to spend less. We've also had to take a closer look at efficiencies (ways to do it better). And perhaps what has always worked for a business no longer does and new processes and methods are required for sustainability.

If Covid proved anything, it's that some things can and do happen that we could not anticipate. We can't budget for disasters, as disasters by definition can't be predicted. What we can and should consistently do is look critically at all aspects of our business. Are we pricing our goods and services appropriately? Should we increase prices? Do we have customers that generate little or no Gross Profit? Are we monitoring our costs? Are we doing a good job running our business?

What does our Balance Sheet look like? What does our Asset list look like? Does our Accounts Receivable look healthy and are we

### **Owners Are Advised To Sell Business' Growth Potential**

Face-to-face meetings with prospective buyers are a critical step in selling your business. In the last issue, we focused on the importance of your preparation in responding to buyers' concerns about the potential risks they face in acquiring your business. Risk aversion is a primary motivator for buyers.

Although the price you receive for your business is primarily determined by your past operating results, future growth potential helps seal the deal. It's the sizzle on the steak.

While there is no such thing as a typical buyer, it is best to assume your buyer will be a mid-level executive from the corporate world who has entrepreneurial dreams. Assume the buyer thinks his significant management experience will enable him to improve any business he acquires. What he lacks in knowledge of your specific situation and what he can do to implement improvements. That first meeting is a great time to provide him with your thoughts on the opportunities for growth.

#### **Be prepared to discuss growth opportunities**

As discussed in previous newsletter issues, if possible, you should position your known and disclosed obstacles as opportunities. However, don't limit yourself to those items. Spend some time thinking about growth opportunities. What might you do to improve your business if you were younger, had additional capital, and were willing to spend the extra hours to implement new ideas? Would you consider additional product lines, geographic markets, or new hires? Would you try new marketing methods, raising margins, cutting costs, implementing online sales, etc.? If you can provide the buyer with realistic ideas for growing the business, it can help offset other doubts the buyer may have about acquiring the business.

#### **Be prepared to discuss business metrics**

It's not uncommon for small business owners to run their business somewhat intuitively, without a lot of analytical information. On the other hand, the typical buyer (as outlined above) has come from a more structured environment that constantly measures business metrics. In meetings with buyers, you are likely to be asked about your key business metrics. This is another area you need to be prepared for.

The nature of key business metrics will vary from company to company. Some common metrics are percentages of: leads to close, gross margin, payroll, overhead, seasonality, salespeople, and customers. Metrics may also include average sale value, sales by product line, average monthly sales, average accounts receivable collection period, average inventory levels and turnover rates, working capital levels, bad debt ratio, etc. In conjunction with your intermediary and your accountant, most of these metrics are easily discernable. If you are knowledgeable about the key metrics when meeting with buyers, it provides a significant comfort level for them. In addition, analyzing your metrics might help you identify growth opportunities and document how to achieve certain goals.

#### **Know your competitors and your competitive advantages**

getting paid as we should be? Is our Inventory too high? Do we need to upgrade or add Assets for better efficiency? On the Liability side of the business, are we buying right and taking advantage of available purchase discounts? Are we paying our debts? Should we refinance and consolidate debt? Is interest taking too much of our operating profit? Are loan payments using too much of our cash flow?

When we Advise business owners that are considering selling or buying, we look at all the above factors and much more. How a business operates has a huge impact on its value. Business owners should routinely look at the value of their businesses. If you want your business to be successful, then you should know where you are today and what areas of your business need improvement. We can provide the perspective of a Business Appraiser, and as a Business Broker / Intermediary and provide input that should help you make more informed decisions and better manage your business.

We invite you to contact us for a no obligation discussion that might be one of the better discussions you will have.

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For a buyer, the nature of your competitors and your competitive advantages, or lack thereof, are risk areas that are sure to be asked about. If you cannot answer coherently, it raises another red flag in the buyer's mind.

When sellers are not well prepared for their initial meetings with buyers, things may not go well and buyers will move on to other situations with less risk and more opportunity. Although it happens way too often, it doesn't have to be that way. While buyers are always leery, they really do want to come out of a meeting with the seller feeling good about the business. If adequately prepared, much of the buyer's perception is within the seller's control. Remember, that decisions are made emotionally and supported by logic.

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## NEXT ISSUE

### BUSINESS LEASE TRANSFERS

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