

THE EXPERTS

BUSINESS LIFE CYCLES

Closing the doors versus selling your business

If you are thinking of closing your business, stop! ... until you speak with an expert.

During a recent meeting with a client, I discovered his intent was not to exit, but to liquidate his business, and he was looking to me to support his decisions.

The business was a landmark company that had been in existence for more than 40 years. The business had been passed along to the client by his father. Like many older businesses, it

had struggled through changing economy, the computer age, and the buying methods and patterns of many large companies that his company was supplying.

It lived through the days of a shrinking market, centralizing purchasing, computer ordering and customers' switch to the big-box companies to provide inexpensive products shipped to their door. The company exemplified the true meaning of "Hug Your Customers" by continuing to make door-to-door deliveries and taking orders by phone.



RICH CHINAPPI

COMPANY ADAPTS AND SURVIVES

In spite of all the industry changes the company survived, and in fact, provided a comfortable living for the owner who was now the second generation operating the business. The business went through a number of changes, including elimination of products they weren't able to sell as well as items they could not compete with for pricing in the large box stores.

Through all the change, the owner modified and adjusted to stay in business until his health began to affect his commitment to the hours necessary for continued success. The stress of continuing to adjust to the changing market environment and the pressure of an uncertain future were added factors toward the desire of the owner to liquidate.

A young man with a young family decided he needed to depart a dying industry and venture into a new field. He saw no value in this business his father started and was on the verge of closing the doors of the company when he placed his call to me.

After reviewing the company's financial data and after speaking with the owner in detail, I was surprised the business was very profitable, and in fact, had higher than the industry standard net income.

Even better, after recasting the financials, it was evident the profit margins had a huge growth opportunity.

LACK OF STRONG LEADERSHIP

I was most heartened to see there was hope; however, I had yet to discover the company was sorely lacking strong leadership which trickled down into loss of motivation in employees. There was no active selling – employees were not interested in seeking new business as they felt the same as the owner – that they were a dying breed in the industry, assuming the company would eventually close its doors.

Everyone was working to make the owner's prediction come true, who was in turn determined to make his expectations come to fruition rapidly.

After reviewing the financials and recommending immediate and major changes to improve the business, I discovered the owner had no interest in implementing my suggestions; therefore, the next step was implementation of Plan B, which was to sell the company.

This idea was met with great resistance and dismay, with the owner asking how he could sell a company that was about to close its doors. I explained that, although not evident to him, there were valuable assets to someone who would clearly see the potential of the business and the opportunity to grow the business.

As incredulous as the idea seemed to him, he agreed to let

me confidentially market the business.

After recasting the financials, we determined a viable selling price. After a marketing profile was developed, we identified key competitors in the market that would fit with his business and we searched for companies in the industry that were in the acquisition mode. We confidentially reached out to those companies' executives and, bingo, the game was on.

VALUE QUICKLY REALIZED

As I suspected, almost immediately the astute potential buyers saw the value and recognized the growth opportunity in this small business. The owner was astonished and predicted we would never receive an offer. He was bewildered by what happened next. We received a full price offer, and, even more surprising to the seller, we breezed through due diligence and closed on the transaction quickly.

It is often difficult to recognize the real value of your business when you are trying to push the boulder up the mountain every day; feeling defeated by competition and the changing market environment; and working extended hours.

If you find yourself in this position, stop and take time to call an expert who will look at your business objectively. You, too, might be surprised.

Contact Rich Chinappi at Read Commercial Properties in Hampton at rac@readcompanies.com.