

Primary Considerations in Selling a Business

By Tom Marx, President and CEO of Marx Group Advisors

Our last article explored why a performance retailer would buy a business. We covered various scenarios, including expanding your geographic area, eliminating a competitor, gaining market share, reducing costs and increasing profits, acquiring a valuable supplier, and gaining coveted real estate locations.

In this article we will explore some of the compelling reasons why you should consider SELLING your business. Even if selling has been the last thing on your mind, read on; you might be surprised how this information could change the way you think about selling your business, now or in the future. By employing Intelligent Strategy, which we define as the capacity to plan, reason, think creatively and help you realize tangible value, you may find that selling is the answer to your long- and or short-term challenges. Intelligent Strategy allows you to not only determine whether selling is the right path for your business, but will also give you the objectivity to determine if you are fit to pursue this course of action.

Three Reasons to Consider Selling Your Business.

Reason 1: Changing Market or Financial Climate

One day you are meeting or exceeding quotas, and soon thereafter you notice that product sales have started to drop off. What's going on? It is probably due to one of two factors: changing product trends or a drop in consumer spending.

- **Changing End Product Trends**
Let's say you run a retail performance parts store, and the consumer trend has shifted away from large pickups to hybrids or electric vehicles. This is likely to have a negative long-term impact on your revenue, unless you can move with the trend. What is the writing on the wall in regard to consumer trends? Is there a new technology that could greatly affect the demand for your product(s)? Would a change in your product mix help you weather the change? If so, is your company flexible enough to respond quickly? If not, selling may be the best option.
- **Reduced Consumer Spending**
Soft sales across your segment spell bad news whether you want to hold on to your company *or* sell it. But if unemployment in your area is making it difficult to keep your revenue at threshold levels, a stronger emphasis on online (i.e., non geographically dependent) sales might allow your company to weather the temporary storm.
- **Eroding Market Share**
Businesses that are retaining or growing their market share demonstrate that they are meeting consumer demand. If your company is persistently losing market share, you must take note that something serious needs to be addressed before you're crowded out by competitors that have captured the attention and loyalty of your customer base. Is it possible to regain traffic at your store with a change in marketing, distribution, product mix, or new merchandising design? Or is it time to sell out to companies with deeper pockets and wider mass appeal?

Reason 2: Problems Within Your Business

- **A Souring Partnership**
Businesses are based on trust. If even one partner is not carrying his or her weight, that erodes

confidence. This could be a lack of financial support, a failure to devote adequate time to developing or supporting the business, or creating ethical or legal problems. In this case, the relationship may be easier to end than to mend; the decision to sell and either enter into a new enterprise or move onto a new career, may be the healthier choice.

- **Negative Cash Flow**

There are many factors that can adversely impact a company's cash flow, from slow sales to increased overhead to insufficient margins to unanticipated capital investments or expenses. Some businesses have lines of credit in place that allow them to use cash flow to cover expenses when profits are high, with financing kicking in to provide a cushion during a down turn. But if interest rates no longer make that economically feasible, or your bank does not see you as a good credit risk, your cash drought could create problems that make selling a smart decision.

Reason 3: Personal Conditions

- **Age or Health of the Owner**

If the primary owner/operator of a family-run business begins to have health issues, or has reached an age that makes day-to-day operations more difficult and less enjoyable, a decision to sell will depend heavily on whether someone is available to take over the reins. Is there a family member with the desire and ability to keep the business competitive and help it grow? If not, it might be best to sell the business and share the proceeds through an inheritance.

- **D-I-V-O-R-C-E**

When a couple owns a business and divorce is looming, the effect on morale and operations can be devastating. This is a good time to re-evaluate your focus on running your store, with an eye to selling it. Is this something you want to do for the rest of your life? If so, it might make sense to move to a new location and reopen under a new name. If the business no longer holds its appeal, however, it may be the ideal time to clean the slate for a new career.

What to Do if You Decide to Sell

Once the decision is made, you need to do everything you can to ensure the company doesn't lose value or fail before closing. The "short list" of considerations includes:

- Maximizing the value of the "deal." To do this, you need to determine the metrics that a buyer cares about (i.e. EBITDA, loan-to-debt ratio, inventory turns, etc.), and have a strategy to bring these metrics in line with expectations, improving the multiples and value.
- Preparing your business to sell, assuring that all legal paperwork and financial documentation is in order.
- Establishing boundaries on matters such as employment agreements, payment terms, non-competes and compensating key people.
- Deciding whether to keep the pending transaction a secret from staff, competitors and/or customers.
- Resolving whether to go it alone, or hire a specialist – who can help assure you don't get blindsided by issues that a buyer can use to leverage a lower price – to help you sell the business.
- Minimizing tax consequences.
- Liquidating remaining inventory or assets after the sale is complete.

Meanwhile, you need to handle all the work that needs to be done and still run a profitable business.

Addressing these issues early on is often what creates real value at the later stages of the process of selling your business. Without defining an Intelligent Strategy at the outset, business people often find themselves failing to plan adequately, and failing to achieve a satisfactory conclusion.

About Marx Group Advisors

Tom Marx is president of Marx Group Advisors (MGA), a company that provides full-service M&A support for buyers and sellers of middle-market enterprises, specializing in the Automotive and Heavy Duty Aftermarket. Founded by Tom and his partner Paul Cooperstein, the firm also represents private equity firms when financing is a part of the transaction. MGA's consulting services employ Intelligent Strategy to uncover and increase the value of a client's company; find or create the ideal buyer or seller; and bring the deal to a winning conclusion. This enables companies to improve their balance sheets before beginning the M&A process, and to optimize post-M&A integration. Tom is also the founder of The Marx Group, a 25-year old marketing communications company that specializes in the Automotive and Heavy Duty Aftermarkets.

Marx Group Advisors (www.marxgroupadvisors.com) is headquartered in San Rafael, CA, and has an office in Boston, MA. Tom is an active member of SEMA, AAIA, AASA, PWA, ACC and APRA. He is past vice chair of the AAIA Marketing Communications and Member Relations Committee and is past president of the Automotive Communications Council. Tom can be emailed at tmarx@marxgroupadvisors.com.