Time to Sell?

Positioning your dealership for an acquisition

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Whether you are the CEO of a 100-year-old, multigenerational dealership or a newer company that you started on your own 10 years ago (or somewhere in between the two), you have possibly thought of what the future might hold for you and your business. If circumstances in your life have changed since those early days, or you are cautious of the needed investments to modernize your solutions offerings, the thought of selling your business may cross your mind.

You might wonder about where to start. Every business owner who thinks about selling begins with a few questions. What is involved in selling a company? How would you determine a realistic selling price? What would happen to your employees? Would you want to remain with the business for a period of time, or are you set to take that long cross-country trip you have been dreaming of? Would a prospective buyer even be interested in your business? How do you find a buyer? And are there any steps that you could take to make your company more appealing to a prospective buyer?

These are all good — and important — questions. Regardless of the size of your company, there are several factors you should consider as you give this some thought.

As a general starting point, there are buyers in this marketplace on the lookout for companies to acquire. I am with a company that has completed more than 20 acquisitions in the office technology space in the last few years and am glad to share a few thoughts on how you can begin to prepare for an eventual acquisition.

From an acquiring company owner's point of view, your company would need to make sense for his (or her) company's geographic footprint and market. If your facility is in Portland, Oregon, for example, and an owner seeking an acquisition operates his company mostly in the southeast, then your company may not be an appealing prospect unless it has the size and scale to support an entirely new region. However, it does not mean that there aren't any other owners who might be interested.

One item that might matter to many acquiring owners is whether your company's values and culture align with

theirs. An acquisition is a bit like a marriage; both sides are in it for the long run. While bringing a new company into the fold can be very exciting for both parties, the process goes more smoothly when there are like minds concerning vision, mission and values in general. And, just as a prospective purchaser will perform his due diligence on your company, you should also interview the possible buyer to make sure it is a good fit both ways.

With that said, below are a few specific suggestions on preparing yourself and your business for a sale.

Do Not Rush the Process

First, give yourself some time to get used to the idea. The decision to sell a business can be emotional. Many owners consider their businesses "their babies," having poured a lot of themselves into building their brands and products. Be certain that this is a direction you want to pursue.

Sales and acquisitions can sometimes turn around very quickly, but the seller who is methodical about the process may want to start preliminary planning up to five years before "signing on the dotted line." Although, if you have prepared your company well, the acquisition process may only take four to five months.

Use Experts

Have a preliminary discussion about your plans with your accountant and your attorney. Then consider how you want to go to market. Do you prefer to have direct conversations on your own with a potential acquirer or do you want to hire a broker to help you get organized and lead you through the process? Our industry has some great brokers and advisors with strong track records and specific industry knowledge. While an investment banker is also an option, a potential disadvantage here is that the banker may not know the industry as well as a specialized broker or advisor, who may be better able to offer a realistic opinion of the value of your business. Anecdotally, two-thirds of our acquisitions have been without brokers involved, but it is really a matter of what you might be most comfortable with.

Selling your business can be bittersweet, but with the right partner, it can be a rewarding experience for you, your employees and your legacy.

Here are a few primary steps to consider:

(1) Changing the corporate structure of your business to an S corporation. Being either an S corporation or an LLC is generally more advantageous on both sides of the buying and selling process, allowing for a smoother transition when it comes to selling the assets of the business. If you are planning to sell your business down the road, make the changeover sooner rather than later. As always, discuss with your accountant, as this would require a five-year timeline.

(2) Examine your bookkeeping/accounting practices and your business operating system with a critical eye. A trusted advisor, such as your CPA, may prove invaluable here. Are your figures well organized and easy to follow? Are your accounting practices consistent, compliant and complete? Companies where the owner is busy running the day-to-day matters of the business may pay less attention to record-keeping, so it is best to examine this well before any potential sale discussions. A company may have an accurate income statement, but the balance sheets may not have shown depreciation of assets. Is the inventory managed correctly? Has any excessive obsolete inventory been dealt with both on paper and in terms of warehouse space?

Just as you do not like surprises in your business, neither will a potential buyer. A clean and efficient operating system will make it easy for a suitor to “understand the weeds” of your business with minimal distraction to you as an operator. If there are inconsistencies, it is better to iron them out early.

(3) Review — and wherever possible — upgrade your practices when it comes to service contracts. Are your contracts month to month with a 30-day cancellation option? Do you have service contracts for all your customers, or are some of these arrangements done “on a handshake”? From an acquirer’s point of view, the stronger the service contracts, the better. Upgrade your contracts so that they are longer term and, ideally, without cancellation options. These stronger, solid, longer-term service contracts will increase the value of your business. If you have been somewhat lax in this area previously, now is the right time to upgrade. Doing so will yield success in the sales process.

(4) Determine a realistic value of the business. A broker can help, as could other valuation professionals. Having knowledge of the actual potential worth of the business will put you in a stronger position when you go to market. There is that old saying that a business is worth what a buyer is willing to pay and a seller is willing to sell it for, but there are more accurate means available to determine value. Several factors help this determination, including profitability, the amount of recurring revenue, inventory, debt and real estate expenses, among others.

(5) Do some research on the companies in the market that are acquiring businesses. What do these companies look like? What is their reputation? How do they operate? Do they align with your values and with what you have built?

(6) Consider what the landscape will be like after any sale. What do you want the legacy of your business to be? Do you have employees you would like to see remain with the new company? Do you envision a transitioning role in the company for yourself? It is best to resolve these issues early in the discussions. Having valued employees in your organization — people with strong ties to your customer base or key in the operations of the business — can add to the appeal of your business.

(7) Confidentiality is key. Keep the news that you are considering selling your business to a small inner circle — your financial advisor, your accountant and few others. When you have reached the point of a signed purchase and sale, you can begin to roll out the news to the appropriate parties.

With all of the pieces in place, a sale can happen fairly quickly and smoothly. And that is especially true if you, as a seller, have your business systems operating smoothly and efficiently, and you have “done your homework” in preparation. Selling your business can be bittersweet, but with the right partner, it can be a rewarding experience for you, your employees and your legacy. ■

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