Selling Your Business?

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You may already know the best buyer

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What's the best way to sell your business? For most small business owners the advice from 'experts' doesn't apply to them. We walked in on a gathering of 'exit planners' that was filled with CPA's, lawyers, investment advisors and business brokers pontificating on the 'best way' to position a business to be sold. The advice ranged from paying off all outstanding debt to dramatically reducing officer's expenses to signing long-term contracts with key salesman. They were focused on selling a company to a third party interested only in EBITDA, gross profit margins or internal rate of return.

But what if a business owner is selling job satisfaction, employee goodwill or hard earned name recognition? What if the real value isn't just financial or if the owner is concerned about the fate of his employees after the sale? The financial tactics offered by the experts don't take these factors into account.

Perhaps it was that no one in the room had ever managed anyone other than an administrative assistant or started a company from scratch or bought hard assets (machinery, equipment and factory improvements) or kept the doors of a company open after the bottom fell out of their market.

It was a group without 'street smarts'. The one thing that's true of the small manufacturers and industrial companies that we work with is that the owners have plenty of 'street smarts'. Our owner/clients know lots about keeping a company open because often they've been doing it for years. Most of our small business owner (companies with less than 100 employees) clients are baby boomers 55 plus and have been at it more than 20 years - otherwise they wouldn't have something of value to sell.

What business owners aren't usually prepared for is exiting - national statistics show less than 15% of owners have a succession plan and a more sobering fact is that less than 20% of all companies listed are sold once they have been listed. When ownership does transfer, it's often temporarily to a relative due to sickness or death, through a liquidation. A third way that most 'exit professionals' seldom recommend is to sell to key employees, insiders. Yet this is the increasing favorite of many smaller companies.

On Wall Street, these deals are known as 'management buy-outs' but for smaller companies it's just a fact that long-term key employees who understand and perform well are often the best candidate(s) to sell the company to. In fact, lots of owners find it best to sell to insiders and prefer it for a host of reasons:

company is sold 'lock stock and barrel' • Saves on adversarial due diligence 'headaches' - although a valuation is frequently required - because parties know and trust each other • Keeps a legacy alive and generates lot of goodwill, not to mention saving jobs in the community

This last reason is why Concerned Capital gets involved. We're a social benefit corporation with a double bottom line. We are not business brokers. Our social mission is to save jobs in communities and encourage bottoms-up wealth creation.

It's not always possible to sell to an employee group or other insiders. They may lack a creditable down payment (usually 30% required by SBA) or may not want the financial responsibility (new buyers must be willing to pledge their house) or the employee(s) may not be able to handle running all aspects of a company.

Helping the inside buyer consummate the deal is what Concerned Capital does. We use government sponsored credit enhancements, entrepreneurial training, provide auxiliary financial consulting and other middle management personnel to bridge the gap during transition.

The only thing we can't supply is motivation. In all 7 companies that we have transitioned to insiders, the new buyer(s) were highly motivated to make money. One case was a single mom great at manufacturing techniques, another was a team of food producers who ran the company absentee for 5 years and in yet another a key employee knew how to motivate others and double sales 2 years after the take-over.

Owning a small 'niche' manufacturing or industrial business is one the few remaining ways of getting ahead financially for minorities and others who work in these companies. A college degree alone no longer guarantees upward mobility. Paving the way for employees to own the company they work for increasingly makes sense as more aging owners head for the exits and crowd the market with companies that are 'for sale'.

Tomás Durán and Bruce Dobb own Concerned Capital, Inc. a boutique investment firm in downtown Los Angeles that helps businesses find government incentives and transition to new ownership.

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