TO SELL OR NOT TO SELL?—That is the question

Change is accelerating in the foodservice equipment and supply industry. After decades of minimal disruption and shakeout (even during and immediately after The Great Recession), the pace of mergers and acquisitions among dealers and manufacturers has picked up. What is driving this trend? Several things: available investor cash, continued low financing rates, ongoing requirements to invest in technology, attractive EBITDA (earnings before interest, taxes, depreciation and amortization) multiples for sellers and perhaps the biggest factor—the preponderance of baby boomer-owned, family enterprises in this industry. The average age nationally of a family business owner is just north of 60 years and most have between 50-70% of their personal net worth tied up in the business.

Selling **any** business is a difficult decision, but a family business even more so. It is emotional for the owner, affecting him or her personally, impacts other relatives active in the firm, as well as the extended work family (employees, customers and vendors). It may even impact the surrounding community, depending on the type of sale, purchaser traits, etc. Finally, there is the post-sale transition that the owner experiences based on his or her individual plans and goals.

WHERE DOES YOUR FIRM SIT ON THE BAR?

In many mature industries, there is frequently an analogy to the "barbell effect" which describes how the firms comprising that particular industry are segmented. We continue to see this configuration develop in the foodservice arena as well.

At one end of the bar are the weights that represent what I will term the "mega-dealers" and manufacturer conglomerates. Examples of organizations that represent this end of the bar would include Trimark USA, Edward Don, Wasserstrom, The Boelter Companies, The Middleby Corporation, ITW Food Equipment Group and the Ali Group, among others. These industry giants continue to get larger, both through organic growth and/or via acquisition and their size drives success leveraged by increased purchasing power, as well as economies of scale leading to improved efficiencies and expense reduction.

At the other end of the barbell are the weights representing many small or niche dealers and manufacturers, who survive industry challenges either by providing a very high degree of personal and customized service, a unique or niche product, or by operating in a small or segregated geographic market ignored by larger competitors.

Those firms most at risk in a consolidating industry are those situated on the rest of the bar, lying between the weights at each end. Typically they are medium-sized firms in their respective industry that have neither the scale of the larger companies to drive higher margins nor the nimbleness, the geographic advantage or the product offerings of the smaller businesses that allow them to generate better profit margins.

Analyze your particular dealer or manufacturer operation. Where does your company fall on this scale, along the barbell? What is your vision and strategic plan for the firm's future as inevitable change continues to ramp up?

WHEN TO SELL?

The optimal time to sell is when all the stars are aligned—the economy is chugging along, the company is doing well, buyers are plentiful, you are physically and mentally prepared to sell, and your heart tells you it is time to move on. However life, of course, is never that easy and the problem is finding an actual time when all those items are in alignment. Selling your business is not simply a matter of flipping a switch—most sales involve several important steps. Some of the major activities include: taking the time to research and select your advisors (accountant, attorney, and in many instances a business broker or mergers and acquisitions specialist), prepping the company for a future sale, searching for, and marketing to potential buyers, negotiating with the few serious ones and then closing on the sale itself. This process can typically take anywhere from 2-5 years.

You want to sell when you are in **control of the business' future** and not be forced into it by unanticipated illness, financial challenges affecting the company, or worse, unexpected death, whereby others are picking up the pieces. As in any negotiation, the desired outcome is better from a position of strength, in a time of stability. However, our natural instinct as owners is frequently to continue on when things are going well and the business is growing, sometimes waiting too long for the ideal time to arrive.

For further insight, let us briefly examine the motivation to sell and some aspects of the sales process itself.

OWNER'S PERSONAL ASSESSMENT AND MOTIVATION TO SELL

Family business issues are very personal and most owners will only go through the sale process **once in their career**, so it is critical that your plan be implemented properly. Reasons for initiating a sale process may include one or more of the following:

- **Minimum energy and/or skill-** you have built up your business nicely, but now need to move it to the next level, but don't believe that you still have the proper energy and passion to lead the effort and/or the skill set to accomplish it.

- **No family successor**- your desire is to pass leadership of the firm onto another family member, but there is no interested or capable successor on the horizon.

- **No plan or exit strategy**- there is no other business transition plan and exit strategy in place other than to sell the firm.

- **Sale of firm helps fund retirement**- you are depending on the eventual sale of the company to help fund your retirement and it comprises a large portion of your net worth. You prefer to initiate the sales process while operations are running well and you have your health.

- **Ready for a change and/or not having fun anymore-** you have been at this for a long, long time now and while you still enjoy coming to work, it is not how it used to be in the "old days". Perhaps it is burnout or frustration with the current bureaucracy in running a business or simply a desire to do something different.

- **Unwilling to make further investment in company**- in order to remain competitive and grow, the firm must further invest in either technology, capital equipment, upgraded staff or a combination of all three areas. However, at this stage of your life, you are unwilling to commit more dollars but rather, want to retain them for retirement or other purposes.

SELECTION OF ADVISORY TEAM

Almost every business has a certified public accountant and a corporate business attorney or at least a general practitioner who has business experience. However, just because your CPA has done your statements and audits for years or the attorney has always provided sound advice and may be a good friend, doesn't mean they are your best options when selling the firm. Research and interview CPAs and lawyers who have sale transaction experience. Many law firms have a partner or partners who specialize in sale and M&A transactions. As noted earlier, your sale may be a once in a lifetime event, and the success and comfort of your next stage in life could depend upon the results, since the majority of owners have 50% or more of their personal net worth tied up in the family business. And on the financial side, the tax ramifications involving the sale of assets, real estate, stock, etc. can be enormous.

If your company has annual sales greater than $1MM, seriously consider hiring a business broker or an M&A advisor. Business brokers typically work with firms generating annual revenue less than $10MM, while the M&A professionals focus more on middle market companies with sales between $10MM-$500MM.

A **business broker** commonly estimates the value of the company; markets it with or without disclosing the identity; coordinates potential buyer interviews, discussions and negotiations; may assist in finding buyer financing; facilitates the due diligence process and generally assists with the sale itself, while working with your CPA and attorney. They may require a retainer to work on your project and also receive a commission on the sale for their efforts. The broker may or may not be licensed in your particular area—licensing requirements vary by state.

The **M&A advisor** (or investment banker) performs similar responsibilities, but to a higher degree. In addition to performing a valuation analysis, they will develop a robust Descriptive Memorandum (presentation package) as part of the marketing effort; will promote the company nationally and internationally; can negotiate more complex deals on your behalf since the firms involved are larger and more diverse; and many of the middle market advisors are licensed by the Securities and Exchange Commission (SEC) to act as an investment bank when handling stock transactions. The M&A firm commonly has access to more capital market sources than traditional bank financing, such as various private equity entities, institutional funds, etc. The advisory firms usually charge for their expertise and service by the hour and if and when the deal closes, will be compensated with a “success fee” (commission). Most also require a retainer to begin the work.

One additional advisor that can assist is your personal financial planner or investment broker/specialist. Many of these professionals have high net worth clientele and have been around the block a few times. They also frequently cater to business owners, some of whom have bought and sold companies, so it is not a bad idea to bounce aspects of the preliminary sale by your planner or broker. At the very least, keep this advisor informed as to how much and potential timing regarding the proceeds of the sale, so they can assist in properly investing the funds as they are received, whether in one lump sum or perhaps over a period of years.

PREPARING THE BUSINESS FOR SALE

This topic is worthy of an entire article on its own, but let’s cover some of the basics. Somewhat similar to selling a residence, you want to “dress up” your house (business) to attract the most potential buyers and influence the highest price. The big difference is the fact you can improve the value of your residence fairly quickly with a new paint job, perhaps better landscaping or carpets, etc. With a business, it could take a couple of years of diligent work and improvements if you hope to maximize the sale value. If you and your management team have been conscientious in running the company and tending to any potential problems, prepping for a sale will be less involved and take less time. Certain items to focus on include: margin growth through sales expansion and operational efficiencies; proper maintenance of all real estate involved; cleaning up the accounts receivable; maximizing inventory turns and either selling (at a discount), donating or disposing of obsolete inventory; resolution of any outstanding legal matters; conservative approach to capital expenditures; and review of any leases and contracts that might encumber or hinder a sale. Buyers are also wary of two other very important items –if your firm has too high a concentration of either sales (to a few customers) or purchases/supplies (from only a few manufacturers or vendors). Diversity among many customers and vendors reduces the risk for any business and a potential buyer is particularly sensitive to that issue.

OTHER IMPORTANT ISSUES

As the CEO and owner of your operation, there are many other factors to consider when going through the sale process. These are listed below:

- **Stakeholders-** who else will be affected by a sale?—other family members, employees, customers, the city or town where the business is located (the loss of jobs or possible future growth are two different, but common examples of community impact).
- **Confidentiality- critically important,** if you wish to keep your potential sale under wraps from competitors and staff. The question is-- who on your senior management team do you trust and at what point are you comfortable bringing them in?
- **Economic Issues-** this is self-explanatory, but the state of the local and national economies are important, as well as the current and future outlook of your industry. Are investors aggressively seeking opportunities or is the current environment making them cautious?
- **Business Data Issues-** it is beneficial to have good reporting available to reduce your stress and enhance the due diligence process part of the transaction.
- **Purchaser Issues-** research the potential buyer(s)—do they have the financial wherewithal to close the deal and make the investments necessary to successfully grow the firm? Assess what type of culture and management style the new owners will bring.
- **Legal-** do not underestimate the amount and complexity of the legal documents that may need your review and approval. This is where the knowledge and experience of your attorney comes in.
- **Post-sale Considerations-** what will the response be from employees, customers and vendors? Will you stay on to help transition the staff and assist the new owners? One day you are the owner, CEO and decision maker, the next day you are not. It can be an emotional struggle over time.
- **Owner Transition-** as with any important project, planning and preparation are key and if you are going to retire, the same is true here. A year or so prior to selling, try to determine what you may want to do in the next stage of life and consider new activities. The most important advice after a sale is to **take your time** and enjoy the newfound freedom. There is no official deadline on what you ultimately determine your focus to be—volunteering, part-time job, mentoring, family time, travel, sports.

Try to survive without all the 24/7 emails, phone calls and voice mail messages. I am confident you can do it!

EDITOR'S NOTE- After 20 years in the banking industry, in 1999, James Bedard became the CEO of Buffalo Hotel Supply, a 4th generation, family-owned *FER* Top Dealer headquartered in upstate New York. The Bedard family sold the dealership in December 2014 to a private equity firm, Lorraine Capital. A past Board member of FEDA and the ABC and IFED buying groups, Bedard is currently self-employed as a Business Succession and Transition Coach. He may be contacted at: **bedard73@gmail.com**