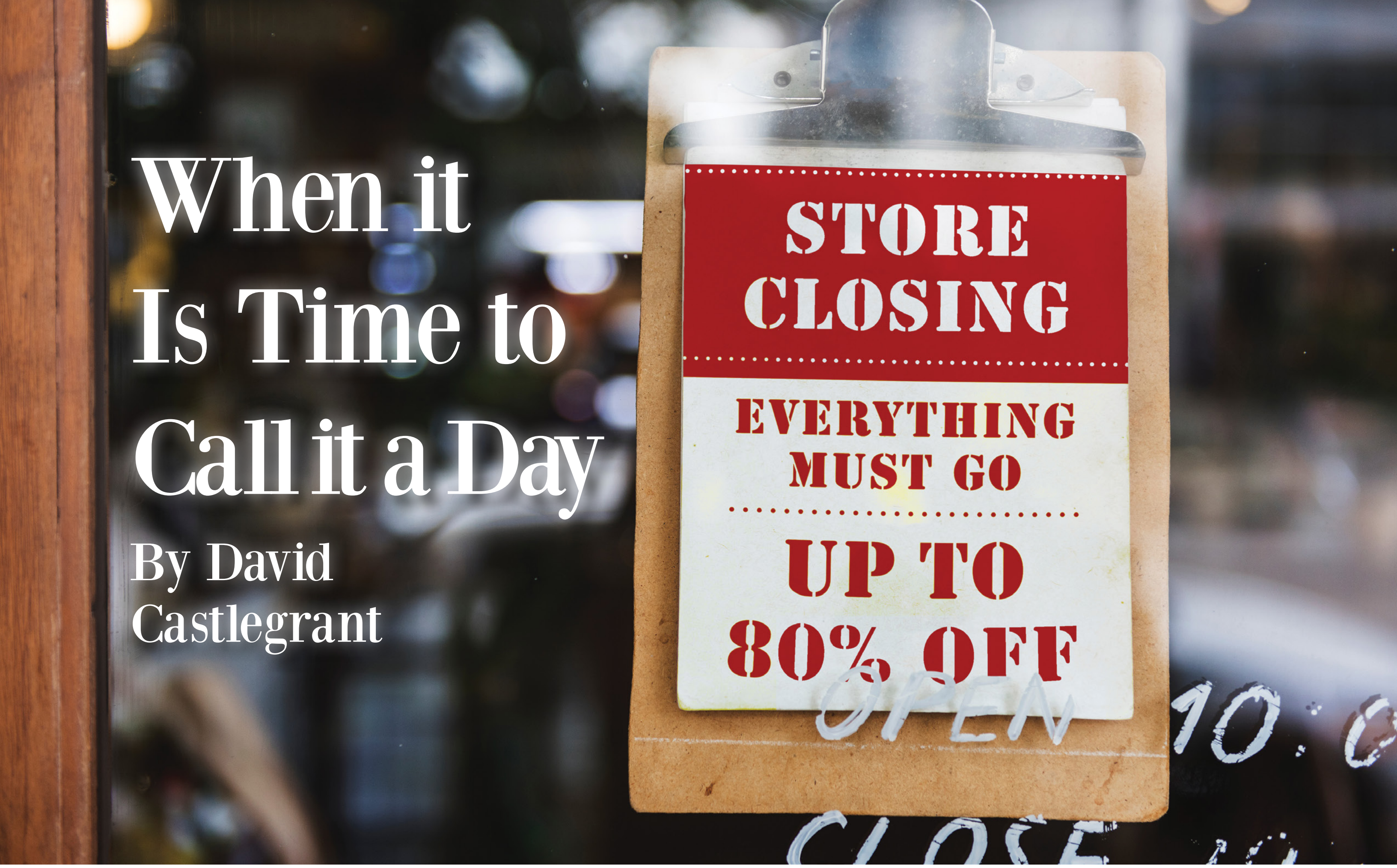


When it Is Time to Call it a Day

By David Castlegrant

One of the most frequent calls we get for our business consulting services are from small business owners who have decided that it is time to transition out of their business. This is a decision that never comes easily but, it is inevitable. In almost all cases, this is not a happy phone call. I can usually sense frustration, fear, sadness, and sometimes, helplessness in the tone of the caller's voice. Beyond the tough decision process that went into opening the business (or working through a succession plan that enabled the current owner to buy out the founder), transitioning out of the business is probably the most difficult decision the business owner will ever make.

Transitioning out of the business comes in many forms. There is no "one size fits all" (or even most). It can be via a formal or informal succession plan with a family member or trusted employee where the owner transfers power to the successor in a structured and orderly manner in exchange for being paid out in a structured and orderly manner. Succession in family businesses is ideally a slow and gradual process in which individuals prepare and take action steps to ensure family harmony and continuity in the business including the next generation. The process is not confined to drafting buy-sell agreements and purchasing insurance. It includes the professional development of successors, defining the orderly exit of the owner and wealth preservation strategies.

Transitioning can also be accomplished through attempting to sell the business. Selling the business may sound easy but, it is not for the faint of heart. Despite what might seem to be natural to the business owner, finding someone – in most cases, a stranger, with the same interests and passion is difficult. Selling a business is not like selling a house for a simple reason: everyone needs someplace to live but, everyone doesn't want to own a business. And, those that do want to own a business mostly want to start their own thing from scratch or take a safe path and go to a franchise with a proven formula and track record. This is not to say that if you put your business up for sale tomorrow that you will not find a buyer. It does mean, however, that the moment the Business for Sale ad is displayed, count on getting inquiries from cranks and tire kickers before that passionate, financially solvent, and likeminded individual asks to see a Business Opportunity Profile Sheet. (Make sure they sign a non-disclosure agreement, first.)

All business sales start with the opportunity: What is for sale? What does it do? How much does it cost? What are the terms? Where is it located? How long has it been around? Who are its customers? Who are its suppliers? How well does the company perform financially? What about growth potential? How viable is the industry that it is part of? How much does it cost?

Most business sellers worry about how to determine the asking price and defining the terms without giving any quality time to understanding the other dynamics of the business and how to communicate these in a positive manner to potential buyers. Determining an asking price is not rocket science. There are many factors that go into the asking price calculation and not all of these are objective. Some, like the state of mind of the owner at the time of making the decision to sell, or the timing of the sale to meet the owner's needs, are completely subjective. There are many formulas to arrive at this value but, I will leave that discussion for a future article.

"Store furniture and fixtures should be priced before the start of the sale ...and picked up once the store closes. Always take a deposit for store fixture sales."

The Business Opportunity Profile Sheet (BPOS) is designed to capture critical information that can be readily understood by the potential buyer and is there for the purposes to generate questions and spark dialogue between the buyer and seller so that an informed purchasing decision can be made. The BPOS will include such information as a brief history of the company, when it was established, the legal structure, its SIC code, last 3-5 years of gross sales, some basic information about cash flow and a credit lines to satisfy financial needs, net income, some ratios (asset turnover, debt, current, inventory turns, etc.) operating margins, owners perks, the reason for the sale, commitment of owner to the new venture (consulting or training agreements), and any other information determined to be important to convey. Oh! I forgot – the asking price and the terms.

Having a contingency plan is essential when deciding to sell the business. Many business owners also own the building and property where the business is located. Many times, their strategy is to sell the business and then the building. Almost always, the business does not sell before the building. Even more rarely, the property or the business do not usually sell within the desired timeframe of the owner. Then there is the question of hiring a business broker to sell the business. While there are merits in considering a business broker, the owner must keep in mind that these services are not without cost which come mostly through an often times outrageous up-front marketing retainer and a commission on the final sale. The business broker, however, will filter through the inquiries and then act as a conduit between pre-approved potential buyers and the owner. You can compare this with engaging a realtor to sell your home or trying to sell it yourself.

Selling the business has many steps once the asking price and terms have been established. There must be an honest assessment of the probability of the business being sold; defined steps, legal and otherwise, to prepare the business for sale; an estimate of costs involved to buyer/seller and the total transaction time from engagement to closing including timing of offers, counteroffers, and escrow. Just like selling property, there are pre-closing and post-closing responsibilities for both parties.

If selling the business does not appear to be on the horizon, then the next option would be to plan for and execute a going out of business sale. Like the first step for selling the business, when planning the GOB, the first step is to determine fair market value or orderly liquidation value of the Inventory. Unless there is a compelling legal impetus, such as pending court ordered bankruptcy, or probate issue, you do not need to hire an appraisal service to do this. Some DIY steps to place a value on the inventory include a review of sales history and inventory level by category, walking the store to get a feel for the salability of the merchandise during liquidation, performing random checks of inventory to ensure that the quantity on-hand

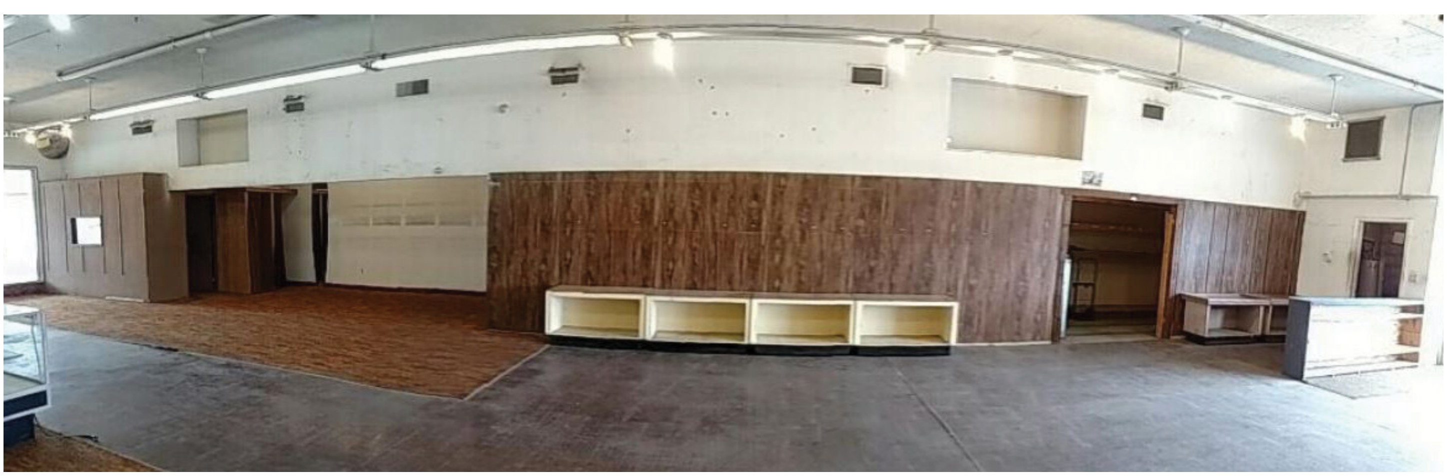
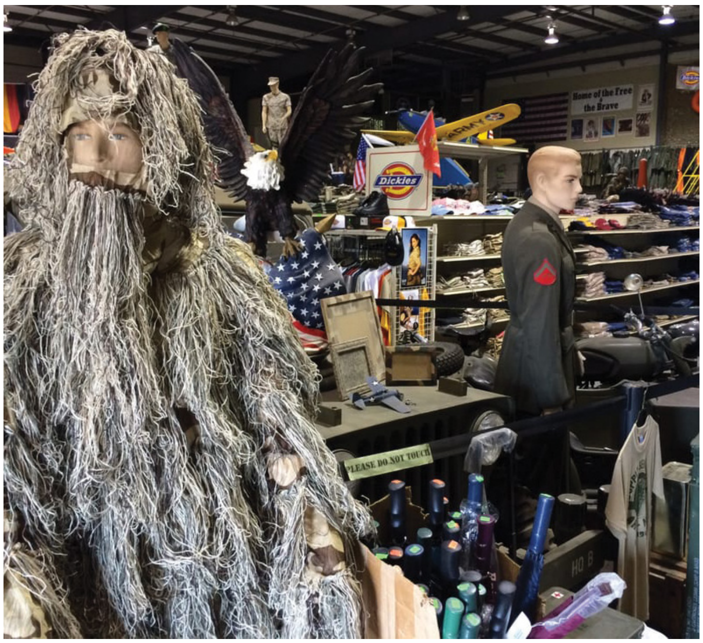


Photo by Randy Knight

matches book inventory (typically a 1% - 10% sample), and performing a simple trading area market study to gauge pricing differentials. Once this informal appraisal has been completed, appropriate liquidation sales goals can be established.

A GOB sale has a very defined beginning and ending but, requires a fluid middle. Local ordinances need to be checked to see if there are specific rules regarding store closing sales. Specifically, some municipalities have rules on exterior signage, adding consignment (or any) product to the inventory, or traffic control. One of the first tasks to do in a GOB sale is to create an internal and external public communications plan. It is extremely important to first notify store personnel of the plans to close the business. Honesty is the best policy with this discussion with the priority being what will happen to them. Employment through the closing is a positive motivator. Assistance with job search, providing a letter of recommendation, and store closing performance incentives for key personnel are all proven to deliver positive results. Informing customers, suppliers, and lenders also needs to be carefully planned and communicated. Suppliers and lenders should be personally informed. Customers can be informed through issuing press releases to local media outlets and informal announcements. A successful GOB sale has a solid marketing plan that is aggressive, yet targeted, and includes the right assortment of electronic, print, direct mail and social media.



The duration of the GOB sale can be from 4 to 8 weeks. Careful consideration needs to be taken to determine a markdown schedule. For the initial weeks of the sale this includes selective markdowns by category. As the sales progresses, markdowns can become more uniform in order to feed buying.

In my over 40+ years in the business world, having liquidated dozens of retail stores, there is always too much of a certain type of product and there is always old inventory. Depending upon the merchandise mix and depth of the inventory, a list for bulk purchases can be created and then circulated to others within the industry at wholesale prices. Terms for wholesale orders will be COD & FOB your location (unless negotiated otherwise). If there are special or collectible products, you should consider selling these via eBay.

As the sale transitions to an end, a liquidator who will offer pennies on the dollar can be summoned to make a final offer to move out the remaining inventory; or area charities can also be called in to do the same for a tax write-off receipt. Store furniture and fixtures should be priced before the start of the sale and marketed throughout the GOB sale with cash & carry terms and picked up once the store closes. Always take a deposit for store fixture sales.

When it is all over and the business is sold or closed, you will have been on an emotional roller coaster throughout the journey. Elisabeth Kübler-Ross, the Swiss-American psychiatrist, authored the groundbreaking book, On Death and Dying. The cornerstone of this book describes the five stages of grief: denial, anger, bargaining, depression, and acceptance. These five emotions are a part of the framework that makes up our learning to live with loss. Kübler-Ross identified these emotions as tools to help us frame and identify our feelings during times of loss. But, these are not stop signs on some linear timeline in grief as grief tends to hit us in waves. Closing a business is a personal loss. Business owners put their hearts, minds and souls into the entity, thus it is only natural to have these feelings when going through the sales or closing process. Hopefully, this article can unravel some of the complexity of bringing that business to an end.

David Castlegrant received his undergraduate degree from William Paterson College of New Jersey and his graduate degree from Central Michigan University. David has extensive work experience as an executive manager, educator, business consultant, and liquidation. In 1992, he founded David Castlegrant & Associates, a management and marketing consulting firm specializing in family-owned businesses.