

Reasons A Shop Doesn't Sell For Top Dollar

by Art Blumenthal, MBA, CBI

Many auto service shop owners and tire dealers have focused their lives on growing and developing their businesses. When life happens – time for retirement, moving on to another career opportunity, family or health issues – a seller can find that a huge gap exists between what they had hoped the business was worth and what a buyer will actually pay for it.

In my experience as an automotive service-specific business broker, I have been able to identify 10 problems that can result in an absence of buyer offers or offers for well under the maximum potential sale price. I am presenting five of them here (and the other five in the next issue) with the good news that each can be remedied if given enough time and by following the proper sales process.

10. Unrealistic Expectations

a. Valuation/Listing Price

Let's jump right in and state that a shop owner's emotional attachment to their business, coupled with an inexperienced business intermediary's desire to obtain the listing and please

the seller, can be a recipe for disaster. The listing price of a business is one of the critical elements to a successful sale, but overpricing a business will deter knowledgeable buyers from even establishing communication.

Business intermediaries are typically compensated by receiving a percentage of the sale of the business, so obviously he or she is motivated to obtain the

highest possible price for the seller. However, intermediaries should be judged by the percentage of businesses that they take on that will actually sell. Taking on businesses that have not been valued properly and stagnate on the market with little activity is a disservice to a motivated seller who has a target date in mind for the next chapter of their life.

Many sellers say something like, "I need \$500,000 for my business so that I can pay off my loan and have enough left for retirement." Sometimes the profits have dropped 15 to 30% in the past few years and the seller feels he should get the same sale price that he/she might have been told back when the business was more prosperous.

Buyers, on the other hand, are typically not very sympathetic to what a seller *needs* and are focused on how much cash the business currently generates each month to cover their bank payments, earn a lucrative salary and receive a return on their down payment investment. Their offer will be based upon a multiple of the cash flow. They *want* to get the best deal and are often evaluating and comparing multiple businesses for sale.

Sadly, some sellers focus entirely on their *needs* and ignore the fact that buyers *want* to pay a fair market value for the business that can be defended to the bank, SBA and third-party appraisers. The typical outcome is that the listing will languish in the marketplace and recovery becomes more difficult. Once on the market for months on end at the wrong price, the process of re-pricing and re-listing creates a whole new set of challenges, the least of which is maintaining credibility. A wise and experienced business intermediary knows the maximum sales price that a given business can realistically obtain and is skilled at presenting it in the best

possible light and negotiating top dollar from a buyer.

b. Unrealistic Terms and/or Structure

Deal structure, asset allocation and tax management must be addressed proactively and early in the process. Often the seller and buyer place all of the focus on the sale price at the expense of the net after-tax results of a business transaction. In most cases, a seller could achieve a deal that provides a greater economic benefit when an experienced tax attorney/CPA assists with structuring the transaction. In addition to structure, there are a number of other issues that could be problematic, including:

- Seller and buyer unable to reach agreement on the amount of training to be provided or the scope of the non-compete agreement.
- The buyer's unwillingness to put up other personal collateral which may be required by the bank.
- The lack of consensus on how much of the purchase price to allocate to equipment, which has a tax impact for both buyer and seller.
- Seller insists on a stock sale and the buyer will consider only an asset sale.

9. Leveraging the Advice of Professionals

For a successful sale to occur, a shop owner should have the right team of advisors in place. An experienced business intermediary will play the most critical role. This individual will handle everything from the business valuation to negotiating the terms, conditions and price of the sale, as well as everything in between (confidential marketing, buyer qualification, etc.).

Both a business attorney and a CPA who are each knowledgeable in business transactions are critical players on the



COUNTDOWN PART 1

team. While a business owner's current legal and tax advisors may have the best of intentions in assisting their client with the business sale, if they lack experience in such transactions, it would be highly recommended to evaluate alternatives. Too often the attorney or accountant become so overzealous in protecting their client that they lose sight of the "give and take" that is sometimes needed to get to the finish line in a timely manner and without running the meter at their client's expense.

8. Inaccurate or Incomplete Financials

Maintaining accurate, detailed and clean financial statements that match filed tax returns will be the basis for the business valuation and also the criteria for whether the business will qualify for bank transaction funding. Too often, the business is managed as purely a lifestyle business that is focused only on minimizing taxes and maximizing short-term owner compensation and perks without regard to how a business will be valued when it goes on the market for sale. In these cases, the owner has taken very liberal personal expenses that may not be able to be added back when deriving the adjusted earnings.

A business broker specializing in the aftermarket will have the experience and ability to analyze financials and often provide the service of "recasting" shop financials. Adding back payroll that is not applicable to a buyer is one of the most common adjustments. The broker and the seller will need to agree on the most appropriate staffing model to present to a buyer. This typically includes adding back the owner's salary, often a spouse salary, and sometimes that of the shop manager or service advisor if the owner is not actively involved in daily operations and

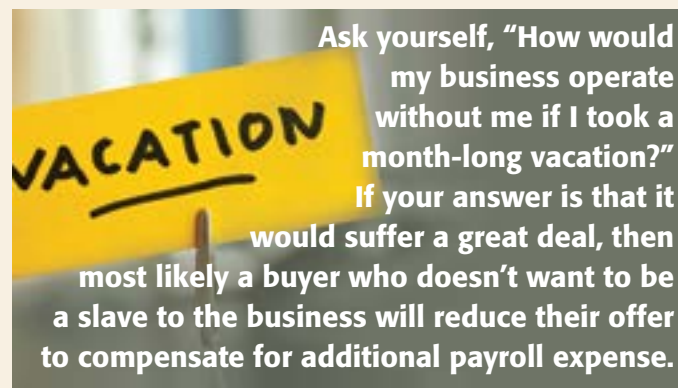
a buyer could realistically replace one of the managers after an initial training period.

Given the importance these documents represent, a business owner should ensure that the books are professionally managed and up to date. Records that are messy, incomplete, out of date or contain too many personal expenses will only give prospective buyers and lenders reasons to question the accuracy of the books. This is one of the main reasons how a seller sacrifices getting top dollar at the closing table. This is especially true when a sudden health emergency or other situation necessitates a sale earlier than originally anticipated.

7. The Owner Is the Business

It is not uncommon for the owner to play a significant role in the operation and management of the business. This is particularly true with smaller enterprises such as single location auto service shops. Where this situation can present a problem is when the owner is not only the face of the business but also deeply involved with all facets of the company — service writing, marketing, operations and repair. If there are no key employees and there are few written processes and procedures, the business lacks a dependable and repeatable workflow.

When it becomes evident that the business cannot operate effectively *without* the owner's hands-on involvement and personal know-how, it becomes problematic. Of equal concern is the relationship the owner may have with the customers of the business. If the customers do business at the shop largely because of their personal relationships with the owner, this situation will create customer retention concerns and possible transition problems when the business is being sold.



Buyers want a business that can operate independently from the current business owner. Ask yourself, "How would my business operate without me if I took a month-long vacation?" If your answer is that it would suffer a great deal, then most likely a buyer who doesn't want to be a slave to the business will reduce their offer to compensate for additional payroll expense.

6. Unqualified Buyers

"Tire kickers" are the bane of the business seller. Sometimes it's a competitor with an ulterior motive parading as a genuine buyer, but more often than not it's a window shopper with neither the financial means nor the courage to make a purchase.

Either way, some ostensibly interested parties will never actually buy your business regardless of its merits or your cooperation. As a preventive measure, it will be necessary to qualify a potential buyer as soon as reasonable.

If you are on your own in the task of selling your business, you may very well not be able to make that call. Just as you have developed the skills for "reading" your customers, an experienced business broker becomes adept at detecting a tire kicker after just one or two conversations.

A good broker will ask buyer prospects a series of questions to gain insight into their history of investigating businesses and their motivations. If they are not a serious buyer, why risk the disclosure of your confidential financial information and tax returns while wasting precious time giving evening and Sunday tours of your shop?

Why subject yourself to the emotional rollercoaster ride of being excited to have a buyer prospect, only to be let down if they go dark after a few weeks?

Part of the buyer's qualification, of course, is their capacity to finance the business. One of the first things to work out is whether a buyer has the necessary down payment to finance the business, a good credit score and no history of bankruptcy. Whenever possible, I get the business "pre-qualified" by a major national bank and engage them early with a buyer to make sure they will qualify for financing. **SO**

The Top 10 Countdown will continue in the Sept./Oct. 2016 issue of Shop Owner.

Leveraging more than 30 years of experience as both an aftermarket business owner and aftermarket



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