



How and When to Sell Your Business, Part I

In Part I of this series, Kent Holloway outlines the issues surrounding the sale of a specialty coffee retail business and the importance of beginning a business with the end in mind.

Two of the biggest decisions you will ever make in your business life are the decision to go into business for yourself or with a partner and the decision to sell the business once it has accomplished your goals. Volumes upon volumes of books fill libraries and book shops on the business of starting-up a business, but very little prepares the entrepreneur for the eventual sale of a business (be it off-loading a third location that's not as profitable as the other two or the sale of an established single-store operation). The individual who chooses to sell must be prepared to open up the business to the scrutiny of a number of potential buyers and deal with a series of frustrating questions and issues.

For the first time in your business experience, you may find yourself wrestling with such frustrating issues as:

1. How do you push for years to minimize the amount of profits you pay taxes on and then turn around and convince the buyer that your business is growing and profitable?
2. Who is the best person to sell to? My employees who helped build the business? A family member? A competitor? (Hint: experts in mergers and acquisitions claim that these are the last parties you should consider selling to if you want to maximize your return and minimize the legal risk of the transaction.)
3. How can I be sure I'm selling for the right price?
4. How should I structure the deal from a capital gains standpoint?
5. Should I sell for cash or take a contract for part of the sale price? What about a stock swap?

(The answers to these five questions will be addressed in this column throughout the next few months.)

Because of these and other issues, you should arm yourself with two major tools before you start the selling process. First, an Exit Plan or Harvest Strategy (an extension of the original business plan), and second, professional help (in this case, we're talking about a CPA and a lawyer although the kind with the couch may be useful as well).

Develop a Plan

The sale of the business (sometimes known as "the harvest") and reaping the financial rewards of your hard work and investment should never be considered merely a liquidation of assets. A liquidation is the forced sale due to insolvency. Yet, most accountants unfamiliar with the business sale process seek to place a book value on the business and essentially treat the business, healthy or not, as if it were a forced liquidation. To avoid under-valuation of the company, the specialty coffee retailer must become intimately involved in learning the process. The first step, as in starting a business, is the owner and investor's plan or strategy for achieving the maximum return on their investment.

Developing a harvest strategy does not necessarily mean that the entrepreneur plans to leave the company immediately. The plan simply defines how he/she will extract some or all of the cash flows from the investment to be used for other purposes, and what events--annual revenue target, or growth goals met--will trigger the beginning of the sale process. As with everything else, the events which lead up to the sale (or transition of the company to your next generation) of a business should, ideally, be part of the long-term business plan of the organization.

In his book, *How to Create a Successful Business Plan*, David Gumpert says, "If you want to sell your [espresso retail operation] to a large corporation, a business plan helps you stand apart from the crowd. Corporations searching for acquisition candidates typically examine hundreds of companies. The business plan says to the potential buyer that you have thought about the future and how and where the business is headed." ... "If you are seeking to acquire a company, your business plan can help convince a reluctant seller that your company would be a suitable partner. The business plan in these situations serves almost as an extended company resume.

Be Strategic and Stay Healthy

Getting what you deserve for your company can take its toll on you emotionally and physically. One friend of mine celebrated the final buyout of his partner after they had worked for years together to build the business. The very next day after the papers were signed, he died of a heart attack. In a conversation I had recently with the founder of one of the largest specialty coffee companies in America, he said that "selling out was the most awful, gut-wrenching and frustrating experiences I have ever gone through in my life."

To help avoid some of the stress that comes along with the sales process, planning for the eventual sale is a wise priority at the start-up or building phase of your company. Making the sales decisions wisely is greatly dependent upon your understanding of what you want to achieve at the conclusion of the transaction, and your values. Otherwise, you will be frustrated by the process and disappointed with the end result.

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Top 10 Tips for Maximizing Your Results:

1. Set personal goals and objectives as well as value-of-the-business goals.
2. Plan your exit and harvest (sale) strategy.
3. Learn to anticipate the consequences of decisions made today on your ability to sell your operation for its maximum value in the future.
4. Keep in mind that the window of opportunity to sell can open and close quickly, while sale negotiations and the transaction process can take as long as a year to complete.
5. Don't sell too soon. Be patient, try to control your emotions and be as logical as possible. Forced or quick sales bring a great reduction in value.
6. Beware of the "experts." In the next few issues, I'll give you specific valuation formulas that work well in our industry.
7. Make certain that all partners in the venture have the same vision for the harvest strategy.
8. Update your business plan and keep your accounting systems "clean" and current.
9. At all times, continue to try to improve the quality of your operation. Assume the sale won't go through and be delighted when it does. The worst thing you can do is to believe the sale is imminent and begin to "coast" after negotiating with an interested party.
10. Maintain your health and spiritual and psychological balance. This process can be grueling.

Please Note: Some pictures or diagrams are only available through the printed media.

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