



When and How to Sell Your Business, Part III

Kent Holloway

It all boils down to understanding the buyer's needs

As you go through the selling process, you will find that the buyer develops a "detective-like" attitude toward everything you tell him or her, and searches for the truth behind your answers to the questions they pose and numbers you provide. Usually, if you have a skeleton in the closet, a good buyer will eventually uncover it. More harm will come from trying to hide issues from a buyer. It's best to be candid from the start. If a buyer finds a skeleton, it raises the question, "What else are you hiding from me?" Of course, it also opens you up to allegations of fraud after the final sale.

Questions you should be prepared to answer in the event of a sale:

What is the "real" reason you want to sell your business?

A phony answer to this question will be obvious and erode a buyer's trust in you. Almost everyone says, "to retire," "stress" or "poor health." Why not tell the truth (unless it *really* is retirement or stress/ health related)? "I realized I don't enjoy the draining effect of working with people everyday and having my assets at risk. I'm going back to my old job as a computer programmer. Or, "I thought this would be fun to do with a friend, now I realize I've lost a friend and I'm losing my family." Hopefully, the truth is more upbeat, "I just got married and my new husband has a great job in the town we grew up. We're moving back there and I'm going to develop this concept all over again." Or, "My wholesale (coffee roasting, baking, etc.) has taken off so well, I'm finding I'm not able to service my retail customers as well as I'd like and need the cash from the sale to further develop my wholesale business."

Which assets go with the business and what method of valuation did you use to arrive at your price?

Ideally, you will do an inventory of your entire shop at least once or twice a year. I know one deli retailer that inventories his two stores top to bottom every month. Not surprisingly, he is the best in his industry at knowing exactly (on a daily basis) his cost of goods sold. The buyer must be able to determine exactly what he or she will get for the purchase price. Sometimes the consumable inventory in the shop is calculated on top of the purchase price, other times it is included.

How much would be required to replicate the business rather than buy it?

If you were forced to liquidate your business, you could not expect to recoup 50 percent of your original costs. However, if you found a location equal to yours and had to pay the increased rent a new tenant would be forced to pay, the increased buildout labor costs (since you and your brother-in-law did most of the labor yourselves the first time), the

increased equipment prices and cost for additional bathrooms and sinks to adhere to tighter regulations, what is the true replacement cost of your present operation?

When I built my first store eight years ago, I spent about \$80,000 on an interior package, including a 27-foot by 10-foot custom-built mahogany front and back bar, solid oak floors, marble entryway, large arched fir ceiling and many other fine architectural details. In 1994, a fire destroyed the entire wing of a shopping center in which our store was located. It cost about \$150,000 to replace and rebuild the contents of that shop. If I had to build the same shop today, assuming I would be unable to get only one handicap bathroom "grandfathered" in, I would likely have to spend about \$170,000.

What elements of your business are key to its survival?

The buyer is going to be aware of the retail adage, "location, location, location." Yet, to know this concept is to know everything, but understand nothing about his industry. The real key to success in specialty coffee retail sales is 1. High-volume, high-margin, profitable sales (created by foot traffic through the door). 2. Everything else it takes to create and sustain those profits.

The more you educate potential buyers about profit centers you have yet to establish (i.e., home espresso machine sales, catering, sportswear imprinted with the company logo, etc.), the better able you can sell a vision of a solid business with significant potential.

If you have been working in your retail shop for years and are suddenly are gone after the sale, how will this affect customers?

Often a colorful owner can build an almost cult-like following. Customers will come in and purchase items on a daily basis simply because of the attention the owner shows them. This is often known as the "coffee clutch" phenomena (as in the mother hen that daily gives special care to her chicks). The potential for lost sales after the transition is very real and the buyer is justified in their concern.

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

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