Ready to sell your business? Hurry

BY TOM KAISER

For sellers of franchised businesses, 2015 could be the ideal time to pull the trigger.

Seas raged during the Great Unpleasantness, and same-store sales fell. Lightning crashed, and business owners battened down the hatches to wait for better times. Seven years after the recession began—and six years after it ended—it’s safe to say the storm is not just over, but it’s actually quite lovely out there.

For prospective sellers of franchised businesses, the rosy economy of 2015 could be the ideal time to pull the trigger on your exit plan and put your business up for sale.

But Terry Kelm, president of the franchise division of Sunbelt Business Brokers in Roseville, Minnesota, sees a new danger approaching: a demographic wave as 75+

million baby boomers hit retirement age, possibly teeing up a market where there are more franchises for sale than available buyers.

However the current cycle ends—record sales or a market glut—here are seven crucial lessons to keep in mind when considering a sale of your franchise.

1. Check your emotions.

“It’s very difficult for a business owner to be objective, because there’s this whole series of emotional ties,” said Doug McCright, senior business consultant at the Family Business Institute in Dallas. “It really is hard for them to be able to separate the emotion from just the financial transaction.”

Keeping emotions out of the deal as much as possible means understanding any potential buyer is going to be focused on the financial details of a transaction, whereas a seller often has gallons of sweat equity and years of personal history invested in his or her business.

Shriram Chokshi, managing director at La Palma, California-based Auspex Capital, has worked in the franchise space for more than a decade representing franchisees looking to buy or sell first- or second-tier franchise units.

Chokshi said sellers need to focus not just on the final sale price, but also details such as purchase price allocation, tail liability (covering unforeseen future issues), indemnity provisions and who pays the various fees included in a business sale.

“Some people spend a lot of time on trivial issues, and some people don’t spend any time on significant issues, so those need to be thought out and well articulated in the asset purchase agreements so there are no issues further down the road in the transaction,” he said.

2. Prepare far in advance.

“It takes three months to a year to complete a transaction because of all the requirements of the lender, the franchisor and the different tax agencies,” said Jerry Thissen, president and founder of National Franchise Sales, in Newport Beach, California. “It’s not a short process; they have to get prepared for it.”

Beyond the basic legwork like appraisals or selecting a broker or investment banker, Thissen recommends prospective sellers prepare by checking with the franchisor for any unannounced-but-required improvements or other initiatives that could cause a renegotiation or cancellation of a sale.

He also advocates discussing your intentions with key employees, who would rather hear the news from their current employer rather than a potential buyer. In addition, he cautions sellers to meet with a tax accountant early in the process to determine tax consequences of a sale, which could be more daunting than expected.

Kelm recommends sellers get wheels in motion two to three years in advance to make sure they're fully prepared when the time comes, and offers start flowing in.

"I tell everybody that I talk to, selling your business is not an event, it's a process and it takes time," he said. "Especially for a franchise business, because the added layer there is that the franchisor has to be involved and has to approve the buyer."

3. Tell your franchisor.

Informing the franchisor of your intentions is a key move, Kelm said, because "99 out of 100 times, the franchisor wants to know not because they're going to be a mean big brother, they want to know because they can help."

Help could come in the form of market analysis, basic advice or even having a list of area franchisees who have expressed an interest in adding to their stable.

"Put your franchisor hat on for a second," he said. "If you had a franchisee out there that you knew wanted to get out of the system, you're going to be motivated to help them. Because, let's face it, the one thing that happens when someone puts their business up for sale is they tend to lose momentum."

McCright seconded that, adding when it's a sale within a family, the franchisor would want to be equally comfortable with remaining family members or any other new partners. He added telling the franchisor about a possible sale early on is "just good etiquette."

Having a network of other franchisees in the same geographic area is another asset for finding potential buyers, finding experts to assist the sale or simply seeking advice on the process.

“One of the keys with any business is good communication,” McCright said. “That good communication certainly extends to the franchisee-franchisor relationship.”

4. Organize the books.

This one may seem obvious, but Kelm said he is frequently “shocked at the number of business owners who still don’t keep good records.” While many franchise systems have a means of automatically tracking financial performance metrics, simply keeping monthly profit-and-loss statements—ideally going back a minimum of three years—will ease the process for potential buyers, the franchisor and any involved financial institutions.

In addition to P&Ls, Thissen recommends sellers prepare several years’ worth of sales history, and income and sales tax returns to save time and frustration later in the process.

“When a buyer or lender is kept waiting for material too long, it raises questions and causes a loss in interest or credibility,” he said in a presentation he gives clients considering a sale.

5. Spruce up the place.

One of the few areas where selling a business is analogous to selling a house is giving your place a “once over.” Chokshi recommends sellers avoid deferring maintenance, fix all the small things they can, ensure bathrooms are clean, and pay attention to parking and the building’s exterior to bolster its curb appeal.
“Even an older building can be made to look good if it’s clean,” he said.

With the expected increase in the number of franchised businesses for sale in coming years, Kelm added, making sure your property is physically appealing is a key step to avoid turning off potential suitors.

“Buyers are going to have their pick of the litter,” he said of the predicted market conditions. “They’re going to choose the one that’s in the best shape, and if your business doesn’t show well, you’re not going to get that offer.”

6. Price it right.

Thissen says one of his firm’s key principles is ensuring all involved parties get an equitable deal—buyer, seller, lender and leaseholder.

“I would not let a seller over- or under-sell and I won’t let a buyer over- or under-pay,” he said. “The transaction has to be fair to all parties. If I find a landlord that’s unreasonable, a franchisor, a buyer, a seller—any one of those can cause me to not do a transaction.”

When it comes to settling on an asking price, McCright said sellers need to look at it “through a lens of logic and reason.”

“The seller always thinks that it’s worth way more than what the buyer does,” he said. “Both sides tend to lose sight of the fact that in a free-market economy, the value or price is that point at which a willing seller is willing to sell and a willing buyer is willing to buy.”

7. Assemble your team.

While it is natural for financial advisers and brokers to recommend an intermediary to assist with a sale, their pitches include some hard-to-ignore potential benefits: higher sales prices, reduced anxiety and the knowledge that nothing was left on the table.

“This is your nest egg—you need to get the most out of it,” Chokshi said. “In most cases, when the seller is not represented, the buyer can take advantage of numerous things, which may or may not be” obvious for a first-time seller, “or even a second- or third-time seller.”

Kelm, an enthusiastic advocate for brokerage services, said business owners shouldn’t focus on the cost associated with such assistance, but rather on the added value and, ideally, more money in your pocket at the end of the deal.

"It's really an investment in getting you the right price and terms," he said. "It could be the difference from being able to see a sale of your business versus not seeing a sale of your business."

Two tactics for making the sale

Rob Hunziker, managing member of Advanced Restaurant Sales in Marietta, Georgia, says sellers need to immediately put their best foot forward, as the first crop of offers will typically be the best.

"Then what happens is the offers taper off after that, and then hopefully if the seller continues to do roughly the same business you might get another round of buyers after that first blast." He encourages owners to keep their eyes on the ball by maintaining cash flow and sales while attempting to sell the business.

Terry Kelm, of Sunbelt Business Brokers, sees tough times ahead for franchisors, if the predicted wave of baby boomers begins selling their businesses in increasing numbers.

With every sale in their system, he said, franchisors need to review purchase agreements, consult with both parties and, ultimately, train new owners to take over individual units. The result, aside from fat times in the brokerage world, is increased strain on franchisors to handle such tasks.

"There are a lot of resources spent on the franchisor perspective on a resale, so if that number goes drastically higher, that could tax even the largest franchise system," he said. "They know it. The question is: What are they all doing to prepare for it?"