

If It's Such a Great Business,

# Why Is It for Sale?

By Pat Charla

Knowing when to hold 'em and when to fold 'em in regards to selling a business is a smart strategy for any operator looking to maximize profits and attract the best buyers.



IN LIGHT OF THE CURRENT ECONOMY, I WAS CURIOUS ABOUT THE BUY/SELL ACTIVITY IN THE LIMOUSINE AND CHAUFFEURED TRANSPORTATION INDUSTRY.

I went online to a few sites, including [limoforsale.com](http://limoforsale.com), which had more than 300 listings of both sellers and buyers (some from as early as 2002), as well as general business sale sites like [mergernet.com](http://mergernet.com) or [bizbuysell.com](http://bizbuysell.com). All told, there were approximately 100 to 150 chauffeured transportation and limousine companies publicly listed for sale, with asking prices ranging from \$50,000 to more than \$14.5 million.

I found that the type of companies ran the gamut from home-based, single-car mom-and-pops to multi-million-dollar, self-proclaimed "industry leading" operations. Almost without exception, the listings had two things in common: extreme optimism by the sellers not only about the "tremendous" growth potential of the company that they are trying to sell, but of the industry as well. I saw one listing that claimed the industry is growing by "about six percent per year."

A number of sellers claimed to have "endless expansion possibilities nationwide," to be "recession proof," or were "rated #1" in their market. Other companies had "no competition" for their type of service or "virtually no competition in the contracted corporate setting" so that the buyer can "grow sales by up to 75 percent with a good marketing plan." Almost all provided a "great opportunity to grow business by getting more involved in sales, advertising, and an increased web presence." Others had customer lists with as many as "70,000 repeat passengers." My personal favorite reasons listed were "easy hours" and "current owner is virtually absent." It's no wonder they were selling.

As I said, the listings were extremely optimistic. Sales, of course, is all about positioning, and selling companies is no different than anything else. So, the real questions are: If they're such great businesses, then why are they for sale, and, more importantly, is now a good time to sell a business? I went to two of the merger and acquisitions experts in chauffeured ground transportation, Tom Mazza and Charles Tenney, to get answers to this very question.

"As long as a company is being sold from a position of strength, then it really doesn't matter how many companies are on the block," says Mazza, who has been very successful in identifying and orchestrating sales, both in good times and in bad. "If the company has value, has its financial 'ducks in a row,' and the owner is committed, both cognitively and emotionally, to selling the business, then I have little doubt that a buyer—willing to pay a reasonable price—can be identified and a sale can be negotiated."

"But," cautions Tenney, "a sale is not necessarily the right answer for some companies." Mazza also emphasizes this point. According to Mazza, the best solution for an owner may be a merger, to become an acquirer, or even put in an experienced management team and not sell at all. Helping owners understand the real value of the company, what their viable options are, and the financial ramifications of each is a very big part of the value that both Tenney and Mazza deliver to their clients. "Advice as to what to do and when to do it is even more important than how to do it for many companies," says Tenney.

But there is a more sobering statistic to consider. According to the International Business Brokers Association, roughly 25 percent—or just one in four—of all privately held U.S. businesses for sale are actually sold. “Not surprising,” says Mazza, who is not a fan of public sales. He continued, “There are businesses listed publicly that, in my opinion, shouldn’t be.

“Look, for an owner to get the price that he wants for the business, he not only needs to understand the industry and the local market, he must have an objective understanding of what the company might be worth to the right buyer, and know where the opportunities are—locally and nationally,” Mazza says. “When I can give a potential buyer a clear picture of the advantages that the acquisition will deliver, both quantitatively and qualitatively, that is when we stop talking ‘for sale’ and begin talking about ‘strategic positioning.’ That is where the greatest success lives, for both buyer and seller.” The companies that Mazza represents are never listed for sale because listing can easily become a disadvantage. “When an owner hits roadblocks in the process, overestimates an ability to get a sale across the fin-



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ish line, or doesn’t have the industry expertise available to help, he can become locked in a long-term listing contract with no real chance of success,” Mazza says.

“It is not unusual for a sale to be difficult, if not impossible,” says Tenney. “Any business owners who take on selling their own businesses without help are often overwhelmed by the complexity of the process and how best to protect their interests.” Tenney is also not a great fan of entering into a listing contract unless it is being managed by a competent broker who has experience and expert understanding of the nuances of our industry. He points out that often “the lenders who need to be involved in a transaction have little experience or knowledge regarding business value and business transfers in the chauffeured transportation industry. Having the seller’s financials recast to properly demonstrate the owner’s true financial benefit is critical to getting deals financed and completed.”

The new reality is, if situations are not forcing us to sell the business (health issues, divorce, etc.), then there are a number of options that should be considered—not just a sale. That solution, according to Mazza and Tenney, is whatever takes the greatest advantage of the company’s value and how this value is leveraged. In other words, the right decision isn’t limited to just selling the business, and the timing is completely dependent upon the circumstances of a specific owner and company.

So, how do you assure that you are positioned to get the

most from the decision you make? Sales 101 teaches us that we get nowhere fast if we focus only on what we want from a buyer. We can, however, be very successful in getting what we want if we focus on what the buyer wants from us.

It is no different in valuing a business: The goal should be to close “the value gap.” Closing the gap will depend upon how much evidence you can produce to eliminate the two greatest barriers to a merger/acquisition/sale: the fear of losing money and a lack of confidence in the ability to be successful. In other words, it is critical that you create a balance between risk and return.

No matter your age, reason for selling, time frame to sell, or “none of the above,” business owners have to be able to demonstrate the value of the company beyond the pure numbers and, most of all, have enough quality information to support their estimates and projections. You are going to need evidence; you are going to need clearly defined, documented “value drivers.”

Value drivers are the characteristics that reduce the risk associated with owning the busi-

ness and/or enhance the prospect that the business will grow in the future. Your key value drivers are the best leading indicators of the company’s ability to sustain profit, minimize risk, and maximize future growth. Value drivers need to be in place before you ever entertain the question of

making a strategic move to merge, acquire, or be acquired.

What are the key value drivers that an owner should be concentrating on to demonstrate the company’s ability to sustain good margins, minimize risk, and grow? There are more than 25 value drivers identified in business (at least, that is what I learned in business school), but there are about a dozen that are critical in our industry.

#### **Clear and consistent financial reporting and forecasting**

Many of these value drivers are fairly obvious, but some of them are often overlooked. For example, clear and consistent financial reporting depicts structural organization and, most importantly, proof of revenue and profit. Doing business “off the books” may reduce short-term tax liabilities, but it makes it very hard to justify when you are trying to illustrate the value of the business. Whether your financial statements should be compiled, reviewed, or even audited by outside accountants will depend on the size and complexity of your business.

Mazza is adamant that any client who wants to discuss mergers and acquisitions strategies with him must have—at the very minimum—2 years of financial statements. “Unless the owner or company has its financial house in order, there is no point in even having a discussion about buying, selling, or mergers,” he says. “Strategy development and market positioning are not only time consuming, they can be very draining for the people involved. If

the basics of a good, organized operation are not in place, where's the value?" he asks.

Tenney often counsels clients on the importance of not only looking at the past, but by forecasting their future, especially when it comes to potential capital investments. "If an owner will be required to replace vehicles in 2011 and 2012, the reinvestment will have an impact on the balance sheet. Timing is critical, and planning is vital. Selling today at a lower price versus reinvesting in the fleet to attract new business at a premium price 2 years from now may result in the business owner walking away with less money," Tenney says.



What your financials look like today and what they may look like in 3 to 5 years from now is critical to maximizing value. And, according to both Tenney and Mazza, forecasting for the future also allows for the establishment of triggers. "While none of us has a crystal ball," says Mazza, "expanding government spending, changes in tax codes, and the access to working capital over the next 1 to 5 years will have influence on what strategy is best, and when it is time to put the tactics in motion." Let's not forget that the industry is changing rapidly in this current recession.

### Effective financial controls and fraud protection

Controls on financials and fraud protection are also a necessity, and the more proactive your organization is in protecting the security of customer data and company funds, the higher the value of the company. Is your website secure? Are your online credit card processes encrypted and compliant with safety standards? Credit card customers will be far more valuable than invoiced customers today, no one should be risking resources or borrowing money to float receivables. Getting your financial processes and controls in order is one of the best ways to improve value, hands down.

### A diversified customer base with recurring revenue

Evidence of a diversified customer base and recurring revenues are two other value drivers that most buyers will focus on. The number of new customers gained over the past 3 to 5 years, the size of your customers (both in terms of revenue and profit), the percentage of your business that each customer represents (the larger the percentage, the greater the acquisition risk), and your "churn rate," or how many customers you have had leave annually, will all have an impact. Take the time to build substantive customer profiles—not just names and e-mails. Being able to show a buyer who your customers are and what their lifetime worth means is a true value improvement.

A value driver related to your customer base is the percent of recurring revenues, or the sales that the buyer can reasonably expect to occur in the future based on your existing relationships. This type of revenue has an inherently higher value than one-time revenues. Contracts, simple letters of agreement, and service level agreements (SLA) with corporate customers (if corporate sales are part of your mix) or scheduled group bookings for the future reassure the buyer. Again, solid, detailed customer profiles are critical to demonstrating these advantages.

### Integrated technologies

Integrating technology into the business means there are more opportunities for increasing efficiency and exploiting new markets. Increasing efficiency means improved profit and new markets means growth. Having the processes and procedures in place to accompany the hardware and software is further evidence of an organized company. Technology also supports other value drivers such as customer satisfaction, financial controls, and fraud

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protection. Look at your reservations, dispatching, CRM, and telephone systems; upgrade where it makes sense; and start collecting the statistics and reports these systems generate.

### Good operating margins

Most everyone can admit that creating profit margins in this industry is no easy task, but it is still something that will be considered in a sale. Strong margins are the result of a solid value proposition in the company's markets, enabling the command of reasonable prices and efficient operations. Good margins mean that you are not competing on price alone and tend to be indicative of excellent customer satisfaction. In short, higher margins are signs of a high-value business.

### Diversified services and competitive differentiation

If you ever needed a reason to stop competing on price, this is it. Concentration of any kind typically works against maximum value. Diversified services are becoming more and more important to us as an industry to thwart changing tastes, perceptions, and the newly introduced abhorrence of conspicuous consumption.

In an industry where service is easily categorized as a commodity in the minds of buyers—especially in the corporate sector—your ability to competitively differentiate your services is one of the single most valuable advantages you will have. Don't wait to follow the market. Get a "first mover" advantage in a particular segment by looking for places to stand out. Being environmental is out, but you better believe being "green" to increase efficiencies and reduce costs is very much in. Customize programs for clearly defined target markets. For example, the 78 million in the baby boomer generation have very specific needs as do young, technology-addicted business travelers. Are you think-

ing outside of the box so that you can show specific service advantages when compared to your competition?

### An established long- and short-term growth plan

A written marketing strategy and overall growth plan that answers “What additional services can be pursued?” and “What new markets can be can be pursued?” doesn’t have to be lengthy

## The Coming Decade: Boomers Are Retiring and Selling Their Businesses

Recession notwithstanding, the large majority of these companies are being sold because their owners want to retire. According to bbhq.com (Baby Boomer Headquarters), more than 4,000,000 people in the U.S. will turn 50 in 2010. That is one person every 8.5 seconds. If we use the years 1946 to 1964 as boundaries, boomers are now (in 2010) between 46 and 64 years old. Not surprisingly, last year’s Limo Digest industry statistics (*Limousine Digest*, July 2009) revealed that almost 65 percent of those responding to the survey are, indeed, part of this same group.

With more than 78 million baby boomers at or approaching retirement, the implications for the business buy/sell markets have always been worrisome. According to the latest estimates, it is expected that almost 7.7 million owners will leave their businesses in the next 10 to 15 years.

No matter the industry, if you are an owner depending on the sale of your business to help fund your retirement in the next couple of years, you will be looking at a glutted market where the number of businesses for sale is rising and as a result, prices are very likely to drop. In terms of personal wealth, residential real estate and stock portfolio values were decimated, although the rise since the low in March 2009 is helping. The recession caused the value of many service companies—including chauffeured services—to drop sharply as well, as travel and discretionary spending plummeted resulting in lower sales volume, increased costs, unraveling credit, and profit disappearing. If you’re looking to sell that business within the next decade or so, now is the time to start preparing. You may need to make significant changes to your infrastructure to ensure that your company is not only interesting to potential buyers, but that it may net you the cash you need for your golden years.

As baby boomers, we may be old dogs, but we can certainly learn new tricks. And, if you’re still young enough to anticipate a long, profitable career, now is not the time for the faint of heart: plan to succeed, don’t fail to plan. Communicating real, measurable value beyond the balance sheet and financial statements is going to be how you convince investors, buyers, merger partners, and even customers, that your company—regardless of the competitiveness of the market—has exceptional value.

as long as the goals are realistic and attainable. Having well-thought-out marketing and growth plans allows prospective buyers to see the steps to be taken, gives them the tools to set the plan in motion, and provides a template to follow after the sale. Your growth plans will clearly add strength to the business by forecasting long-term potential.

### A deep and well-developed organization with an experienced management team

“I am the business” does not bode well for a successful transition. Is the general operating mode of the company managed chaos or is it organized? Today, this area is being looked at and evaluated to a much greater extent than ever before. One of the most important value drivers in any company is its people—particularly its management team. For your business to have value, it needs to be able to operate—and thrive—without you. Other-

wise, what exactly is being acquired?

In the final analysis, nothing adds value like a strong management team and a well-developed organization. After all, your people are really the ones that steer the business on a day-to-day basis, and having a team in place that’s willing to stay and maintain important cus-



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tomor relationships, ensure the company’s reputation, and grow the business can easily translate into greater value and a higher purchase price.

### A clear understanding of target markets and competition

Whatever your sales and marketing strategies are, they need to be well documented. A clear understanding of target markets and competition will result in an effective sales and marketing strategy. You will be able to provide statistical results of the model over time as new customers and revenues are easily tracked and reported. This is another place where detailed customer profiles will illustrate additional value—you know who your customers are and have the tools in place to keep them and add more like them.

### Demonstrated customer satisfaction

The ability to demonstrate customer satisfaction is a significant value driver, but you have to be able to prove it. “Our customers love us” or “we have no service issues” are a red flag to qualified buyers. Documentation revealing consistent customer survey results, a written process for complaint resolution, con-

sistent customer communication, low churn rates, and even an established loyalty program are all evidence of long-term relationships created by satisfied customers. If you don't have a system for reaching out to your customers, inviting feedback, and listening, then you are missing a tremendous opportunity to show real value.

### Operational history and reputation

People will continue to be uncertain about the future for years to come. And, in times of uncertainty, it is reputation more than anything else that secures the confidence of the buyer. Reputation is also the primary controllable driver of expectations for the company's ability to generate returns.

In a world that has been rocked by corporate governance and audit scandals, celebrity bad behavior, and a devastating recession, an operational history and reputation is now more important than ever before. The benefits of a strong reputation include the ability to attract customers, employees, and investment; to motivate employees; and to differentiate the company from its competitors. Studies have proven that a strong reputation also helps protect value, as it can lessen the impact of scrutiny, crises, and competitive attacks. All of these advantages should translate into higher prices for service, better margins, more stable revenues, and lower capital costs. If you haven't already, start managing and documenting your online reputation and don't let online

conversations about your company or service go on without your participation. Be diligent in managing your good reputation because the flipside is that a bad reputation can also destroy value. What



is a Tiger Woods endorsement worth on the open market today?

To this end, the one most important factor to never overlook is goodwill. It's the combination of reputation, relationships with customers and your community, and participation in industry-related activities that can translate into value of having an established, sustainable business. A buyer will not have to start from scratch and build a business from the ground up.

These are the value drivers that matter most to the ground transportation industry. If you can define these for your business, then you may be ready to sell. Intellectual property, administrative leverage, distribution leverage, barriers to entry, proprietary systems, brand names, appeal to early adaptors, and patents—although important in some situations—aren't significant considerations in the majority of chauffeured trans-

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portation/limousine companies looking to position themselves for a strategic move.

In summary, whatever decision you make—buy, sell, merge, or hold—the party on the other side of the table will be interested in what you are doing and also how you are doing it, so written processes, procedures, employee and chauffeur guidelines, and consistent reporting are all critical. Evidence of charitable contributions, community involvement, and other sustainable activities also add value. The fact that you have been in business for many years is a critical piece of the reputation puzzle, so be sure to have your company's timeline

well documented. Your customer list, satisfaction statistics, and service contracts are the evidence of a well-run organization. The bottom line is that you will be able to prove that your value transcends simple numbers and is worth the premium asking price.

Often it is in your best interest to seek the outside help of third party professionals who don't have the emotional attachment that a seller, and oftentimes a buyer, has. This may seem like the best time to sell, or you may feel it's essential that you sell for a certain price. A third party can help you determine all these factors so that both the buyer and seller are getting a fair deal. **LD**

## Why Is It for Sale?



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