

Understanding the Reasons for Selling Your Business

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A small group gathered in the back office of the building that served as the headquarters for *Red Oak Cooling & Heating*. For over 55 years *Red Oak* fulfilled the HVAC needs of its customers from this same building. Founded by Sid Jones after the War, the business had remained privately owned and operated by Sid and his son Joe for over half of a decade. However, times had changed. Reaching the age of 65, Sid retired in 1997 and sold half of the shares of the business to Joe.

Although accomplished in the trades and having worked in the business since high school, Joe soon decided that running the business was not for him and he would rather turn his hobby of training horses into a full time career. Identifying burnout and a need for something new in life, the decision was made to sell the family business.

The group that gathered in the back office that day included Sid, Joe, their lawyer, the buyer and his attorney. With a stroke of the pen, *Red Oak* was sold to a local competitor interested in capitalizing on the established name and extensive customer list. Sid went back to a happy retirement and Joe became a horse trainer.

This scenario is based on several actual experiences I have witnessed within the last year. Everyday, similar scenes are played out throughout the United States, only the reasons for the sale vary. Identifying a reason for selling your business is important, and should be completed prior to moving forward with a sale. Moving forward without identifying a reason can lead to a change of heart midway through the selling process. This change of heart will cost you money, employee loyalty and productivity. In addition, your reputation may be tarnished and worse yet, you may be lead into litigation by a frustrated buyer concerned over the time and money wasted on analysis, due diligence and legal fees.

The following are some common reasons for selling a business:

Burnout/Career Change: In the example above, Joe had reached a point in his life where it was time to try something new. This is common, especially for an owner who has worked in the family business forever. Business owners, like all others, are entitled to career changes. A career change would certainly result in the sale of an owner's business. Burnout from the stress and anxiety that comes with running a business takes its toll. Many owners are continually involved in their businesses 24 hours a day, seven days a week. When ownership becomes overwhelming, burnout is the result. For many, the sale of the business is the best means in which to escape the mentally draining effects of burnout.

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Failing Health/Personal Challenges: Many aging business owners are faced with the challenge of failing health or other distracting personal challenges, such as a loss of a loved one. These challenges prevent the owner from continuing the intensive level of involvement needed in the business to guarantee success. When health and/or personal challenges restrict an owner from properly managing the business, a wise decision is to sell the business before the effects of the challenges destroy the value of the business.

Retirement: Many owners have worked over 40 years in their businesses! For some, a time to enjoy the financial rewards earned from their hard work while they still have their health may be a reason to sell. Before selling a business for retirement reasons, an owner should determine that a slower paced lifestyle, after years of busily running a business, would be enough to keep the retired owner happy.

Divorce: The facts are that 50% of all marriages in the United States end in divorce. Contractors are not immune from this social issue and a divorce can lead to severe hardships for a business due to distractions and/or the loss of key management. Frequently, the details of a divorce settlement center upon financial issues that can only be resolved by selling the business to raise the cash needed to compensate both parties involved.

Financial/Operating Reasons: An owner may decide to sell his business for many financial/operating reasons. With the downturn in the economy, financial reasons are more and more prevalent today. Many businesses that were able to operate profitably during strong economic periods of the late 1990s are finding it tough to do so in today's market. For owners of such businesses, a sale may prevent financial disaster. On the other hand, the reason to sell could be for positive reasons. An owner may be looking for certain expertise and sell a portion of his business to a new partner or employee.

Partnership or Shareholder Issues: Many times, partners or shareholders find that they have developed unreconciling differences of opinion. These differences significantly impact the performance of the business as well as the mental health of those involved. Sometimes the only resolution to a partnership or shareholder dispute is the sale of the business. The sale may be to an outside party or to one of the remaining shareholders.

Willing Strategic Buyer/Opportunity: During the late 1990's many contractors sold their businesses to consolidators who were willing to pay for businesses well over the contractor's expectations. Many businesses were sold during this period by owners who

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readily admit that they were happy running their businesses, but could not say “no” to offer presented to them. The reason for selling in those situations was due to the immediate opportunity.

As outlined in this article, there are numerous reasons for an owner of an HVAC business to sell. Regardless of the reason, it is crucial for you to identify the reason for the sale. Not only will identifying the reason enable you to effectively plan for the sale, it will also help you prepare emotionally for the day when a small group gathers in your own back office.

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