Selling Your Business

or Buying a New Business to Expand

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- The Janitorial Coach -

52 Years in the Janitorial Business

BUYING AN EXISTING JANITORIAL BUSINESS

Thinking about buying a business? It can be a great idea, **if you do your homework**. This is a complex decision that requires a careful analysis of physical properties, financial statements, and the relationships between the business and its customers, its community, and its competitors. Don't try to do this analysis alone-**get professional help to evaluate and price the business, particularly if you don't have at least three years of experience in owning and operating a similar enterprise**. Some advantages and disadvantages of purchasing an existing business include the following:

Advantages

- The business has an existing established relationship with both customers and suppliers.
- Financing will be easier to obtain providing the business has a good profit history.
- Operations can begin right away; current inventory can be sold to produce immediate cash flow.

Disadvantages

- The cost may be higher than starting from scratch as often you are buying "goodwill."
- Existing problems can be hidden until after the sale.
- Inventories may be obsolete due to their age; equipment may be faulty.

Recommendations

- Require the seller to put in writing and warrant every essential part of the business, including:

1. that the financial statements which should be attached as exhibits are true and correct
2. that there are no hidden liabilities of any kind (tax claims, lawsuits, or supplier bills).
3. a complete list of everything being purchased: leases, contracts, amounts owed to suppliers, amounts owed by customers, inventory, fixtures, equipment, signs, computer hardware and software and anything else that will contribute to the success of the business.

- If the financial statements have not been audited by a certified public accountant, have it done. If the seller won't pay the cost, you should do so in order to make sure your investment is a wise one.
- Detemine whether there is an industry association that can provide you with "normal" financials to be used to compare against the financials of the business you’re buying. Average financials for most types of business can be found in the Annual Statistical Report published by the Risk Management Association (RMA), available in the business section of most libraries.
- Fairly safe investments will return 5% annually. Consider this when reviewing the selling price. There are companies that do business valuations for a fee; it's probably worth paying the fee to do the valuation to avoid paying too much for the business.
- If you are paying more for the business than the assets are valued, recognize that you are buying "goodwill" -- an intangible asset that may be amortized over a 15-year period.

- Make sure to involve your banker. The purchase and sales agreement state the agreed upon price, lists what is being bought, indicates what actions are required by the seller (such as an environmental study) and by the purchaser (such as seeking financing), and sets the time the agreement is binding on both parties. Your banker needs this agreement to determine how he or she can help you finance the selling price, and whether the down payment is adequate. The bank also needs to know what is being purchased as some of it may be considered collateral.
- Determine why the seller is selling the business.
- Determine how long this business can be expected to last. Are there factors that could terminate the business, such as a road being built that destroys the business location?
- If there is a lease, talk to the owner of the property to be sure the terms of the lease will remain the same. This is an excellent time to discuss renewal terms and termination possibilities.
- Ask the owner to let you work in the business prior to making a decision to buy. There is no better way of judging whether the business volume is satisfactory, whether you will enjoy working in that business and whether there are any problems you need to straighten out before the sale is finalized.
- A business is often successful due to the personality of the owner. If this is the case, you have to decide whether you will be able to make the business as successful with your personality.
- Make sure the seller signs an agreement not to compete for the next 10 years or so. This is especially important if you feel his or her personality was the reason for the success of the business.
- Investigate neighborhood businesses that are not direct competitors to learn what they have to say about the growth of business in your area, what problems they see for the future, and how they feel about the business you're buying.
- Have a credit check done on both the owner-sel1er and the business itself.
- Check with suppliers to determine if the inventory you are buying is valued correctly.
- If there are employees, talk to them about whether they will remain if you buy the business. Get any other information they are willing to provide.
- Talk to some of the customers. Find out if they are satisfied with the business as it is now.
- Determine if this business' prices are competitive. Visit every competitor to see if there are any changes underway that might influence your business.
- Check with government agencies. Local agencies can tell you about licensing, environmental requirements, zoning rules, and whether there are taxes due for any local or state agency (licenses, personal property tax, franchise tax, income tax, and property tax). Federal agencies can tell you whether income tax, social security, Medicare, and unemployment tax payments are up to date.
- Prepare a business plan. If you need help, consult your local SCORE office. Your business library might have an actual business plan for your industry for you to study and utilize to prepare your own.

- When buying an existing business, it is important whether the Purchase and Sale Agreement is for the purchase of assets or stock. As a general rule, it is preferable for the buyer to purchase only assets, not stock. If the Buyer purchases all the stock in the company, he acquires all existing liabilities associated with the business, whether known or unknown. On the other hand, if it is an assets-only purchase, the Purchase and Sale Agreement could, and should, provide that the Buyer is acquiring certain listed assets, including the exclusive rights to the use of the name of the business. The Agreement should also provide that the Buyer is acquiring no liabilities associated with the business, arising before the closing, other than those specified, such as accrued vacation and other Human Resources benefits for those employees who will be retained. The HR aspects are important. The Agreement should identify which employees will be retained, and the level of pay and benefits they will receive. Whether it is a stock or asset purchase, the Seller should be required to indemnify the Buyer against any unforeseen liabilities that may appear after the closing. It is often a good idea to hold a part of the purchase price in escrow for a period of time, as a hedge against such unpleasant surprises.

BUYING A BUSINESS – DUE DILIGENCE CHECKLIST

So you have decided to purchase an existing business. Regardless of whether the deal is structured as an asset transaction, a stock transaction or a merger, make sure you know what you are getting into by requiring detailed information from the seller regarding its business operations and finances. The following is a checklist of information and documents you should review:

A. Organization and Good Standing

- The Company's Articles of Incorporation, and all amendments thereto.
- The Company's Bylaws, and all amendments thereto.
- The Company's minute book, including all minutes and resolutions of shareholders and directors, executive committees, and other governing groups.
- The Company's organizational chart.
- The Company's list of shareholders and number of shares held by each.
- Copies of agreements relating to options, voting trusts, warrants, puts, calls, subscriptions, and convertible securities.
- A Certificate of Good Standing from the Secretary of State of the state where the Company is incorporated.
- Copies of active status reports in the state of incorporation for the last three years.
- A list of all states where the Company is authorized to do business and annual reports for the last three years.
- A list of all states, provinces, or countries where the Company owns or leases property, maintains employees, or conducts business.
- A list of all of the Company's assumed names and copies of registrations thereof.

B. Financial Information

- Audited financial statements for three years, together with Auditor's Reports.
- The most recent unaudited statements, with comparable statements to the prior year.
- Auditor's letters and replies for the past five years.
- The Company's credit report, if available.
- Any projections, capital budgets and strategic plans.
- Analyst reports, if available.
- A schedule of all indebtedness and contingent liabilities.
- A schedule of inventory.
- A schedule of accounts receivable.
- A schedule of accounts payable.
- A description of depreciation and amortization methods and changes in accounting methods over the past five years.
- Any analysis of fixed and variable expenses.
- Any analysis of gross margins.
- The Company's general ledger.
- A description of the Company's internal control procedures.

C. Physical Assets

- A schedule of fixed assets and the locations thereof.
- All U.C.C. filings.
- All leases of equipment.
- A schedule of sales and purchases of major capital equipment during last three years.

D. Real Estate

- A schedule of the Company's business locations.
- Copies of all real estate leases, deeds, mortgages, title policies, surveys, zoning approvals, variances or use permits.

E. Intellectual Property

- A schedule of domestic and foreign patents and patent applications.
- A schedule of trademark and trade names.
- A schedule of copyrights.
- A description of important technical know-how.
- A description of methods used to protect trade secrets and know-how.

- Any "work for hire" agreements.
- A schedule and copies of all consulting agreements, agreements regarding inventions, and licenses or assignments of intellectual property to or from the Company.
- Any patent clearance documents.
- A schedule and summary of any claims or threatened claims by or against the Company regarding intellectual property.

F. Employees and Employee Benefits

- A list of employees including positions, current salaries, salaries and bonuses paid during last three years, and years of service.
- All employment, consulting, nondisclosure, nonsolicitation or noncompetition agreements between the Company and any of its employees.
- Resumés of key employees.
- The Company’s personnel handbook and a schedule of all employee benefits and holiday, vacation, and sick leave policies.
- Summary plan descriptions of qualified and non-qualified retirement plans.
- Copies of collective bargaining agreements, if any.
- A description of all employee problems within the last three years, including alleged wrongful termination, harassment, and discrimination.
- A description of any labor disputes, requests for arbitration, or grievance procedures currently pending or settled within the last three years.
- A list and description of benefits of all employee health and welfare insurance policies or self-funded arrangements.
- A description of worker’s compensation claim history.
- A description of unemployment insurance claims history.
- A description of unemployment insurance claims history.

G. Licenses and Permits

- Copies of any governmental licenses, permits or consents.
- Any correspondence or documents relating to any proceedings of any regulatory agency.

H. Environmental Issues

- Environmental audits, if any, for each property leased by the Company.
- A listing of hazardous substances used in the Company’s operations.
- A description of the Company’s disposal methods.
- A list of environmental permits and licenses.
- Copies of all correspondence, notices and files related to EPA, state, or local regulatory agencies.
- A list identifying and describing any environmental litigation or investigations.
- A list identifying and describing any known superfund exposure.
- A list identifying and describing any contingent environmental liabilities or continuing indemnification obligations.

I. Taxes

- Federal, state, local, and foreign income tax returns for the last three years.
- States sales tax returns for the last three years.
- Any audit and revenue agency reports.
- Any tax settlement documents for the last three years.
- Employment tax filings for three years.
- Excise tax filings for three years.
- Any tax liens.

J. Material Contracts

- A schedule of all subsidiary, partnership, or joint venture relationships and obligations, with copies of all related agreements.
- Copies of all contracts between the Company and any officers, directors, 5-percent shareholders or affiliates.
- All loan agreements, bank financing arrangements, line of credit, or promissory notes to which the Company is a party.
- All security agreements, mortgages, indentures, collateral pledges, and similar agreements.
- All guaranties to which the Company is a party.
- Any installment sale agreements.
- Any distribution agreements, sales representative agreements, marketing agreements, and supply agreements.
- Any letters of intent, contracts, and closing transcripts from any mergers, acquisitions, or divestitures within last five years.
- Any options and stock purchase agreements involving interests in other companies.
- The Company's standard quote, purchase order, invoice and warranty forms.
- All nondisclosure or noncompetition agreements to which the Company is a party.
- All other material contracts.

K. Product or Service Lines

- A list of all existing products or services and products or services under development.
- Copies of all correspondence and reports related to any regulatory approvals or disapprovals of any Company's products or services.
- A summary of all complaints or warranty claims.
- A summary of results of all tests, evaluations, studies, surveys, and other data regarding existing products or services and products or services under development.

L. Customer Information

- A schedule of the Company's twelve largest customers in terms of sales thereto and a description of sales thereto over a period of two years.
- Any supply or service agreements.
- A description or copy of the Company's purchasing policies.
- A description or copy of the Company's credit policy.
- A schedule of unfilled orders.
- A list and explanation for any major customers lost over the last two years.
- All surveys and market research reports relevant to the Company or its products or services.
- The Company's current advertising programs, marketing plans and budgets, and printed marketing materials.
- A description of the Company's major competitors.

M. Litigation

- A schedule of all pending litigation.
- A description of any threatened litigation.
- Copies of insurance policies possibly providing coverage as to pending or threatened litigation.
- Documents relating to any injunctions, consent decrees, or settlements to which the Company is a party.
- A list of unsatisfied judgments.

N. Insurance Coverage

- A schedule and copies of the Company's general liability, personal and real property, product liability, errors and omissions, key-man, directors and officers, worker's compensation, and other insurance.
- A schedule of the Company's insurance claims history for past three years.

O. Professionals

- A schedule of all law firms, accounting firms, consulting firms, and similar professionals engaged by the Company during past five years.

P. Articles and Publicity

- Copies of all articles and press releases relating to the Company within the past three years.

SELLING YOU BUSINESS

Business owners decide it's time to sell for many reasons. It could be a desire to cash in on your investment and retire, to move on to a different phase of your professional life, or just because a great opportunity presents itself. **In all situations, the one similarity is the desire to sell your business for maximum profit.**

After all, you've put your blood sweat and tears into this endeavor for years. You deserve to get top dollar for all your hard work. Or do you? While many factors help determine the value of a business, your opinion isn't one of them. But, opinions do matter. Specifically, the opinions of your prospective buyer. As with every purchase, the final decision is as much an emotional decision as a practical one. If you can convince a buyer's heart that purchasing your business is the right thing to do, their head will require less convincing, and they're less likely to insist on a lowball offer.

What's the conventional wisdom regarding business valuation? Most reputable resources on selling a business state these basic factors that go into the value of your business:

- Current accounts payable and accounts receivable
- Value of existing inventory
- Value of hard assets (vehicles, equipment, real estate)

They'll make wise, common sense recommendations, like:

- Clean up your premises and improve the curb appeal
- Get your financials in order
- Sew up any loose ends in terms of contracts, inspections and other legal details

Then, they're going to discuss various valuation strategies and formulas to determine a figure to put in their sales ad:

- Start-up cost
- Multiplier by sales
- Multiplier by profits
- Asset or adjusted book value
- Discounted cash flow

These are legitimate, practical ways of determining what a business should be worth to a buyer. Nothing is wrong with these factors and formulas. They do a great job of appealing to a buyer's head. But, if you're looking to maximize your business sale profits, you should consider more:

What really drives business value?

Many emotional factors affect the value of your business They impact how the buyer feels about what your company is worth, and these important factors don't get nearly enough attention:

- **Growth potential -** Buyers want to know if your business can maintain growth. They may identify potential in the number of qualified leads, sales in the pipeline, expansion opportunities and more. They want to feel confident that your previous successes will be easy to duplicate.
- **Stable customer growth from multiple sources -** Proving your business can connect with leads across a wide spectrum of platforms or locations can boost business value dramatically. Wide market appeal is not just a practical means of achieving ROI, but helps make the new business owner start on a high note.
- **Solid vendor and supplier relationships -** If you have good relationships with your vendors and suppliers— particularly important for retailers and restaurants — you can help your buyer hit the ground running with quality contacts, ensuring no interruption in business. This adds tremendous value because they're heading into a potentially risky situation as part of an established, winning team instead of starting off on their own.
- **Demonstrated history of repeat business -** If your business model successfully encourages repeat business, you increase the lifetime value of every customer. This type of growth hacker model is very appealing to buyers concerned about long term customer retention.
- **No history of legal disputes (including branding issues)** -If your company's history is free of legal quicksand, it's going to be more valuable in the eyes of a buyer. Likewise, if your brand is untarnished when they take it over, it's worth far more than if your company name brings a bad taste to peoples' mouths.
- **Well-documented processes and systems -** The easier it is for the new owner to start earning revenue, the more value they will see in your business. This is the beauty of franchising, but even a private sale with no franchise license can still include detailed documentation that helps the new buyer slide into their role seamlessly.

Since these factors increase the value of your business, trying to sell a business deficient in any of these areas would result in a lower valuation. Rather than encouraging a prospective buyer, boosting their confidence, and getting them excited, these emotional triggers would have the opposite effect.

If there's room for improvement, take the time to do so before putting your company on the market. And, if your business excels in any of these areas, make a point of letting prospective buyers know about it.

When should you start boosting your business value?

You should begin taking positive steps at least a year before you plan to sell, because ignoring these factors until closer to the sale can leave you scrambling for time. By applying these tips for a year or more, you should have plenty of time to establish them as integral parts of the business.

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About the Author

Wayne Baxtrom, The Janitorial Coach, has over 52 years experience in the cleaning business. He has started 3 multi-million dollar Janitorial Businesses — the last being sold for over $6,000,000. Recently retired, Wayne still feels the fire in his belly to stay active. He is motivated by his desire to help any and all folks making their living in the cleaning industry.

Wayne offers Janitorial Business Programs for startups and seasoned pros. To learn more about how Wayne can help your business grow, visit **www.TheJanitorialCoach.com** and schedule your free Discovery Call.