



Business Ownership

## SPECIAL POINTS OF INTEREST:

- Highest Prices For Businesses

Avoid Common Mistakes In Selling Your Business

Entrepreneurial Basics

Independent Third-Party Advisors

## INSIDE THIS ISSUE:

2 Common Mistakes In Selling Businesses

3 Entrepreneurial Basics

3 Third-Party Advisors

3 P&G Buys Gillette

4 Comments From Clients

BIZ

## ADVOCACY

## Businesses Selling at Highest Prices

A study by a mid-market M&A (Mergers & Acquisitions) specialist found pricing significantly on the uptick during 2004 to reach the highest levels since the late 1990s. The data reported by Brown Gibbons Land & Co. suggested that buyers, cautious since the 21<sup>st</sup> Century began, were willing to pay up for targets with demonstrated cash-generating abilities and that quality sellers could demand and get more.

Chris Mercer of Mercer Capital, a leading business valuation author whose company is one of the largest independent valuation firms with an expertise in financial institutions, in his December 2004 newsletter stated: *Without question, 2004 witnessed*

*substantial M&A activity, as the aggregate transaction value rose to a level not experienced since 1998.*

George Abraham, president of Business Evaluation Systems says: *From our own records, many industries did rise in value and the amount of companies we valued for contemplation of sale rose dramatically in 2004. From our own research, we feel that the lowest level was 2002 and the growth activity, in our company, started in September of 2003, and has been building steadily since then.*

Mr. Abraham continues: *Consistent with our in-house research, the February 2005 edition of Inc. Magazine, in its "Small and Mid Market M&A Activity Rose in '04" article*

*stated "Both the volume of deals and their value rose sharply, according to Mergerstat, a M&A research firm based in Santa Monica, CA". Through the first three quarters of 2004, Mergerstat reported the closing of 3,394 small or mid-market deals.... 40% jump over 2003. Equity valuations surged ahead by 68%.....a return to the level of activity seen prior to the dot-com meltdown.*

## Greenspan Says Economy in Good Shape

Federal Reserve Chairman Alan Greenspan told Congress on February 16: *All told, the economy seems to have entered 2005 expanding at a reasonably good pace, with inflation and inflation expectations well-anchored.*

Despite the Fed's increases to short-term rates, long-term rates actually moved lower in recent months in the United States and some other countries.

He also told Congress to be more fiscally disciplined...and

we agree!

*History cautions that people experiencing long periods of relative stability are prone to be complacent, and, we must thus remain vigilant against it,* Greenspan said.

This is the first of a series of articles by Randall Oestreicher, Ph.D., PBC, which will be continued in future publications.

AVOIDING THE  
COMMON  
MISTAKES  
IN EXITING  
BUSINESS  
OWNERSHIP

BIZ  
ADVOCACY

## Common Mistake #1: Flying Blind

Many owners fly blind at this most critical time in their business career in deciding to Exit their business ownership. Their approach to the multiple decisions involved with a business transfer is largely improvised and reactive. Unrealistic assumptions, wishful thinking and emotionalism dangerously influence their actions. No planning, poor planning and inadequate preparation are the most common and fundamental mistakes Exiting

owners make.

**Suggestions:** Start with a plan and follow-up with appropriate preparation. How much planning and with what lead-time is impossible to prescribe for all owner situations and businesses. Ask your professional *Primary Business Consultant* to help you develop your Exit strategy well in advance of a contemplated sale. Allow enough time to complete prudent preparations, such as cleaning up

the balance sheet, settling outstanding litigation, addressing environmental or regulatory issues that might become deal killers, negotiating leases, and disposing of excess assets, etc.



## Common Mistake #2: Neglecting the Business

Some Exiting business owners become so preoccupied with the details of the transfer process, their post-transfer aspirations, or allow themselves to be distracted by the emotional roller coaster of courtship and negotiation, that they stop “minding the store.” Should neglect produce a noticeable, negative impact on financial performance, expect some hard ques-

tions, and don't be surprised if an Entering entrepreneur wants to renegotiate or backs away entirely. Also, declining sales or cash flow make it harder to get outside financing.

**Suggestions:** This critical phase of your business career is not the time to drift or coast. Remember the importance that current information and credibility has for those seriously in-

terested. Stay focused on the present, and on your business and goals. Do not neglect your customers, suppliers, employees, and the general operation of the business during the process. The right team of professional advisors under the leadership of your *Primary Business Consultant* will buffer you from many distractions and temptations, while keeping you informed and involved at the appropriate times.

## Common Mistake #3: Becoming Impatient

One of the most asked questions regarding Exiting business ownership is: “How long will it take?” While some transactions have taken one or two months, some have taken over a year. It can take one to two months to complete an independent, third-party appraisal. Another month may be re-

quired to determine the real objectives of the Exiting owner and design a customized marketing plan. It can then take three to six months to locate the appropriate Entering party and negotiate the terms of the transaction. You will need to figure another month or two for getting through the due-diligence

phase, securing financing, and consummating the transaction. **Suggestions:** As you can see, a full year can be consumed in a properly managed ownership transfer. If you are truly interested in creating an optimal outcome, and securing the highest reward financially for years of hard work, be patient and allow for whatever is required in your particular situation.

## Entrepreneurial Basics for Business Owners

In a recent article THANK GOD IT'S MONDAY Jyoti Thottam says: *If workers feel engaged and content at work, they're more productive.* Keeping workers content and productive is the most significant challenge faced by many business owners. Nobody knows all the answers, but here are some suggestions we've picked up along the way: (1) Be honest, but kind in bringing workers to reality. (2) Help employees understand that their link in your production chain is critical to

success. (3) Show them how their success at work and success at home are equally important. (4) Don't ignore employee challenges...address them timely. (5) Be consistent in your concern, not just when you need something accomplished. (6) Build a TEAM and allow individual talents to contribute and give credit for them.



## Use Independent Third-Party Appraisals

It is difficult to understand how anyone would sell, purchase or finance a business without the use of an appraisal. In order for the appraisal to be fair to any, or all of the parties, it should be provided by an independent third-party who has had no prior relationship with any of the parties to the transaction. According to Patrick Leddy and Randall Walters in a recent

article for Mergers & Acquisitions, *The Dealmakers Journal, Advisors with significant prior relationships should be considered suspect even if they possess the most institutional knowledge of the subject.* If your business is a public corporation, the law requires you to inform yourself of all information reasonably available. If it is a closely held family entity you should be just as

careful to act on a properly informed basis to protect the hard earned value of your family. Even though you may have received dependable opinions from your CPA, attorney, banker, and other advisors for years, it is important to go outside these relationships for an appraisal used in a buy-sell transaction. If not, other parties to the transaction may immediately discount your value to protect themselves from the unknown.

## P&G Buys Gillette for \$57 Billion

An Associated Press article reports the Procter & Gamble, Gillette transaction forms the worlds largest consumer product company. Since most of us do not move in those huge circles, you may question its relevance to owners of privately held businesses.

First, it's another indication of a healthier economic climate than some will admit. M&A deals in January, 2005, alone totaled \$137 billion which is the most for the month since 2000, according to Thomson Financial. Additionally, when the big fish move, it creates more need for

the smaller fish. For example, we represent an independently-owned manufacturer of products which you see on the shelves of Wal\*Mart in the same department as Gillette products. As soon as our independent third-party appraisal is completed, we're going to give P&G/Gillette an opportunity to acquire our client and to include our clients products in their mix...that's what it means to the smaller fish!



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## Comments from Appreciative Clients

*Thank you so much for helping us sell PRC. It would not have happened if not for your efforts, time, patience & persistence. We so appreciate all you've done, given & also your friendship. I'm sure we will be in touch again, so, until that time...thank you so very much! G. & T.C.*

*As a business lender, I have had the opportunity to work with you on numerous transactions. I would highly recommend you to anyone seeking the expertise of a business intermediary. Your knowledge of handling both the buy-side and sell-side of transactions are superior. You maintain*

*control of transactions and are always one step ahead of the next problems. You are professional and I find it quite refreshing to work with you...J.T.W., Lender*

**"Learn from the mistakes of others. You can't live long enough to make them all yourself."**

**- Author Unknown**