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Banking & Finance

Tough sell: It takes work, but even declining businesses can find buyers

By Jessica Aiello, December 15, 2017 at 3:00 AM

Retailers are closing hundreds of stores across the country — and in Central Pennsylvania — as more purchases are made online rather than in brick-and-mortar stores. But it is not just national retailers that may be hurting and needing to sell all or pieces of their business.

It happens to smaller companies, too. But if a business finds itself in a situation where it can no longer compete or find enough customers, and its owners want to sell the company, is it possible to find a buyer?

The short answer is yes, according to consultants who work in mergers and acquisitions. But there are caveats.

"A critical component is whether or not the business is profitable," said Ronald Myers, a certified business intermediary at **Summit Advisory Inc.**, an M&A consulting firm in Manheim Township, Lancaster County. "Buyers buy for the future, not the past. A prospective buyer will look to the next three years to see if there is value. If there isn't any visible value, a buyer will need to change the business somehow to make value above just the liquidation value."

Owners can create value for potential buyers by putting more money into research and development, or patenting a new product. According to Myer, "The owner needs to find that nugget of gold in their business that they can promote to get the most value."

Of course, companies that are in decline tend to struggle to find that gold nugget. They wouldn't be considering a sale otherwise.

Still, there are many ways companies can improve their bottom line to make them more interesting to a potential buyer, said Katie Smarilli, president and CEO of **Smarilli Strategic Partners**, a consulting firm in Manheim Township, Lancaster County.

They can reduce capacity, sell some of their equipment, lease space to others, outsource some activities, cut distribution channels and focus on the most profitable products and clients.

"Businesses need to be honest with themselves and objective about managing the decline process," Smarilli said. "Focus on what is most stable with your business and industry for long-term success."

The success rate for companies in this situation depends on the speed and certainty of the business's decline, according to Smarilli. If there are barriers to leaving the company, such as having specialized equipment that would be difficult to resell, long-term labor contracts, or environmental or zoning issues related to a property, it will be more difficult to find a willing buyer.

An outside business valuation also is important, said Michelle Calvert, a partner at **Reilly Wolfson Attorneys at Law** in North Cornwall Township, Lebanon County.

"A business owner needs to align early on with professionals who can value the business, so their expectations are realistic," she said. "Find someone to help with marketing as well. Many people think their business is worth more than it is. Talk to other people in your industry to get ideas on what issues they have come across from both the selling and purchasing side of things."

But when it comes to finding a willing buyer, Myer said, "One person's trash is another person's treasure. You need to find someone who can make the weak part of your business work. No one will buy a dying business and run it the same way. They need to find the idea of the ability to change."

A change could come about from someone with a different market, a different distribution channel or a different managerial style.

He mentioned one client who went to 24 trade shows in 2016 but only four in 2017. As a result, the business declined by a third in less than a year. The declining energy level of the owner was the cause, and his business struggled against better-managed companies.





Calvert has seen similar scenarios unfold at local IT companies that struggled to keep up with technology "advancing at the speed of light." A few didn't keep up with the trends and either "had to sell their business piecemeal or lost all the value because they couldn't sell it at all," she said. "One that thrived five years ago, and had nearly 20 employees, had to declare bankruptcy because they couldn't sell it."

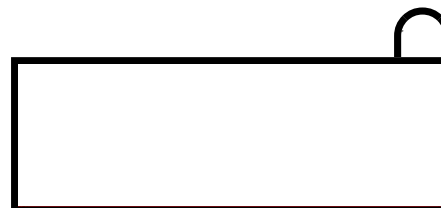
Whether in retail, manufacturing or the service industry, no one is immune to the possibility of having to sell their business.

The key, said Myer, is to plan ahead and spend the time trying to understand changing market dynamics.

"Every way that you can stay attuned to what may be changing around you is critical to planning for the future," he said. "Worrying is a good thing if it causes you to take a positive action. When you see a market change you need to move quickly."

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