

LEADERSHIP

Business for Sale

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If your business is one of your nest eggs, you might want to start examining it closely. Because, whether you want to retire in two years or twenty, what you do today can go a long way toward what you will get tomorrow when it's time to sell your business.

As the owner of a company that has franchises across the U.S. and as the shareholder of a franchise management company with several brands, I've spent the better part of 23 years not only helping people buy a business, but also sell it to another owner when they were ready to retire or move on to their next chapter in life. And while my experience involves companies with national brand names, I've learned there are a couple major factors in the asking price for any business [franchise or independent]. The first being the number of hats the owner wears in the day-to-day activities of the operation and the second is having well running systems in place.

What's the Math Look Like?

There are independent firms that specialize in helping you through the sales process so you get the most for your years of hard work and investment in the business you created. And the most desirable buyers aren't shopping for today's value of your business. They are shopping for what it can become and the perceived ease with which it can happen.

I break it down into basically three categories that define the multiple you can command. This number is multiplied by the pretax net profit, or EBITDA, of your business to determine its worth. But remember, if you're doing the job of many, you also have to account for how many people your buyer must hire to replace you after the sale. And that means a lower return.

- *Owner/Operator*: If you are the owner/operator of your business, you're the core of your operation. You're wearing almost every hat, including doing some or all of the installations. You probably don't take vacations and skip sick days for fear of losing business, falling behind, or just to keep up. Take you out of the picture, and the business will slow down or not exist. In this instance, your business may be worth 1–2 times your pretax net profit.
- *Salesman/Production Manager*: If you are an owner who isn't in the field, but you're doing the majority of sales and/or production for the company, you are single-handedly bringing in most of the money that justifies everyone's job. Your business may be worth 2-3 times pretax net profit.
- *General Manager*: Perhaps you've developed systems for your business so you can focus on the bigger picture of senior management. You delegate work and you've assembled a team of skilled people to execute assignments as well as lead. If you are an owner in the role of a general manager, many facets of the business succeed without your direct involvement. That means your business may be worth 3-5 times your pretax net profit.

Then there's the wildcard. A buyer comes along who wants your business bad enough to pay a premium. He doesn't want to start from scratch and he likes your location, business niche, the territory you cover, and/or wants to capture a large part of the market. He's shopping for an opportunity, and you've got it. In those rare cases, you can generate a higher multiple.

When determining what your business is worth, all pretax net profit should be calculated minus the owner's compensation for all positions he or she fulfills and at a fair market wage for hours worked. Additional factors that often affect the total sales price are real estate, certain equipment, franchise rights and/or other unique licensing agreements.

If you're not willing to gamble on the wildcard and you want to proactively pick your successor, you may want to consider recruiting your future buyer. I've seen many business owners hire a talented employee, groom that person to excel in the business, and promote him to a position of authority whereby he one day bought the business.

So whether you're at the center of the action or a master at overseeing, whether you wear a tool belt to work or you lead from your office, understanding your position today speaks volumes for your future position in a life after remodeling. Or if you plan on staying in the business and passing it along to another generation, building it as if you would sell it some day will position it to be stronger company with greater worth as an asset. You already work in a business with deadlines, but your retirement may be the biggest deadline of all.

Doug Dwyer is president and chief stewarding officer of DreamMaker Bath & Kitchen by Worldwide[®], one of the nation's largest remodeling franchises. He was a major shareholder in The Dwyer Group, a publicly-traded company that accepted private equity in 2003 and sold for a multiple of six times its pretax net profit. He can be reached at doug.dwyer@dwyergroup.com.