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WALKING AWAY WITH NO REMORSE

Selling a small business can be as tricky as building one, but careful planning can help both seller and buyer.

By SUZANNE KING
The Kansas City Star

For 26 years, Scott Mesler owned his own roofing company.

Every day he was the first one in and the last one to leave. He rarely had a day off.

"People think running your own business, you can make your own rules," said Mesler, of Lawrence.

But employees depended on him. Customers depended on him. The very existence of **Mesler Roofing** depended on him. Mesler, 49, was tired.

So in April, with little hesitation or regret, he handed over the keys – and the worries – to a new owner.

Like many other small-business people who spend a lifetime building a business they then put up for sale, Mesler is learning how to live without a constantly ringing cell phone or a 70-hour workweek.

While actual data are difficult to come by, it is generally accepted among those who help people buy and sell small businesses that there are about to be a lot more Scott Meslers out there. As baby boomers near retirement age, they are expected to sell their small businesses in record numbers.

"When it comes to businesses for sale, we've never seen a funnel like we've got now, and we think it's just the beginning," said Mike Saxton, chief executive of Business Transition Specialists in Leawood.

Still, not everyone agrees with the expectation that baby boomers, including those who are business owners, will retire en masse. In fact, Shawn T. Coyne, managing director of The Coyne Partnership, an Atlanta-based strategy consulting firm, said his firm projects that the number of retirees will grow less than 4 percent each year for the next 25 years.

"Growth won't be nearly as big as companies had been planning for," Coyne said.

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Gregg Davidson (from left) is the new boss at Mesler Roofing – but founder Scott Mesler had to wait quite a while to sell it.

Surge or no surge, experts say, all small-business owners should have an exit plan – and learn from those who have navigated a sale.

Be prepared

Business owners thinking about selling should begin preparing two or three years before they actually hope to close a deal. Ideally, processes, key personnel and consistent operating results should all be in place before the "for sale" sign goes out.

That may be even more important in the current down economy, when many businesses are seeing revenues slip and credit is harder to come by. Potential buyers want businesses that have all their ducks in a row.

"Good businesses can handle transactions on their timing rather than, 'I've got to sell this quarter or this month,' " said Marshall Parker, an executive with the private equity firm Kansas Equity Partners. "Typically, those that have to sell now may be having issues."

Business owners should be planning for a sale even if they're not in the market to sell, many advisers said. Then when unforeseen circumstances force a sale, the seller will have an attractive asset.

One of the biggest issues Jeff Olsen, owner of Pass the Torch Inc., sees with small businesses is an owner who is the business. No one wants to buy Joe's Plumbing if Joe is no longer there and there aren't other employees or even very many assets.

Owners wanting to one day sell should be putting in place key employees so eventually they become the CEO, said Olsen, whose Kansas City company advises owners.

"That's the heart of exit planning," he said.

Another key step – even if plans to sell aren't in the near future – is to get an independent appraisal.

"Many small businesses have no idea really how much their business is worth," said Carmen DeHart, director of the Small Business and Technology Development Center at the University of Missouri-Kansas City, which offers the service for a price that is somewhat discounted.

Joe Warner of Sunbelt Business Advisors in Overland Park said clients often come to him ready to retire having a very specific idea how much money they want, but with no outside appraisal.

"They'll say, 'I need $5 million out of this business to retire,' " Warner said. "But that has nothing to do with the value of the business. You either have to lower your expectations or we can look at it and say, 'Here's what you need to do to increase the value.' "

Executing a plan to increase the value, though, usually would take three to five years, he said.

Of course, the process is rarely simple or clear-cut, which is why business owners who have an exit strategy in mind long before they're ready to execute it are likely to do better.

Exit strategies

Tim McNamara sold his advertising firm, CNI Advertising, last month, 12 years after he started it.

Trozzolo Communications Group acquired McNamara's Overland Park advertising firm at the end of July. But in many ways, McNamara had his eye on this kind of exit strategy years earlier.

At the end of 2006, when he hired Business Transition Specialists, a Leawood-based broker, he had his books in perfect order. He had procedure manuals and written plans, all things that must be in place for a successful sale.

All this and CNI's established client list put him in a position to be a choosy seller. Before he found Trozzolo, McNamara talked to four or five potential buyers. He was committed to holding out for a buyer who fit closely what he was looking for.

"I think having the plan in place beforehand and then holding out until you find the right fit is crucial," he said.

Among other things, McNamara wasn't interested in a buyer he would have to "baby-sit" for months or years after the sale. He wanted to hand over the keys, help his clients make the transition and move on to his new career.

Bob Bootman, 50, closed on the sale of his Lenexa-based IT services business, Advanced Network Solutions, in May, just months after putting it on the market.

"I keep wanting to go back and go to work," he said of the company he owned for 13 years. "After that many years, my car kind of wants to drive to the office every day."

Bootman had always known he wouldn't always run the business he started. He had other business interests to pursue, and he was looking for a business that wouldn't require him to be tied to a certain geographical location.

So earlier this year Bootman started looking into putting his business up for sale.

His broker, Sunbelt Business Advisors, told him to expect a six- to nine-month wait for a buyer. But things moved a little more quickly.

"We had three offers in the first week," Bootman said. "Within two weeks we had a signed contract."

Larry Hanks, 63, sold his salvage business at Rainbow and Southwest boulevards four years ago. Then within months the company, Surplus Liquidators, went under.

"When you own a business, to keep it in business, it's more work than most people believe," said Hanks, who ran the company with his wife, Mary.

The story illustrates why sellers should think hard before they agree to help finance a sale, something many brokers say is becoming more common in this down economy. If Hanks had done that, he said, he'd be out the money.

Of course, he was sorry to see the business's demise, but he got six figures for the sale, which included the building and a prime piece of land. But he tries to keep the whole thing in perspective. After all, it was just a business.

"If you can't love it and it doesn't love you back, don't get emotional," he said.

Now an employee

Peggy Shults, 55, wasn't looking to retire or even to sell her business when a New Jersey company approached her last fall. But pretty quickly, the president and CEO of Lytmos Group realized how much being acquired could be to her company's advantage.

The Lee's Summit company, which helps administer and award grants in technical fields, went from being a 10-employee company to being the wholly owned subsidiary of a company many times larger. Practically, that means things like better benefits and, from the perspective of potential employees, better job security. Both should help in recruiting highly skilled employees.

"We're competing with companies like Sprint and Cerner for employees," Shults said. "It's a big risk for somebody to go from that perceived security to come join a little 10-person company in Lee's Summit."

Solix Inc., the company that acquired Lytmos Group, administers government-run programs. Since the deal closed at the end of April, Shults said, Lytmos Group has been operating just like it always has, under the same name and with the same employees.

Shults and her partner, Mary Bernard, believe going through with the acquisition was the right thing for their company's future. But Shults said it did tug at her heartstrings just a little bit.

"It did, just because it's a risk," Shults said. "We've gone into this thing with the promise that we're going to be operating as a wholly owned subsidiary, and we hope it's going to go that way. So far, so good. But we're only months into it."

For Mesler, selling was without a doubt right.

"The business had become more than I could manage myself, and finding additional key people was really beyond my patience," he said. "I felt like there was probably someone out there who could do more with what we'd already started. I just wasn't willing to take it to the next step."

On top of that, 2003 and 2004 were dismal for business. **Mesler Roofing**, which specializes in high-end roofs, often atop multimillion-dollar homes, was in a slump.

"I was getting tired of going through these tough times," Mesler said. But he knew he shouldn't sell when business was down. So he waited, running things until it turned around.

From his broker, **Allied Business Group Inc.** of Leawood, he got pointers about how to make the company attractive. Then he kept on waiting and working.

By 2006, business had turned around, and it continued to improve all through 2007. With annual sales around $2 million, business was at a high and Mesler knew it was time to sell.

After interviewing numerous potential buyers, Mesler found Gregg Davidson, a Dallas businessman who was looking to leave a corporate career to run his own business.

Davidson didn't have a roofing background, Mesler said, but he had good intentions and shared "the same moral ethics."

As part of the deal, Mesler stayed on with the company for 90 days to show Davidson the ropes.

At his going-away party this summer, Mesler told employees he hoped they understood now why selling to Davidson was the best thing for the company.

"All along, I was trying to reassure everybody that I didn't do this in haste and I really was looking out for their best interest as well," he said.

Mesler is satisfied that he played it right for the company he founded and for himself and his family.

"I walked away with everything paid for and money in the bank," he said.