

## When Do You Sell Out?

You are shocked, disappointed and now uncertain about the future of the company you worked so hard to develop. You just assumed that your son would want to run your restaurant company. What do you do now? Should you sell?

The anxiety created by this all-too-common situation need not lead to drastic decisions, if you are prepared. Most business owners don't realize that at one time or another, every privately held business will be sold. It may be sold to a competitor, a leveraged buy-out group, a corporation with expansion plans, or transferred to an heir. Selling is one of the most emotional decisions a business owner can make, and like any decision, it's wise to be prepared and consider the options before being forced to act.

Your reasons for evaluating whether to sell are as individual as your business itself, but some common reasons can be categorized into internal and external factors.

**INTERNAL FACTORS.** Internal factors are those which relate personally to the present owner or owners. They typically create highly emotional conditions which produce an intense, normally unchangeable, desire to accomplish an ownership change. Psychologists feel that most business owners think about at least one of these factors (listed below) much of the time. Because these factors are deeply rooted, owners need an external catalyst to prompt action—suggestions from a family member, seminar, articles, etc.

- Internal conflicts. A conflict between one owner and another family member or shareholder is one of the most common reasons for selling. Frequently, offers to buy out partners or be bought out are both spurned.
- No heirs. There is no logical person to inherit the business—or the logical heir either is unable to run the business or isn't interested.
- Desire to cash out. Like many owners of closely held companies, most of the owner's personal net worth is in the company's stock, and he wants to diversify. He may still want to stay active in the business, changing only the composition of his portfolio, not necessarily his career.
- Career change. The owner decides he's bored, working too hard, or otherwise dissatisfied with how he spends his time. When he realizes he can cash out, he starts thinking about the other things he'd like to do.
- Desire to continue innovating. Entrepreneurs whose business is ready to take off sometimes decide they'd rather remain an innovator instead of becoming an administrator. When the business can really generate some profits, they sell out to start something new.

- Poor health. If the owner is in poor health, he may not be physically able to handle the business, even if he wants to. A spouse in poor health may also affect this decision.
- The "suddenly I'm mortal " syndrome. Someone close to the owner dies, and he realizes there's more to life than just work. He may decide the time required to run a business could be better spent doing other things. Although most people won't admit it, this is a major reason for selling.
- Other interests. The original concept company may be sacrificed for the benefit of another concept or owner interest. In addition, pumping more capital or human resources into the firm may not be financially attractive when compared to other alternatives.

**EXTERNAL FACTORS.** External factors are those which are not under the control of the business owner. Foodservice operators have experienced their share of external pressure on the vitality of their business. The owner must respond normally to these factors under time and resource constraints.

- A good offer. Occasionally someone makes the business owner an offer he feels he can't refuse. He may not have considered selling before, but the offer is attractive—perhaps for more than he thinks the company is worth.
- Worrisome trends. The owner sees his industry or market changing for the worse, with disappointing average unit volumes, adverse proposed legislation, intense competition from convenience stores and supermarkets, or diminishing availability of growth capital. He doesn't want to take the chance on reducing his net worth or fighting what seems to be a certain and expensive battle.
- Drawing the line. The company may need something the owner is not willing to provide—perhaps more expansion capital, or a major piece of equipment. Even though the company may be profitable, he may not want to risk its entire net worth to position it for effective competition.
- The business changes. If the owner believes the business isn't earning what it could, perhaps because of the changing tastes of his customer, he may not want to make the effort to change it.
- Cutting losses. If the company loses money, the owner may want to stop his losses immediately. Many businesses are sold because the management can't or won't invest time and money to turn the company around.

**ALTERNATIVES TO SELLING.** While these conditions may seem to mandate a sale, that's never the only option. Before deciding anything, you must examine all the alternatives. Someone who isn't open to consider all options and is willing to devote the time to develop an action plan, will face countless operational, emotional, and financial worries. Determine the best alternative for yourself first, and then consider what's best for your company. There are always plenty of options.

- Buy out your partner. If you're selling because of conflicts with another shareholder, it's often relatively easy to buy him out. This gives you exclusive ownership and the right to make all the decisions. You then may consider selling the company on your own a year or two after the purchase.

If the dissident shareholder had an adverse effect on the company, buying him out could signal a change for the better. And buying your own company's stock is investing in a security you know.

The disadvantage, of course, is that you or the company has to finance the acquisition. It's probably a bit easier and better for the individual to have the company buy the shares and retire them, if it can afford to do this. If you buy the shares directly, you may be taking on unnecessary debt and concentrating all your personal wealth in a single asset.

If you buy out a shareholder who's active in the daily operations, replacing him may be costly and could actually intensify your involvement in the business for some time to come. The changes this strategy creates should be consistent with your personal goals.

- Hire a professional manager. If you're selling for personal reasons, hiring a professional manager will give you freedom without affecting your personal wealth. In addition, you avoid paying transfer taxes because no sale has taken place. Professional managers can also infuse a new viewpoint and expertise into the company, which can improve overall operations.

In addition, good managers tend to be costly, and hiring one may burden the company financially. Not only are there salary perks to pay, but a savvy manager may want equity. If you're hiring a professional manager to eliminate partner problems, giving up equity could put you in the same place as before—only with a different partner.

- Sell part of the stock to an ESOP. This is a popular method of buying out a shareholder's position or liquidating a share of your stock. Employees participate in the ESOP, or Employee Stock Ownership Plan. A bank makes a secured loan to the ESOP based on the value of the stock the ESOP purchases. The company makes tax-deductible pension contributions to the ESOP every year based on a pre-determined formula, and the ESOP uses them to pay back the bank loan.

Because the ESOP is investing in the business, the employees have a sense of ownership which might reduce the traditionally high turnover of foodservice employees. But because you're not selling the company to an outside party, you won't have to worry about traditional outside owner problems, like whether you'll be kept as an employee.

This procedure can be complicated, and there are reporting requirements imposed by federal law. In addition ESOP law is changing; to understand it, you'll need ESOP counseling. To determine the share price, your company will have to be valued for ESOP purposes by a qualified appraiser, which can be expensive.

- Recapitalization or Redemption. These techniques are used to pass ownership, but not control, to your heirs. It's a method of freezing your estate, letting all the capital increases go to the next generation who own all the common stock. You own a new class of preferred stock with tailored voting rights and veto power matched to your company's needs.

Preferred stock prices and dividends don't often fluctuate, nor does it carry the risk of common stock. While this alternative doesn't provide any immediate cash to you or the company, it does generate an income stream for you should you decide to retire.

- Dig in. No matter how tough the going gets, you can still do nothing. Because you operate in a cyclical industry, you may feel that the next change will benefit your company. If you can live with the situation the way it is, and don't want to change things, don't.

MAKING THE CHOICE. How do you decide whether to sell or select another alternative and whether the time is right? Ask for help. There are several quite inexpensive services to help you make your decision. Ask a restaurant operator who has sold his business for his opinions on your situation. Talk to your accountant and attorney. They can look at your problem from their area of experience and provide meaningful input into a decision.

Some investment bankers will also help prepare closely held companies for sale or transfer. Spending a day or two with these advisors each year will help you determine what your company is worth and if it is time to sell.

The important thing to remember when you consider selling your firm is that there are other alternatives. And as with anything, the more information you have about your options, the better decision you're likely to make.

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