

## Finding Hidden Value When Preparing Your Company for Sale

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The purpose of today's column is to remind you that every company has strengths and weaknesses — and your specific combination of these may have appeal to the right buyer. Until you fully analyze your organization's strengths and weaknesses, you won't really know what kinds of potential buyers would be most attracted to your company, nor will you be able to drive the highest possible selling price.

Potential buyers have specific goals and interests. These could include geographic expansion or penetration, product expertise, customer segment knowledge, and/or increased facility capacity. What matters most is how the combination of your value matches up to a potential buyer. Our job as an advisor is to help you uncover, and as needed, build upon that value. Let's take a look at some of the factors that play a role in valuing your company for sale.

### Sales Growth

This used to be simple. We tracked revenue increases and adjusted down for inflation. In today's world, cost deflation — a new phenomenon for most of us — along with the ups and downs of commodity product pricing, dictates that we look at alternative ways of measuring volume. In a down economy, savvy buyers know that measuring growth only in revenue dollars is an outdated approach. They now look carefully at factors like case quantities, tonnage shipped and the particular product segments (dairy, meat, produce) that have a significant impact on top line sales.

### Earnings

Educated buyers also look for positive trends in net income that comes from:

- Improved cost control through route optimization, warehouse optimization, and supply chain efficiencies — mention just a few.
- An efficient vendor and product mix yielding higher selling profit and earned income percentages.
- Efficient working capital management, including fast-turning inventory, timely receivables collection cycles, and favorable accounts payable arrangements.

- A focus on timely collections and a healthy reserve for potential losses &ndash; particularly in today&rsquo;s climate.

## Geographic Niche

Wherever you are in the United States &ndash; rural, urban or suburban areas &ndash; or a mix of these &ndash; your facility and distribution footprint create a geographic niche. Knowledge of the needs of other regional, super-regional and national distributors is essential when matching up the potential represented by your particular niche. The advisor you choose should have the contacts and the experience to aggressively market this aspect of your company to maximize your sale price.

## Customer Concentration and Segment Niches

What are your segment concentrations and who will value them the most? Are they schools, nursing homes, local or regional chains &ndash; or is your specialty the independent restaurants? Do you have penetration in Italian, Greek or Asian restaurant segments that is better than most distributors&rsquo;? Potential acquirers may be looking to expand their existing customer segments&ndash; or enter a new niche into which you provide ready access. Carefully reviewing the customer concentrations of buyers and sellers, and understanding how to match complementing customer sets is an art in the world of M&A advisory services.

## Product Niches

Do you sell in a largely ethnic area or specialize in products for specific markets? Are you a specialist in meat cutting, seafood, dairy, produce or paper? Or are you a generalist who sells a broad range of products? Like the customer segment section above, analyzing your product and vendor mix &ndash; and corresponding SKU volume &ndash; is critical to driving the optimal deal.

## Facilities/Warehouse space

In today&rsquo;s economy, it&rsquo;s no secret there are real estate deals to be found. Educated buyers seek out facilities they can comfortably fit into &ndash; then expand when necessary. What may be too much real estate for one buyer and not enough for another can be the perfect match for the right organization. Having access to a broad buyer pool through an informed advisor can be key.

Finally, our message is that flat or weak sales may not necessarily be a hindrance to selling your business if you and your family / shareholders have determined it's time to "cash out." Capturing, documenting and marketing your company's accurate value — hidden and otherwise — takes experience and painstaking analysis with your advisor so that nothing is left on the table when you make the decision to sell.

As always, please give me a call to discuss your situation to see if we may be of assistance.

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