

STP Treatment for Selling Your Business

By: Craig F. Kirsch, Director of Acquisitions – Rex-Hide Inc.

Selling your company can be difficult, but let me share a secret with you. Buying companies is even more difficult. The reasons are simple:

1. Successful companies rarely have to sell (although it happens sometimes); rather they simply chose to sell for a number of reasons. If these reasons are not met, then they simply do not sell.
2. Buyers typically have a "knowledge disadvantage". What this means is that the seller knows his or her company much better than the buyer. In addition, for a large extent the buyer is relying on the seller for the information on the selling company. As such, the buyer must be very skilled at asking the right questions and analyzing the answers.

The fact that 85% of the mergers and acquisitions do not meet expectations tells you that this knowledge gap is not only big, but extremely important.

So a good buyer is constantly looking at understanding what is important to the seller and managing the knowledge gap (typically through formal and informal due diligence). The ability of the buyer to manage the knowledge gap is to a large extent up to the buyer. Of course, the seller can be deceptive but good buyers tend to sniff these sellers out and chose not to do business with them. But, not all buyers are good buyers and even good buyers run the risk of making a mistake.

A great buyer not only manages the knowledge gap but also understands the things that are important to the seller. Remember, good companies normally do not have to sell and therefore there are reasons that the seller may be interested in selling; the buyer should try to clearly understand these reasons.

I want to share with you a method that we use in understanding the seller. Although we use this for our purposes, it is good for a seller to truly understand what is important to them and use this analysis to find the right buyer.

We call the method the STP Method where:

S = Stewardship

T = Timing

P = Price

Normally a seller may expect to get two of the three at the cost of the third. For example:

If the seller is interested in **Stewardship** and **Price**, she should expect that it will take longer to sell the business (sometimes you do get lucky)

If the seller is interested in **Timing** and **Price**, he may have to sell to someone who may not be a good steward of the business (by the way, this is not important to all sellers)

And finally, if the seller wants **Stewardship** and **Timing**, she may have to live with a price that is lower than what he could normally expect.

Let's look at the three components of STP to illustrate their importance and I will share with you how Rex-Hide views each:

Stewardship – Most business owners have a strong sense of stewardship. Naturally, some more than others, but our experience is that most owners have a sense of loyalty to the employees who have helped make them successful. In addition, most owners would like to see the company continue with the same guiding principals that it was built upon.

If this is important to you, picking the right buyer is crucial. You should avoid financial buyers since they typically buy companies, make wholesale changes and look to flip the company as soon as they can.

A strategic buyer (someone in the industry) will most likely roll the business into existing operations. Likewise, the company will cease to continue as you have built it.

Timing – Timing means a couple of things. First, it can mean the time to identify a buyer and complete the deal. But timing has another meaning as well. Often a seller is not necessarily looking to exit the business immediately. Maybe the time for retirement is not now and therefore the timing is not perfect. But perfect timing is rarely perfect. In other words, if you have a buyer today, but you want to continue for a number of years, the timing is not good. However, if you chose to wait and not sell, there may not be a buyer for your company when you are ready to exit. We see this often and the result is the business owner is forced to work longer than he wants to or is forced to sell the company to the wrong buyer or at the wrong price.

What is your timing? Are you ready to retire or do you want to continue working? Is there a workable way to do both?

Price – Price should always be fair. If the buyer is willing to pay a high price it is probably coming at the cost of stewardship. If it is too low, it is probably coming at the cost of timing.

Rex-Hide is looking for companies that want all three and we believe that our model provides all three of the components of STP.

Here's why. We are looking for owners that value the concept of stewardship. Owners that not only want to see the business continue but want to continue to lead and drive the company forward. When Rex-Hide buys a company, the company continues to operate autonomously. We expect the owner to continue to successfully run the business as it has run in the past. We do not get involved in the day to day operations, but we are available to help with administrative burdens, provide capital and help with overall strategy when needed.

As such, we seek owners who know they will retire some day but are not ready yet. This is the timing aspect. We want owners to stay as long as they want. This approach allows the owner to continue to identify a good buyer, take some risk off of the table and still continue to run the business. We provide owners with the opportunity to sell the business now and exit on his terms. We provide perfect timing for succession.

Finally, we seek owners who want a fair price. The best owners are those who love the business but also really like the money. Our market is predicated on a certain amount of enrichment and successful owners understand this. Since we seek owners who continue to run the business, we compensate owners for their continued success allowing them to earn more than if they simply

sold the company and exited the business today. Owners who like the money tend to remain focused on success and growth since this provides the best overall compensation for the seller.

The STP model is simple, but it is important that you ask yourself how important each is to you and use this analysis to determine the best buyer for your company. If you are looking to exit today, we probably are not the best buyer. But if you are looking for a way to take some risk off the table, diversify your family's wealth and continue to lead a company with new partners, Rex-Hide may be a very good fit.

As always, the choice is in the hands of successful companies and their owners.

Craig Kirsch is the Director of Acquisitions for Rex-Hide, Inc. Craig is a frequent speaker on the topic of buying and selling businesses and can be reached at ckirsch@rex-hideinc.com.