

When is a good time to sell your staffing firm?

by Bob Cohen and Sam Sacco

Part One (of 3)

There are many factors to consider in determining a good time to sell your business. There are economic, social and practical issues that enter into the equation. After many years as an operator and in an Advisory role in the Staffing Industry, we believe everyone needs an Exit Strategy; the difference is in the timing of its execution.

The Best Exit Strategies are Planned.

At times, unexpected circumstances and tragedies make planning very difficult; however, if every owner of an established business thought about “what if” they might be better prepared to face an unplanned sale, if necessary.

Ideally, when an owner begins planning anywhere from 3-5 years before they anticipate selling, they will have adequate time to get their business in optimum condition for a sale. Remember to add some transition time between the sale of the business and your personal exit time. Most transactions today have earn out payments for 1-3 year terms and often the earn out period can provide a real boost to the initial valuation, especially if the market is strong. When an active owner departs before the earn out period is complete, it is helpful if there is a reliable second in command.

Absentee owners may need to ensure their management team will stay through the earn out period and some owners offer completion bonuses for key Managers to remain and help achieve the full earn out potential.

All of us would like to sell at the top of the market, extracting the highest price possible with the best terms. However, the old saw that says something like “the bulls and the bears can do great in the market, it is the pigs that always fail”, has some merit once you realize that the only way to know if you have sold at the top of any market is after the fact. If one was able to time their business sale for the peak of the market, they are very lucky or should be making their living as a fortuneteller.

While there may not be a consensus of when is the best time to sell your staffing business, it is always good to sell into a growing market on the upswing. Especially since a strong market may lift all the ships in the ocean and help you maximize your earn out payments.

Many owners of a certain age are planning on retiring with the proceeds of the sale of their business. Others with perhaps smaller firms have a specific financial goal that may not have anything to do with retirement; it could be to finance a different business of greater interest to the owner, or it could provide a portion of their retirement needs, to supplement with other investments or assets owned.

Owners thinking about selling should focus on the areas they can change. For instance while many (but not all) Buyers prefer Major Markets (i.e. top 25-to 40), this is a factor beyond your control, your business is where it is and with relatively small changes it will likely stay where it is.

Some buyers prefer to acquire in what they consider Employer Friendly states, some prefer the Southeast or Southwest regions and if you are there that's great. However if you are in a slow employment-growth state with lots of adverse employee legislation that will impact your sale, you probably cannot change those factors no matter how much you try. In these situations you will have to make other factors about your business more attractive to hopefully compensate for those factors you cannot change.

Factors to consider:

- What is the general economic environment for your geographic area and your staffing sector?**
- Will you gain sufficient funds from your sale to achieve your needs? In other words is your business large enough and profitable enough to meet your financial goals?**
- Are your gross margins at an acceptable level?**
- Do you have qualified key management to continue on with the new owners? Are they financially tied-in to the business?**
- Are your legal matters in good order-with all suits and liens satisfied?**
- Are your financial statements in good condition, clean, prepared on an accrual basis, in compliance with GAAP requirements, reviewed or audited?**
- Is your customer list reasonably diverse with few or no customers representing more than 10% or 15% of your total annual sales?**
- Are your insurances, SUTA, Workers Comp, etc. in good shape?**
- Will your operating record keeping hold up to a thorough due diligence process?**
- Can you readily improve your market share?**

If these items were put on a scale of 1-10 (10 being the best) we would venture that no firm would score a 10 on every aspect and realistically an owner cannot wait until everything is perfect and the stars and planets are ideally aligned or they would never sell. Please keep these factors in their appropriate perspective and get a good Advisor in your corner unless selling staffing businesses is something you do everyday, get professional representation from a trustworthy and compatible source so you can get it right the first time.

These are some of the actions you can consider, some will take longer to achieve, however all can be done and to the extent that you can make improvements in these areas, you will be rewarded with a greater valuation whenever you sell. ■

This is Part 1 of 3 articles. Part 2 will deal with the economic cycles and how to prepare for the upswings and downturns.

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