

When is a good time to sell your staffing firm?

by Bob Cohen and Sam Sacco

Part Two (of 3)

In Part 1, we discussed the factors an owner should consider in terms of their personal timetable and the state of readiness of their business to be sold for maximum value.

In Part 2 we will look at the broader economic landscape and the impact of the economic cycles on the timing of a sale.

How long will the window of opportunity be open this time?

Staffing firm owners and industry observers who lived through the past boom and bust periods of economic activity over the last few decades note that it is much more profitable to sell their business in a growing and rising economy well before the inevitable market correction or economic downturn.

In fact the best prices for staffing firms seem to be available during the 18-24 months before the economy turns soft. So all we have to do is take out our crystal ball and count backwards and we will all know the best time to sell our business for the maximum price.

Of course getting economists to agree on anything, or when that might be could prove daunting.

While I am not an economist I have observed in lay terms, that most economic cycles over my 37 years in this industry seem to provide approximately 10 year periods where 6-7 years show robust growth, 1-2 years show negative growth (I think they are called recessions) and 1-2 years are fairly flat as the economy either ramps up or down.

While clearly anecdotal and not scientific we have seen the up and down cycles for these approximate periods several times.

During the up phase of the last economic cycle, previous to the present environment, in the mid-late 1990's many staffing firms owners cashed in on an extraordinary and unprecedented confluence of factors that provided exceptional valuations that may not be easy to replicate. However, as more Buyers chase fewer, quality staffing firms valuations have steadily improved and are quite attractive again.

It would appear that the present economic upswing began in 2003 and we are advised may turn down again in 2010-2011. Given the recent patterns this seems reasonable. However, a word of caution, crystal ball gazing of this sort as previously indicated is imprecise at best.

We cannot say with any certainty that the economy will not turn down in 2010 or 2012 or even 2009 or 2013. The important point is that we are in the midst of a reasonably healthy economic period, certainly with minor corrections along the way that will not last forever.

Trying to sell at the peak of the market requires very fortunate or brilliant timing and has given rise to phrases such as the Bulls and the Bears always win it is the pigs that get slaughtered.

It is often only after the market or economy softens that we can accurately identify the market peak. So we not only need great foresight, we also need 20-20 hindsight if we want to sell for the very top value. More often than not, those trying to time the peak find that that economic ship has sailed while they remain on the dock, waiting for the next up cycle.

Whenever the next down turn occurs we can expect it in the next few years. So you need to ask yourself, do you feel lucky about your ability to time the market or perhaps you are prepared to miss this sale period and wait 6-8 years for the next peak. You have choices.

One alternative is to plan for the downturn and be ready to react to the early signs so your overhead doesn't create excessive losses before you can take appropriate measures.

We are an industry of eternal optimists; however we must be cautious to ensure our ever-positive outlook for the future doesn't disregard obvious signs that the market is correcting or softening. We are not talking about cutting and slashing valuable resources, just being cautious about discretionary expenditures if you are unsure which way the market may be headed.

If you want to prepare your company for sale in 2007-2009 there are steps identified in Part 1 of this series that can help and others will be mentioned in Part 3-Getting ready to sell. ■

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