

When is a good time to sell your staffing firm?

by Bob Cohen and Sam Sacco

Part Three (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. We discussed longer term steps a potential seller could take to get ready for a sale of their business.

In Part 2 we looked at the broader economic landscape and the impact of the economic cycles on the timing of a sale. It discussed how long the window of opportunity for selling your firm may stay open for this economic cycle.

In Part 3 we explore shorter term steps you can take if you are preparing to sell your staffing firm during the current economic cycle.

Getting ready to sell your firm.

In 2006, the eldest of the “baby boomer” generation turned 60 years old. We do not look or act like our parents at 60. Many people of this era have taken advantage of the growing body of knowledge on aging, exercise, medicine and healthy eating habits and are in fact as vibrant and engaged as they were at 40, without all the responsibilities of a growing family.

With life expectancies extending at a faster rate than ever before in history and the increasing costs of living longer with proper healthcare it is becoming more challenging to follow a retirement plan better suited to our parents’ era.

A generation or two back when our parents and grandparents retired they may have played a little golf or went fishing, took up gardening or did some volunteer work and lived out their senior years spending time with their family. The “baby boomers” have always been a self reliant group and we would be wise not to expect the smaller population group of the younger generation to provide old age security for us.

Today, turning 65 is not a retirement goal for everyone. With US life expectancies heading into the mid-to-late eighties, our generation will need a lot more money than our parents and grandparents required with their shorter life spans.

Fortunately this group has the drive and energy and for the most part the fitness level to remain productive, however many relish the opportunity to try another challenge whether it is to build another business or to help solve poverty in the third world.

Another fortunate factor is that the staffing market is further strengthened by the influx of smart private equity funds that sees our industry as a relatively safe place to invest the massive sums of money under their responsibility that need a vehicle that will grow and outpace inflation.

While talent shortages may limit the growth for some staffing firms for some periods, the reality is that our industry always does better in periods of peak employment when the need for our recruiting talents and our creative ability to re-invent ourselves by re-interpreting our services and re-packaging the functions we provide to customers has lead our industry to great growth.

An interesting side note to this story is that while industry historians may argue about the origins of our industry, the modern era of the staffing industry began about the same time as when the “baby boomers” first appeared. Perhaps this is merely a coincidence.

So how can you prepare your firm to sell at the best possible value?

Fine-tune the items discussed in Part 1 of this series:

- Raise your Gross Margins**
- Increase your market share**
- Tie-in your key Managers**
- Diversify your customer base**
- Get close to your customers**
- Create barriers so they want to stay with you**
- Clean up your record-keeping**
- Settle any outstanding legal actions**
- Lower your SUTA and Workers Comp costs**
- Consider getting your financials reviewed or audited**
- Review your Corporate Structure-Sub-Chapter “S” Corps and LLC’s are easier to sell than C Corps**

Take the following steps as you get closer to a sale of your Staffing business:

- Within 18 months of a planned sale only spend when necessary as you may not get a return on the money invested, in other words this is not the time to launch new services or open new branches unless you are sure of a return in this time period.
- Select your M & A or Business Advisor-preferably a firm with experience and a proven record of success in staffing transactions who can provide many references for you to review, and only hire someone who has time for you and listens and seems to really understand and care about your exit objectives.
- Identify the Legal and Financial Advisors you will need for this important transaction, again with the requisite experience and track record, remember if they do their job well they may lose you as a client at least for the short time so be sure you are confident in their ability to function for you in these circumstances.

- Be prepared to manage your advisory team each has an important role and each such confine themselves to their respective area of expertise, ideas and comments are always welcome, however many a Lawyer or Accountant has scuttled a deal that was good for the business owner by over functioning. Remember Accountants are trained to find problems and Attorneys are often more accustomed to adversarial (win-lose) dealings than the win-win attitudes needed for a successful transaction; its just their nature so be patient and persistent while you maintain control.
- Make sure you can transfer leases for your premises to a new owner, preferably at little or no cost.
- Ensure that all major customer relationships and contractual agreements can be transferred to a buyer, without tipping your hand, of course.
- Re-double your efforts to tie-in your Key Management.
- Be sure you have an accurate expectation in terms of current market value for your business, ensure you are using market-driven valuation methods that include all appropriate adjustments.
- Learn to embrace earn outs and make them work for you as they will likely form a portion of the consideration you receive for your business, get help from your M & A Advisor on how to protect yourself.
- Accept that selling your business may be the largest asset you ever sell and to do it properly will take time and patience. Continue to operate your business with the same attention you had in building it until your transaction closes and beyond, we have seen some sellers relax and see their business results suffer as they mentally were already sold before the transaction closed.
- Remain flexible however don't expect your valuation to increase whenever you have a good month, you have to settle on a closing date that will allow all the documents to be finalized before you close or you will never get to the closing table to get that check you have been working for all these years.
- Keep your eye on the big target, liquefying a portion of your largest asset and/or providing financial security for you and your family and don't dwell on the small stuff.

- Grab that brass ring!**

For more information, contact Bob Cohen at 416-229-6462 or Sam Sacco at 910-509-0691. We can also be reached at bob@racohenconsulting.com or sam@racohenconsulting.com. Sam and Bob have successfully completed over 100 staffing industry transactions. There are many more articles on our website at: www.racohenconsulting.com