

WHY SELLERS SELL STAFFING FIRMS



M & A -Why Sellers Sell Staffing Firms

What are the drivers motivating staffing and solutions business owners to sell or merge their businesses? Often the decision can be looked at from two viewpoints: personal reasons and business reasons.

Personal Reasons Motivating Sellers

■ **Retirement**

One of the most common reasons why privately held businesses are sold is retirement. There comes a time when even the most energetic and active entrepreneur wants to slow down or shift gears to a new interest and reap the rewards of his/her past efforts and accomplishments. Simply, they want to cash out.

■ **Liquidity and Diversification of Assets**

Most business owners have a significant percentage of their net worth tied up in their business. At times, owners sell to create some diversity in their asset pool, to gain financial liquidity and to reduce the risk of having all their financial apples sitting in one basket. Crystallizing ones investments into cash can be a powerful motivator to sell.

■ **Succession and/or Partnership Issues**

Often selling a business can become a mechanism to resolve issues that deal with a lack of a clear succession plan and a lack of management depth, family rivalries, or a lack of resources by one partner or family member to buy out the other. On these occasions, selling the business and dividing the proceeds may be a viable alternative.

■ **It's a big world**

Sometimes we need or want to do something else with our time. Sometimes we just need to seek new challenges or a new dream. It's a big world out there.

Business Reasons Motivating Sellers

■ Capital Requirements

As a staffing or solutions business grows, its need for financial resources also increases. Payroll funding requirements and infrastructure investments increase at several different stages of growth. The owners of privately held businesses are often personal guarantors to their lenders. When more working capital is required, it is difficult for them to take advantage of these growth opportunities without assuming an additional burden of risk. A deep-pocketed partner can provide financial and other resources needed to grow.

■ Access to Workers Comp Insurance, Gov't Compliance resources and VMS

Some firms are finding it increasingly difficult to maintain reasonably priced Worker's Comp & SUTA Insurance from the private carriers or State funds, regardless of their experience. Some staffing firms have had their WC coverage dropped because they don't generate large enough premiums for the carrier. Many staffing firms are finding that complying with governmental reporting takes a lot of time from their selling and services activities. Many other staffing operators find themselves locked out of Vendor Management Systems (VMS) run by their former customers. If you can't beat them, maybe you need to consider joining them.

■ Access to Markets and Talent

Many smaller and mid-sized firms have developed services that can be unique, specialized and valuable to worldwide businesses. Often these firms lack the sales and distribution channels to take advantage of their special niche areas.

Unfortunately, development of those channels may take too much time or too much money. The window for their competitive advantage could close before the smaller entrepreneur can fully exploit their market potential. In addition, without sufficient funds to support further R&D, they may not be able to maintain their leading edge in service

offerings. These companies may decide that to compete in their chosen market, they may need to create a critical mass that cannot be achieved on their own. Often the first to market is not the market leader. Market leaders become so by building barriers to entry that take a long time and a substantial investment to match.

■ **A Distressed Business**

There are many situations where a company has grown too fast, made some miscalculations in their growth plans or an economic downturn hit them harsher than anticipated and the company just doesn't have the resources to recover on their own. Often through a sale, an owner can salvage whatever value is left of his/her company. Undoubtedly, this would not be anyone's planned course of action, however sometimes the best plans of mice and staffing company owners, sometimes go awry.

Each business has its own unique story and at times shareholders of the same business have different goals and objectives and are at different stages of their life. If you are considering a sale or merger of your business, your goal may be to find a creative solution that addresses as many of your needs as possible. Life is full of tradeoffs and compromises--prioritize to achieve those goals most valuable to you.

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Sam Sacco and Brian Kennedy operate R.A. Cohen Consulting, a trusted M&A Advisory service that caters exclusively to the staffing industry. Since 1991, we have advised on hundreds of successful transactions.

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