

Some Thoughts on Selling Your Business

Under this section, I would like to share some thoughts with you about the factors that you might like to keep in mind while choosing a partner in your business. Most business owners spend the better part of their lifetimes building their businesses. By experience built upon endless repetition, they sharpen their skills in merchandising, purchasing, personnel selection, etc. It's a learning process and mistakes made in one year often contribute to competence and success in succeeding years.

In contrast, owner-managers sell their business (or parts thereof) very rarely - frequently in an emotionally charged atmosphere with a multitude of pressures coming from different directions. Often, much of the pressure comes from brokers whose compensation is contingent upon consummation of a sale, regardless of its consequences for both buyer and seller. The fact that the decision is so important, both financially and personally, can make the process more, rather than less, prone to error. And, mistakes made in the once-in-a-lifetime sale of a business are not reversible.

Price is very important, but often is not the most critical aspect of the sale. You and your family have an extraordinary business and any buyer is going to recognize that. It's also a business that is going to get more valuable as the years go by. So if you decide not to sell now, you are very likely to realize more money later on. With that knowledge you can deal from a position of strength and take the time required to select the partner you want.

Should you decide to sell, we think the Renaissance Group offers some advantages that most other investor-partners (buyers of equity) do not. Practically all of these buyers will fall into one of three categories:

1. A company located elsewhere but operating in your business or in a business somewhat akin to yours. Such a buyer, no matter what promises are made, will usually have managers who feel they know how to run your business operations and, sooner or later, will want to apply some hands-on "help". They will have their own way of doing things and, even though your business record undoubtedly will be far better than theirs, human nature will at some point cause them to believe that their methods of operating are superior. You and your family probably have friends who may have sold their businesses to larger companies, and I suspect that their experiences will confirm the tendency of parent companies to take over the running of their subsidiaries, particularly when the parent knows the industry, or thinks it does.
2. A financial manoeuvrer, invariably operating with large amounts of borrowed money, who plans to resell either to the public or to another corporation as soon as the time is favourable. Frequently, this buyer's major contribution will be to change accounting methods so that earnings can be presented in the most favourable light just prior to his bailing out.
3. A short-term investor such as a private equity fund. Such investors make many such investments and the bonuses of their managers are linked to the profit they earn by 'harvesting' the investment. Since time is of the essence in calculating the rate of return earned, such investors want to 'dress up the bride' as fast as possible. Their clear objective is to auction off their stake to the public or to any other suitor as soon as the valuation affords a handsome return to them.

If the sole motive of the present owners is to cash their chips and put the business behind them - and plenty of sellers fall in this category - either type of buyer that I've just described is satisfactory. But if the sellers' business represents the creative work of a lifetime and forms an integral part of their personality and sense of being, buyers of either type have serious flaws.

The Renaissance Group is another kind of buyer, a rather unusual one. We buy to keep, but we don't have, and don't expect to have, operating people in our parent organization. The businesses we own are run autonomously to an extraordinary degree. When we buy a business, the sellers go on running it just as they did before the sale; we adapt to their methods rather than vice versa.

Any buyer will tell you that he needs you personally. But a great many buyers, for the reasons mentioned above, don't match their subsequent actions to their earlier words. We will behave exactly as promised, both because we have so promised, and because we need to in order to achieve the best business results.

This need explains why we would want the operating members of your family to retain a significant stake in the company. It is equally important to us that the family members who run the business remain as owners. Very simply, we would not want to buy unless we felt key members of present management would stay on as our partners. Contracts cannot guarantee your continued interest; we would simply rely on your word.

The areas we get involved in are deployment of surplus profits, which cannot be used in the business and designing the compensation of the top man. Other personnel decisions, operating strategies, etc. are his prerogative. Some of our managers talk over some of their decisions with us, while some don't. It depends upon their personalities and, to an extent, upon their own personal relationship with us.

Should you choose us as your partner, you would know exactly with whom you are dealing. You would not have one executive negotiate the deal only to have someone else in charge a few years later, or have the president regretfully tell you that his Board of Directors required this change or that (or possibly required sale of your business to finance some new interest of the parent's).

It's only fair to tell you that you would be no richer after the sale than now. The ownership of your business already makes you wealthy and soundly invested. A sale would change the form of your wealth, but it wouldn't change its amount. If you sell, you will have exchanged a valuable asset that you understand for another valuable asset - cash - that will probably be invested in small pieces (stocks) of other businesses that you understand less well. There is often a sound reason to sell but, if the transaction is a fair one, the reason is not so that the seller can become wealthier.

If you have any possible interest in selling, we would appreciate your call. We would be extraordinarily proud to have Renaissance, along with the key members of your family, own your company. We believe we would do very well financially, and we believe you would have just as much fun running the business over the next 20 years as you have had during the past 20.

Sincerely,

Abhishek Dalmia