Crying Over Spilled Oil

An owner, Jackson, approached us to sell his small machine shop. It was absolutely pristine, located in a brand new 10,000-square-foot building, situated in a farmer's green ten-acre field. It also featured a paved driveway and parking lot and was well landscaped.

We recommended that a phase one Environmental Impact Study be done prior to going to market. The client inquired what the cost would be. I said it wouldn't be a great deal, probably $2,000 to $3,000. Hopefully we'll get a clean bill of health, I told him.

To my surprise, Jackson was perturbed by this.

"You know, I built this building myself," he told me.

"This has always been farm land. There's never been anything polluted on it. I'm not going to spend that money. Just go and sell my company."

We found a buyer, who put in an offer, but the offer required an Environmental Impact Study for the buyer to obtain financing. When the impact study came back, it demanded intrusion testing, which involves drilling boreholes in order to take soil samples.

I approached the environmental engineer and questioned the need for the drilling. He took me to the back of the machine shop and showed me a stain on the wall where it met the floor. It was approximately twelve feet wide and extended up the wall by about six inches.

The engineer explained that the machine operator at a screw machine in that part of the shop had hurt his back some time ago and had felt it wasn't necessary for him to carry his waste cutting oil up to the front of the building where the central disposal was. He had been meticulously and carefully pouring it down the crack between the wall and the floor.

The drilling revealed that the cutting oil had seeped approximately eighty feet into the ground. The oil had hit an underground spring, which carried it off the property.

We had to initiate a clean-up. This involved drilling holes into the ground around the machine shop. Water was then back-pumped into the holes. It was then vacuumed back up through filters and finally recycled through the ground. This process took roughly ninety days before the ground was relatively clean.

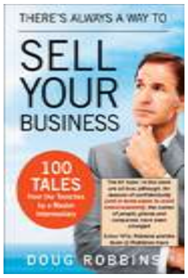
During that period of time, a firm in Cincinnati acquired Jackson's major customer. This customer accounted for 40% of Jackson's sales. As a result, the customer's plant was moved from Ontario to Cincinnati and Jackson lost the business.

His sales dropped by 40%. His profits went from a comfortable level to zero. The value of the business dropped significantly.

In addition, the clean-up cost him almost $300,000.

Had the Environmental Impact Study been done six months earlier, we probably would have caught that problem before it became serious, prior to going to market. Also, the business would have been sold prior to the loss of the major customer.

And Jackson would have retired with much greater financial resources.



This story is from Chapter 15 of Doug Robbins' book "**There's Always a Way to Sell Your Business**"

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