Day of Accounting

A number of years ago a chap came to us with a distribution business that was operating in three cities. George was seventy-two years old. He ran the main operation. His son operated the second location and an employee the third. We quoted George a fee to do a Comprehensive Business Analysis. He went away to think about it.

George said, when we followed up with him, “No, you guys are too expensive. I’m going to use my accountant instead.”

Four and a half years later, just after George turned seventy-seven, his accountant called us.

“Can I buy some of your time?” he asked. “I need your expertise to sort out a problem with George’s company.”

So Lloyd came in to meet with us. He had three offers on the business: two from competitors and one from George’s son. We looked at the offers. We considered the son’s offer to be the most significant. We dealt with it first.

I asked Lloyd what the value of the business was. He said that he hadn’t done a valuation, which raised a red flag for me, because I thought that’s why he’d been hired. I then asked about details on each of the proposed purchasers. Lloyd knew very little about any of them.

“Well, how did you go about getting the purchasers?” I asked.

“I simply wrote a letter to all of the competitors and this is what came in.”

I asked our research team to do some quick research on the two other competitive purchasers while I analysed the structure of the son’s proposal. One of the things that bothered me about this proposal was that the son didn’t have any money. Furthermore, he had arranged financing through a friend of this accountant.

As I probed the financial arrangements, they seemed gray and sketchy and not at all reassuring. Then the researchers came in with the details of the purchasing companies. Lloyd was surprised to learn that the facts about the two companies had been easily discovered in about twenty minutes.

One was very competent and highly qualified to buy. The other one really shouldn’t have been considered as a purchaser.

I then insisted on meeting with George. A couple of days later I had dinner with him at a local hotel. George was visibly annoyed with his accountant and blurted out that he had spent $60,000 over the last four years working with him to try to sell the business. Now the accountant had brought me in to bring the transaction to a conclusion. He couldn’t understand why it had cost so much to get to where we were. (The costs were now more than four times what we had quoted him on our Comprehensive Business Analysis.)

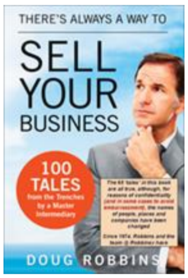
My next step was to interview the son and figure out whether he knew what he was getting into and whether he was capable. George had doubts about his son’s business acumen.

When we interviewed the son we found out he had trouble walking and chewing gum at the same time. While a nice guy and fifty years of age, he really wasn’t competent to run a business this size.

We then contacted both buyers and arranged an interview with the one we thought was more qualified. It turned out he had been trying to buy the business for eighteen months but had constantly run into bottlenecks with the accountant.

Within a week we had a new offer on the table, structured so the seller would pay the minimum amount of tax.

The transaction went on to close.



This story is from Chapter 7 of Doug Robbins' book "**There's Always a Way to Sell Your Business**"

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