Out of the Shadows

Approximately eighteen years ago I was approached by Graham, who wanted to know if I could put a value on his business. Of course I said yes.

While our Comprehensive Business Analysis was under way, I learned the business had undertaken a significant expansion about three years earlier. The cost of the expansion was $3 million.

The completion of the project was currently running behind schedule. It was one year late and it would be another six months before the new facility would be in production. Sales were $6 million. One customer represented 65% of total sales.

The company recorded a loss of approximately $400,000 that year and $250,000 in the previous year. Most of these losses were incurred as a direct result of interest costs on the money borrowed for capital for the expansion program and annual donations of $300,000. And still Graham would not able to make use of the efficiencies that the new plant would create for at least six to eight months until it was operational.

Early on in the process I learned that Graham's banker was uncomfortable. He had threatened to call in the company's loans. In fact, the bank had found a purchaser and was insisting that Graham sell the business to the purchaser for an amount Graham felt was low. This turned out to be why Graham had us come in and value the business. It turned out our value was more than two times the offer from the bank's client.

I then made an appointment with the banker to discuss his concerns. I learned that he had lost confidence in Graham. He felt that at the age of seventy-three Graham was no longer capable of successfully managing the company. He expressed concern about the 65% customer and he made a comment that the bank was quite capable of choosing its own charities.

It turned out that a number of years ago, Graham had pledged $3 million to his church congregation in order to build a new church and that his annual donation came to $300,000.

I met with the major customer. I quickly learned that this customer, whose sales were $150 million a year, could be put out of business or seriously compromised by our client if he failed to deliver the $4 million of product the customer purchased each year. I then negotiated an evergreen contract with the customer, requiring two years' notice of cancellation with provisions built into the contract for increases in labour and material costs.

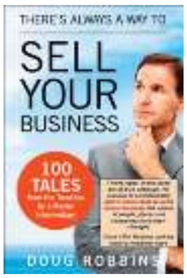
Next, I visited the minister of Graham's church. He told me the congregation had more than doubled in size since the church was constructed. The church no longer relied on Graham's pledge to meet its obligations and sustain the mortgage payments.

I advised Graham to purchase an insurance policy from which, on his passing, the church would receive $2 million. The premiums on the policy were fairly expensive, about $30,000 a year, but a lot less than $300,000.

As for his management team, I learned he had his three children working in the business. Turns out they were working in the shadow of their father. They were all quite capable in their own right. Collectively they formed a very competent business team that Graham ruled with an iron fist. Nothing happened that he didn’t approve. Quite frankly, this was a significant part of the reason that the business expansion was behind schedule.

Several recommendations were made and followed. Eighteen years later the company’s sales were $30 million with pre-tax profits of $4.5 million per year.

Graham has retired from the business, and is alive and well.



This story is from Chapter 23 of Doug Robbins’ book “**There’s Always a Way to Sell Your Business**”

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