Trouble in a Bunker

Approximately fifteen years ago I received a call from a cranky individual named Ben. He said he had heard me talk at a Rotary meeting a year earlier and wanted to know if I was still in business.

“Yes sir,” I said. “I have been here for eighteen years and am trying to be for another eighteen.”

“Well, you better get over here and see me,” Ben said.

The following day, I visited his plant. A fascinating facility, operating out of 140,000 square feet on fifteen acres of well-manicured land in a flood plain of a major river. The building was approximately forty years old and was in good shape.

I sat down with Ben and reviewed his operation. I noted that his sales, at $12 million, were not that high for the size of the facility. We talked about his business, his problems, his challenges, and our process.

Ben reluctantly agreed to spend the money to have a phase one Comprehensive Business Analysis completed.

As we went through the facility, we noticed that a division of the company was being operated by his son. This division had no compatibility with the main operation and really ought not to have been there.

I explained to Ben that a number of things really needed to be done. One of them was a phase one Environmental Impact Study. A building this old, particularly since it was on a flood plain, needed to have a clean bill of health before we took the business to market. Once again, he reluctantly agreed, and we hired an engineering firm to do the work.

I suggested to Ben that we needed to separate his son’s business from the company. I encouraged him to put it into a separate corporation owned by his son. We would do this in a tax-favourable way, but the process would take two years in order to “crystallize” and avoid extra income taxes on the sale of Ben’s business after the restructuring.

One of the employees of the environmental engineering company came back and said, “We believe we have a major problem in Bunker C.”

Bunker C oil was used to heat the plant. The problem was that the underground tanks in that bunker were next to a huge concrete pad on which sat all of the transformers for the company’s operations. There was a broken seam where the steam generator was attached to one of the underground tanks. As a result, Bunker C oil had leaked out around the tank and underneath this hydro pad.

Furthermore, the pad was in a flood zone. The problem had to be fixed before we went to market.

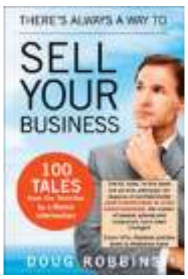
This meant the plant would have to be shut down for two weeks. The transformers would have to be disconnected and moved off the pad. The pads would have to be torn up while the spill was cleaned up. New concrete pads would have to be poured before the transformers could be reinstalled. The clean-up was postponed until the plant shut down for summer vacation.

I said to Ben, “While we clean up out back and wait for the restructuring to crystallize, we ought to look at some value enhancement opportunities. We should also take a long, hard look at the process and products you’re making and the customers you’re selling these products to.”

Our research department identified thirty other potential customers that he and his sales manager could call on. Ben and his sales manager took this project seriously. Within twelve months they had landed $4 million worth of repeat annual business.

Now Ben's sales were $16 million. The value of the business went up substantially. The cost of the environmental clean-up was covered by the extra profits generated from the new customers over the following year.

We sold that business about thirty months later, for almost twice the amount at which it had been originally valued. (Note that a company's profits are usually made on the last 20% of revenue. If revenue is increased by an additional 20 to 25%, the profits will double – which results in a doubling of the value of the business.)



This story is from Chapter 4 of Doug Robbins' book "**There's Always a Way to Sell Your Business**"

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