WholeFoods Magazine

Tip of the Month

NEED AN EXIT STRATEGY?

By Jay Jacobowitz

If you are like most U.S. independent natural products retailers, you are in business because you believe in the products. And like many who started their stores years ago, you may be thinking of winding down your involvement. Here are, in no particular order, some things to think about.

The Kids

Depending on their capabilities, you are either fortunate or not so fortunate to have children who want to take over. Capable offspring can bring new life and improved operations. Those whose reach exceeds their grasp can swiftly turn your legacy in the wrong direction.

Your Employees

It is unusual to have an employee financially able to acquire your store. If you are the empathetic type, you may want to help. Every small business owner needs to be prepared to "take back paper"—meaning hold a note-receivable for a portion of the sale price the buyer repays you over time. But you should only consider doing so if the buyer is financially qualified. Your employee probably isn't.

The Value

What your store is worth will vary depending on the overall economy, your profits, recent growth, and who is buying, among other things. Interest rates set by the Federal Reserve, currently 5.0 to 5.25%, while not high, are higher than in the past 16 years. Had you sold your store when rates were zero to 1%, you would have gotten a higher price. Today, buyers are feeling stingy as they adjust to these higher rates, tipping the scales in favor of a "buyer's market."

Your Profits

More than any other variable, your bottom line will determine what a buyer will pay. For someone who plans to run your store themselves, the historical multiple of profits they will pay is between two and six times. For example, if you have $50,000 in profits, in a buyer's market, your store is worth $100,000. In a seller's market, where you show strong growth, you could see $300,000.

If a larger company with similar stores wants to buy yours, they may pay you a multiple of earnings greater than six times. This is because the buyer already has marketing, human resources, and other administrative functions they won't need from you that will immediately lower costs and fatten their bottom line. This is called a "synergistic" sale.

Your Inventory

Your inventory is not separate from the value of your business. It is included with the other assets like fixtures and equipment. The reason is you must have inventory to produce your sales.

While inventory levels vary throughout the year, you and your buyer should agree on a minimum inventory value as a baseline. Inventory above or below this amount becomes a credit or debit to you at closing.

Your Fixtures and Equipment

You probably invested in fixtures and equipment when you opened your store, perhaps again when you expanded or opened a new department, such as a kitchen. If you are running the original equipment and fixtures, your balance sheet may show your original investment as fully depreciated to near zero book value. A savvy buyer will want some money to reinvest in new fixtures and equipment. Be prepared for a significant downward adjustment to the purchase price.

Your Bookkeeping

If you keep a clean set of books, count your inventory at least annually, pay for product you take for personal use, neither overpay nor underpay yourself, and don't have expenses not normally part of operating a natural foods store—like a lease for a personal car—you will have a much smoother time selling your store. Without these things, you can expect a bumpier road, with reductions in the price your buyer agreed to in their letter of intent.

Good Luck!

At Retail Insights, having helped independent natural products retailers for over 40 years, we are uniquely qualified to identify stores with superior value. Perhaps yours is one. Regardless, I wish you the best of luck as you move onto your next chapter! **JJ**