

Business

Selling the Company

by Bob Buck

In 1983, after working on my own for several years, I started Buck Brothers Construction (BBC) with my brother, Joe. We built the company slowly: At first we did all the work ourselves; then we started subbing out the mechanicals; then we hired carpenters; and finally we developed an office staff. My plan was to stay in the construction business for another 10 years or so and then go on to something else. But with the economic boom of the '90s, the company grew and I found plenty of reasons to remain; we were making money and I was getting to do things that interested me.

Eventually, though, I became aware that I was ready to move on. But how would I sell my half of the company? For most remodelers, getting out of the business means shutting it down or turning it over to their offspring. In my case, turning my share over to Joe was an option, but he was accustomed to a partnership business, and someday he too would need to find a buyer.

A Lucky Hire

Ultimately, it was a past hire — a particularly fortunate one — that allowed me to leave the construction business. In 1995, we had hired Jay Stills as a carpenter; after three years with us he went to work for another remodeler, and then began his own company. Jay and I maintained contact, and over time we came to realize that between his frustration at running a company solo and my desire to move on, we had a solution in the making: I'd sell my half of the business to him.

The great advantage to this arrangement — beyond that it allowed a Buck brother partner to remain at the helm — was that Jay already understood the systems and culture of BBC; he had worked for us and built his own company according to many of the same ideals. Our staff knew him, and many of our subs and suppliers had also been part of his business.

Financing the Sale

With little research available on how to value a remodeling business, we relied heavily on the advice of an

accountant and an attorney in creating an agreement that was fair to both parties.

To lessen my tax burden and spread out Jay's financial load, I sold my shares of the corporation in three yearly installments. The cost of each installment was determined just before the shares changed hands; we based it on the present value of future cash flows, which in turn was based on a formula that took into account the average net income during the three years prior to that sale of shares.

The finances were complicated by the fact that Jay closed down his company and came to work for us as an employee and future owner. His "buy-in" was weighted by the risk he'd taken in closing his shop and committing to working for BBC for two years for future remuneration.

Jay received a base salary and financed his payments personally and from his share of the profits. I took the unusual step of providing financing for Jay for each installment period and holding the shares as collateral.

Making the Transition

At the time of sale, our company had 12 employees: two owners, Jay, an estimator, a bookkeeper, three lead carpenters, and four carpenters.

Even as we dealt with the sale itself, we were experiencing a sharp increase in the number of jobs the company was doing, which forced us to restructure core roles (sales, estimating, production) so that they would be shared by more people.

As part of the transition, we hired a consulting firm to identify the existing roles within BBC, establish company procedures, and map out a plan for the changeover.

This proved beneficial in more ways than expected. The consulting team helped us understand the roles and relationships within the company, identify individuals' strengths and weaknesses, and see the challenges Jay and Joe would face in dealing with one another as principals.

The consultants also convinced us to codify our sales and production procedures. We probably should have done this many years before the sale; it would have made us more efficient and therefore more valuable.

Value of a Business

One of the most important lessons we learned during the sale had to do with the unique value of our business. It resides not in physical assets like trucks, tools, and office equipment, we discovered, but in intangibles.

My most valuable offering was my portion of the company name; it had value because Buck Brothers is well-known and has a good reputation.

I was also selling my half of our cur-

rent client base, and the opportunity to compete for repeat business with past clients. Although there's no guarantee that past clients will hire BBC for their future projects, there's a good chance that they will.

Of course, that uncertainty can be a problem for some potential buyers. Like most service businesses, a remodeling business is based on personal relationships. If the customer's primary relationship is with the owner, and the owner sells the business, the customer may not come back to that company for future work.

That's why it's ideal for customers to have a relationship with the company, too — so that the owner has something of value to sell.

The buyer of a remodeling business also gets the company's operating system, which — once again — is valuable only if it exists independently of the previous owner. This is worth mentioning because remodeling companies are notorious for being the private fiefdoms of their founders, and private fiefdoms are not transferable. I was guilty on this count myself, which is why we made an effort to develop written procedures for running the company.

Today Joe and Jay continue to develop procedures, because doing so increases profitability and someday will facilitate the sale of their parts of the business.

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