For Immediate Release

Contact: John Mackey
Email: john@mackeygroupllc.com
Phone: 251.270.8901
Website: https://mackeygroupllc.com/

Are You Prepared to Transition Your Fire & Life Safety Business?
By Dave Pelton & John Mackey

Congratulations! You've beaten the odds and built a thriving and sustainable fire & life safety business. You planned well, invested plenty of sweat equity along with countless hours and your unique talents. When you started, you may or may not have been aware of your odds. The Bureau of Labor Statistics indicates approximately 20 percent of small businesses fail within the first year. Half will fail by the end of the fifth year. And by the end of a decade, only 30 percent of businesses will have remained - a 70 percent failure rate. Having built and led your successful business over the decades, you now find yourself at a transition point. What do I do next? Do I transition the business to my family? Do I sell a portion to other investors? Do I prepare the business for sale? Where do you begin to start planning your next chapter?

Successful Transition is Not a Guarantee

Data from the Exit Planning Institute estimates that 76 percent of business owners will transition in the next 10 years and 48 percent in the next five years. However, there is a bitter reality for successful exits:

- Only two out of 10 businesses that go to market will close.
- Of the 20 percent of businesses that sell, 50 percent do so with significant concessions from the seller.
- Only 30 percent of businesses transition successfully to the second generation; only 12 percent to the third and three percent to generations beyond.

Planning Ahead Improves Success Rates

The lack of success has nothing to do with intelligence, performance, or desire. Business owners fail to transition their companies because they fail to plan successfully, they underestimate what it means to prepare for an exit, and they wait too long to start the process.

- As an owner, you should ask if the business should grow or exit every 90 days.
- Two-thirds of owners do not know their exit options

- 78 percent have no formal internal or external transition team; 83 percent have no written transition plan; 49 percent have done no planning at all.

- 93 percent have no formal retirement plan or a clear idea of the next "chapter"

- 40 percent have no contingency plan in the event of death, disability, divorce, or forced exit.

- 56 percent of businesses believe they have a good idea of their business' worth; only 18 percent have a formal valuation.

- John Marsh, with The Bristol Group, says "80% of a business owner's net worth is tied to their business. Knowing the value and what impacts that value well in advance of an exit is key to maximizing the value of the business."

The purpose of transition or exit planning is to change the outcome and to avoid becoming a failed succession. The good news is that control is in your hands because you can plan. By planning your succession, giving it the proper attention within your organization, and doing so at least twelve months in advance, you have considerable control over the outcome.

What is an exit plan?
An exit plan outlines all the business, personal and financial issues involved in transitioning a company. It includes contingencies for illness, burnout, divorce, partnership disputes, and death. The plan's purpose is to maximize the value of the business at the time of exit, minimize taxes and ensure the owner can accomplish all his or her personal and financial goals in the process.

So where do you start?
There are several resources at your fingertips to help you get started. They include the organization's current legal, financial, and board advisors along with close personal business confidantes or associates not directly affiliated with your business. Trade/industry business organizations such as the National Federation of Independent Businesses, Small Business Administration, Chamber of Commerce, the Exit Planning Institute, and advisory companies like The Mackey Group are good resources. Groups like these and specialist business advisory firms can often be of assistance or guide you to appropriate resources.

Selling your business
It's important to set your personal feelings aside to do an accurate business valuation and establish a realistic plan. Independent third parties with experience in fire & life safety; like The Mackey Group and Bristol Group can help. You'll need to objectively analyze the business, study the current market, and understand the future state of the industry you serve.

1. Reasons for the sale
You've decided to sell your business. Why? That's one of the first questions a potential buyer will ask. Owners commonly sell their businesses for any of the following reasons: retirement, partnership disputes, illness, death, becoming overworked, boredom, and competitive threats.

Many attributes can make your business appear more attractive, including increasing profits, consistent income figures, a strong, diversified, recurring customer base, and major contracts that span several years. And soft, tangible attributes such as the organization's competence, credibility, brand, and reputation.

2. Timing of the Sale

Prepare for the sale as early as possible, preferably a year or two ahead of time. Typically, this is not a fast process. Preparing and working towards closing can last 9-12 months and a longer transition post-close will increase your marketability. The preparation will help you to improve your financial records, business structure, and strengthen your inspection, test, and maintenance (ITM) and service customer base to make the business more profitable. These improvements will also ease the transition for the buyer and keep the business running smoothly.

3. Business Valuation

It is critical to determine the worth of your business to make sure you don't price it too high or too low. Find a business appraiser with knowledge and understanding of the fire & life safety market to get a realistic valuation. The appraiser will draw up a detailed explanation of the business's worth. The document will bring credibility to the asking price and can serve as a gauge for your listing price.

4. Should You Use a Broker?

Selling the business yourself allows you to save money and avoid paying a broker's commission. It's also the best route when the sale is to a trusted family member or current employee.

However, depending on circumstances, a dedicated business broker can help free up time for you to keep the business running while keeping the sale quiet and striving to get the highest price (because the broker will want to maximize his or her success fees.) Brokers will create a market and maximize the sell price and allow the owner to focus on business while going through this process. Discuss expectations and marketing strategies with the broker and maintain constant communication.

5. Preparing Documents

Gather your financial statements and tax returns dating back three to four years and review them with an accountant. Understand trends in your business (sales, margins, EBITDA) and be able to explain those during your marketing efforts. In addition, you'll need copies of all agreements with vendors and customers, corporate records, lease agreements, employee agreements, and a list of equipment and other assets that are being sold with the business.

Your information package should also provide a summary describing how the business is conducted and/or an up-to-date operating manual. You'll also want to make sure the business is presentable. Any areas of the business or equipment that are broken or run down should be fixed or replaced before the sale.

6. Finding a Buyer

A business sale may take between six months and two years. Finding the right buyer can be a challenge. Try not to limit your marketing, and you'll attract more potential buyers.

We recommend exploring and identifying two to three potential buyers. You've built a strong business, and you want to see it continue to grow, creating longer-term opportunities for your employees and customers. Some buyers in the fire & life safety industry are focused on short-term results and prepping the business for the next buy and flip transaction. This creates an environment where your business no longer flourishes. Make sure your buyer meets your expectations for the life of the business. Have you been able to build a good relationship with the new operations team? These relationships will be an indicator of how well they will treat your employees. How committed are these new owners to the success of your company, employees, and customers? How will your business be managed and integrated into the buying platform or company? If possible, meet owners that have sold to them. Have the buyers met or exceeded expectations through the transaction and beyond?

Once you have prospective buyers, here's how to keep the process moving along:

- Stay in contact with these potential buyers. Get to know them throughout the process.

- Find out whether the potential buyer pre-qualifies for financing before giving out information about your business.

- Put any agreements in writing. The potential buyers should sign a nondisclosure/confidentiality agreement to protect your information.

- Understand how the deal will be financed. If you plan to finance the sale, work out the details with an accountant or lawyer so you can reach an agreement with the buyer.

- Allow some room to negotiate but stand firm on a price that is reasonable and considers the company's future worth.

You may encounter the following documents after the sale:

- The bill of sale, which transfers the business assets to the buyer
- An assignment of a lease
- A security agreement, which has a seller retain a lien on the business

In addition, the buyer may have you sign a non-compete agreement, in which you would agree to not start a new, competing business and woo away customers for a specific period of time.

7. Handling the Profits

Take some time—at least a few months—before spending the profits from the sale. Create a plan outlining your financial goals and learn about any tax consequences associated with the sudden wealth. Speak with a financial professional to determine how you want to invest the money and focus on long-term benefits, such as getting out of debt and saving for retirement.

In closing, mergers and acquisitions within the fire & life safety industry are not new. The strength and long-term view of the market have attracted several new groups interested in acquiring good, service-focused contractors. Many of these groups include private equity-backed national and regional contractors who are seeking introductions or continuing conversations with potential sellers. This activity is a positive reflection on the current state of the industry and an opportunity to build upon the current structure and serve as fuel to help drive growth with new technology, hiring, and developing technicians and other employees and raising the bar on service and the value delivered to our customers.

We encourage owners to do their homework and take the necessary time and steps to prepare for a smooth transition; ensuring that your business and legacy will continue to grow and flourish for the next generation.

Reference Sources:

National Federation of Independent Businesses (NFIB)
BizBuySell
Entrepreneur Media Inc.
US Small Business Administration (SBA)
Bureau of Labor Statistics (BLS)
Investopedia
Pitchbook
Fortune Magazine
Exit Planning Institute

Possessing more than 40 years of combined fire protection industry experience, John Mackey and Dave Pelton have worked at both the fire equipment manufacturer and distributor/contractor levels. John Mackey is Founder/Principal of The Mackey Group, a company specializing in mergers and acquisitions processes, growth strategy development, and new technology implementation across the fire and life safety industry. Dave Pelton is Founder/Principal of The 5E3 Group, a company that focuses on marketing, thought leadership, and industry advocacy strategies.


Pictured are John Mackey (left) and Dave Pelton (right)