

Becoming A Multi-Location Business

By Andrew E. Goodman, I-NEDA Executive Vice President

In the August and October 2004 editions of *The Retailer*, my column covered “When to Sell Your Business” and “Valuing a Business.” As a follow up, this column is about “Becoming A Multi-Location Business.”

Consolidation has remained an industry trend for over 20 years. Iowa and Nebraska now have more multi-location dealerships and distributorships than single locations, and it appears this trend will continue into the future. Following, I have outlined the six steps involved in a merger or acquisition. Additional articles in this edition will address some of these steps in greater detail.

Step #1 – The first step is to have a discussion with the owner or owners of the business you would like to merge with or purchase. The discussion should cover why the possible merger or acquisition would be good for both entities. Establish a dialog and comfort level to help move on to subsequent steps.

Step #2 – The second step is to have a clear understanding of the manufacturers’ contracts that may be involved. In some cases, manufacturers restrict to whom a business may be sold and you must know the rules of the game early in the process. You may want to talk with your manufacturers and find out if they are receptive to your idea. It may be prudent to have an attorney involved at this point to help you understand the manufacturers’ contracts and your legal options.

Step #3 – This step involves the valuation of your business and the business you acquire. In many cases, this is preceded by letters of intent with a confidentiality clause to protect both the buyers and sellers. An attorney should be consulted to draft the letter and certified appraisers should do the valuations. A separate valuation should be completed for any real estate. The business valuation can be one of two different types, an asset valuation or an income valuation.

Step #4 – This step involves the deal itself. According to Sam Kremer, J.D., CPA, the deal is a process, not an event, consisting of the letter of intent, the confidentiality agreement, the purchase agreement, and the closing. Legal representation is necessary in order to perform these functions properly. Step three, the valuation of the business, may actually take place after the letter of intent and confidentiality agreement are signed, but before the purchase agreement or closing.

Step #5 – Step five involves employee issues. Some of these issues may also require attention during the writing of the purchase agreement and before the closing. Such issues as dealing with the merger of multi-employer benefit plans must be organized before the deal is done.

Step #6 - The management of the new multi-location business can be the most traumatic and critical part of the process, and often it is easily overlooked. Operating a three or four location business requires different skills than those necessary to run a one or two store operation. The larger the operation, the more important it is to clearly define and execute a specific management style with a clear understanding and buy-in by employees. This can be a daunting task, but it remains critical to success. Management styles are usually divided into two categories: 1) profit center and 2) centralized control.

I-NEDA has specialists available to assist its members with acquiring and selling a business. This edition will give readers some insight into the process.