Q: I want to retire in 10 years. What should I do now?

Almost all buyers value a strong company. So, the question becomes: How do you strengthen your company on paper?

When a buyer begins to analyze your company, he or she will want to see financial statements and tax returns for at least the past three years to determine sales trends and analyze the strengths and weaknesses of your business. Expect the buyer to focus on several areas.

Profit is the most important number on your financial statement. A well-run business, with profits getting larger each year, is more valuable than a flat or declining venture. In the three to five years before the sale, you need to make your business as profitable as possible.
The buyer will also look closely at labor percentages, which are an indication of business efficiency. If you maintain the proper labor percentages — I recommend 25 percent of product sales for employees and contractors, plus 10 percent for the owners — profit will be better and your company will be more attractive. Another big labor consideration is the cost of replacing you, the owner. If the buyer isn’t going to run the business herself, then she’ll need to hire someone to replace you as the manager. If you haven’t been paying yourself a salary, the addition of this new person could cut deeply into the new owner’s anticipated profits.

All buyers will spend the most time analyzing sales, namely whether yours are increasing or decreasing. They’ll also want to know what percentage of your sales are “wire-in” business; most buyers won’t pay for wire-in business because, technically, it’s not yours to sell. To strengthen your position, do everything you can in the last few years before the sale to increase sales and reduce the percentage of wire-in business.

Another way to strengthen your company is to work diligently to eliminate debt. Debt weakens your financial position and cash flow. Even though the vast majority of buyers don’t assume the debt of the company they’re buying (unless they’re buying the stock of your company), a debt-free company pays less in interest, presents a stronger position and company may command a higher price at sale.

Finally, resist the urge to save the extra money by neglecting your equipment. A business that doesn’t require any immediate large cash outlays is better positioned to retain the value of its assets when it’s time to sell.

When the time comes, who will buy my business?

Presuming you’ve already eliminated the possibility of a family member or current employee as a buyer, there are three different types of buyers in the marketplace:

The Hobbyist: As always, you’ll find buyers who wish to get into the flower business because they think it will be fun, they “love” flowers, and they have always wanted to work (they mean play) with flowers. Don’t scoff at them. These buyers are often willing to pay the most for your flower shop, because they see a value beyond the numbers. They see enjoyment. And, despite their initial lack of financial know-how, I have worked with several of these new owners and they seem to adapt to the business very well.

The Retail Buyer: The second type of buyer includes business owners who are looking for their next business venture — they know how to run a business, but when it comes to running a floral business, they’re often about as green as the hobbyist. This person will study the numbers and base the purchase offer on traditional business valuation modeling and will pay the second highest price for your business.

The Wholesale Buyer: These buyers are already in the business and are looking to expand. They may buy your store and keep it open, or they may close the location and consolidate your sales into their already existing organization. This buyer will typically pay the least for your business.

If you need to sell fast, the wholesale buyer is there. They have formulas to speed up the valuation process and can offer you a quick out when needed.

How much money can I expect to get for the sale of my business?

Short answer: The hobbyist will quite often pay 30 percent to 40 percent of the annual sales of your business, sometimes significantly more. The retail buyer will usually pay about 30 percent of sales. The wholesale buyer is usually around 15 percent of sales. A stronger company may command a higher price. Last year I saw a business sell at nearly 100 percent of sales (to a retail buyer), because the company had an incredibly high profit margin and cash flow.

Keep in mind these figures are just averages based on my experience and the experience of other accountants in the floral industry. The actual sale price of your shop needs to be professionally determined by an accountant or other valuation expert. Don’t rely on a percentage factor or a simple multiplier to determine the value. (See box.)

What’s My Business Worth?

There are several ways to get a rough estimate of the value of your business. In a previously published article, Myers maps out the formulas. Go to safnow.org/moreonline

Does it ever make sense to work through a third party broker?

Brokers can get your information out to more potential buyers than you can — which can result in fetching a higher price for your business. Just be prepared to provide a lot of detailed information, which they’ll need for their reports. Also, it’s in their best interest to maximize the selling price, so it may take some time to find the right buyer.

If you are planning to sell, you may be able to quietly make some casual inquiries to potential buyers — not your competition, but perhaps a broker or a wholesale buyer to test the market and see what you may be able to get for your business.

What else should I do to prepare for retirement?

Ideally, you’ve built a company that appeals to multiple buyers and commands a great price. What if that’s not the case? Diversify. Consider setting up a retirement plan and begin contributing as much as possible. Many plans available let you start with as little as $25 per month and with others you can invest $52,000 (or more) per year. Work with your financial and tax advisors to choose the plan that is right for you.

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