

Selling A Manufacturing Business – Why the Sum of the Parts May Be Greater Than the Whole

As a business broker specializing in manufacturing and an industrial auctioneer with almost twenty years experience, I've talked with thousands of manufacturers trying to sell their business. In many cases manufacturers wait until their business is in decline or worse, they've lost their customer base completely. The reasons for this are varied but the most common are:

- All the eggs in one basket – The Company made parts for one large customer. When the larger company failed, the seller lost the bulk of their business
- Manufacturing Overseas – The products made by the Seller were lost to overseas companies that make the product for a fraction of the cost.
- Failure to innovate – The seller has failed to take advantage of technological developments in machinery that permit vastly increased productivity. Other manufacturers are getting the job done with less people and in less time.

Many times I've visited with manufactures who want to sell as an ongoing business. They have little or no customers and antiquated machinery. Because the machinery is still in good working order, they reason that someone who is younger and with more energy than they could take over and turn the business around. The problem is that although most businesses are sold based on past financials, what buyer's really want is the promise of future earnings. Also, consider that in many instances the most likely buyer of a business is a competitor. If they are already in the business and are successful enough to purchase another company, they most likely have more modern equipment than the selling company. They will want to purchase the customer list and not the equipment.

Sellers sometimes get stuck on the thought that having one company buy the entire business including real estate is the best and easiest course of action. In my twenty year career I've found that the sum of the parts can be many times greater than the whole. The building you're in may be great for manufacturing, but what else can it be used for? What is the highest and best use? Could the property be developed as a shopping plaza or one of the most popular trends, industrial/residential conversion? If you are not considering every possible alternative, you might be substantially selling short your retirement funds. Many think they still have a business to sell, but what they really have is machinery and real estate. I have seen people lament for a decade over the fact that they can't find a buyer for their business and all the while they are sitting on a piece of real estate with huge development potential.

Clearly there are manufacturing companies that are highly saleable with strong track records and the promise of future earnings. For those that are languishing, it is far better to explore every option available rather than narrowing your target buying audience to simply another manufacturer. Consider that the sum of the parts might be better greater than the whole. Limiting your options may also limit the financial outcome. Seek the input of your accountant and the help of a professional business broker who specializes in manufacturing.

About the author: Fran Brunelle is an industrial auctioneer with almost 20 years experience, a business broker specializing in manufacturing companies, a licensed real estate broker, real estate auctioneer, and certified appraiser. Fran maintains memberships in the NAA, IAA, NJSSA, NJAWBO. She holds both the Certified Auctioneer & Accredited Auctioneer Real Estate designations. Fran is the founder and president of both Accelerated Buy Sell, Inc. (AcceleratedBuySell.com) and Accelerated Real Estate Marketing (www.AcceleratedRE.com).