

AHERN ADVISORY

Selling a Trucking or Logistics Business-2011

2010 has certainly been an interesting year for the trucking industry:

- Freight rates have finally begun to increase.
- Capacity continues to shrink.
- Freight brokers and logistics companies are beginning to experience capacity issues, and;
- The economy continues to sputter.

In conjunction with the above:

- Unemployment hovers at 10%.
- Mortgage rates are still at an all time low.
- The Federal Government has mandated that banks loan to small businesses, but the opposite is happening, and;
- 2011 looks like a good year for the trucking industry, but not a good year for the economy.

The above represents our challenges, yet; I'm continually receiving telephone calls and emails from my readers questioning:

1. Is 2011 the year to sell? Or;
2. "Should I keep my business for another 4 – 5 years?"
3. If I keep my business for another 4 – 5 years, will I receive a higher rate of return?

In 2010, I wrote a series of articles on:

1. How to sell a transportation business.
2. How to prepare yourself to "let go", and;
3. The components of how to properly prepare your company for sale.

The one thing I didn't discuss, and all my readers should understand, is that you have to accept that the world is never going to return to "normal". That's what many people are hoping for;

- They are waiting for sales prices to "hit" the all time high of 2006 and 2007.
- They are waiting for private equity to rebound and secure their funds and go back to the "good old days", but that's not going to happen!

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Just like 9/11 forever changed the way that we travel, the collapse of the financial institutions and the Federal Government Bail Out forever changed the way in which our economy will function. You can't wait for the world to return to normal because it's not going to. The time to act is always now! **Even in a chaotic world, some sense of stability can exist. While chaos does not require you to act, it does require precision and timing.**

My point; as a business, you need to accept the inevitability of perpetual change. Instead of trying to control the situation the way you used to, you need to be able to "go with the flow". **There were many companies, in the recessionary period, that did very well financially, and that's because;**

- They didn't stand still.
- They focused on opportunity, and;
- **When they saw opportunity, they seized it!**

A good example; when the internet bubble was about to burst. A lot of companies chose to downsize. However, Apple chose a different plan. Their belief; if they kept putting great product in front of customers, the customers would continue to open their wallets. **Even in the worst recession we've experienced since the Great Depression, that's exactly what took place.**

Several years, after Apple launched iTunes, by 2008 4 billion songs had been downloaded and iTunes now "rocks" the market, selling more music than Wal-Mart. The lesson;

1. If you have something to sell, and;
2. **You want to protect your financial security – then sell!**
 - a. Don't wait for the market to rebound, because it won't rebound to 2006-2007
 - b. **Don't wait until opportunities have passed you by, because then it will be too late, and;**
 - c. Recognize that it's going to be continually harder to grow a business, due to the fact that lending has forever changed.

This goes back to my initial comments; if you want to sell your business, you need to be prepared to let go. You need to be prepared to recognize;

1. What your company is worth is what the market is willing to pay.
2. **If market expectations provide you with the financial comfort that you and your family desire, sell!**
3. **If it doesn't, are you willing to take the risk of losing an opportunity, for something in the future?: That may not happen.**

Granted, if you're in your 30's, it's much different than if you're in your 50's. However, as I advise all of my clients: there is never a Utopia in life. What appears to be Utopia is just another step in the process of life. We all have this misconception that once we sell our business, our life is going to be complete; we're going to have financial security; our families are going to be happy. **However, we fail to prepare ourselves for the fact that;**

- A major portion of our life has passed us by.
- **When we're working, we're used to having a purpose and a routine, and we're in control.**
- Our business is much a part of our life as breathing, and;
- We've established many relationships, and when you sell your business, many of those relationships go away.

At the same time;

1. If you have money in the bank;
2. You don't have to worry about the stress of the business;
3. **You have financial security – you can always find another business to go into! It may not be trucking or logistics – but you will have financial security.**

I expect it's going to take the United States years to rebound from the housing crisis;

- I expect, in Arizona, it will take 10 – 15 years.
- **I've seen fortunes wiped out in the real estate business because of what happened to the mortgage industry.**

If you own a trucking or logistics business and your family's financial livelihood is in that business, and that business represents your retirement; if an opportunity presents itself, you should look at the opportunity. There are some buyers that want the owners to stay, in a sales or some type of capacity, once the business is sold;

- Even if you sell your business;
- There will to be a transition period, (in most instances), before a transportation buyer will allow you to leave.

Trucking is a cyclical business;

- We're tied directly into, not only the US economy, but;
- The world economy, and;
- **When the world economy is constantly evolving, transportation providers need to adjust to the market in order to survive.**
- It's very hard to adjust to the market when the banking industry is less than friendly to the trucking and logistics industry.

The best analogy I can provide is when the housing industry collapsed;

- Sellers were putting their homes on the market for sale.
- **They were "listing" their homes at 2006 and 2007 prices.**
- They held "fast" to their numbers, and;
- **After attempting to sell their house for 2 years, the house went into foreclosure. The Sellers didn't adjust to the market; they were hoping to outlast the recession.**

My point;

- Sellers were not realistic.
- **They did not do their "homework".**
- **Their expectations exceeded market demand, and;**
- **They "hoped" that their house would outperform all the other houses that were in the market to sell.**

The same thing applies to a business; you may know someone that sold a business two years ago and hit a “homerun”. However, those days are gone. There is nothing you can do about it; there’s nothing that’s going to bring back the “good old days”, and you have to understand that the market conditions are what they are.

- 2011 is going to be a brisk year for selling trucking businesses because of CSA 2010.
- Capacity is going to continue to be an issue for shippers, and;
- Trucking, logistics and freight brokers will continue to consolidate.

If you have something to sell and you’re in your 50’s or 60’s, I would encourage you to seriously consider selling;

- If you want too much money for your business, or;
- **If the market is not willing to pay what you want for the business, then;**
- You need to have a plan to “bridge” that gap.

In closing, it’s important to understand the financial environment that you’re operating in, at the time that you want to sell your business.

People always question whether it is the right time to sell a business or not. However, if you understand the dynamics of the financial community, and you believe that our economy is not going to turn around anytime in the near future, **then you’ve answered your own question.**

When you decide to sell your business, you need to be prepared (properly) to enter the marketplace. It’s important that you recognize 3 things have to happen for a buyer, to close a deal;

1. A buyer must be able to “cash flow” the business after acquisition.
2. The buyer needs to service the debt after acquisition, and;
3. The buyer has to recognize a rate of return shortly after the acquisition.

If these 3 things can’t take place,(unless you’re a very unique business), the deal is not likely to close.

QUOTE OF THE WEEK: **“After 60, one’s rule should be never to waste time over things one doesn’t want”** (Fyeya Madeline Stark)