

# Preparing Your Business For Sale

Summary Notes  
Session 2 of 6



## Karen Tobeck, Monteck Carter

### Why we decided to have these seminars.

We know a lot of our clients will be looking for funds for retirement from business sale - this may not happen if the business is not in a good condition for sale. 80% of businesses put up for sale do not sell - you want to be part of the 20% that do sell.

Any client over 50 years old should be starting to think about your future plan. Our goal is to help business owners find the options and choose the one most suitable.

### [Article: "Why Baby Boomer business owners may retire with nothing".](#)

The baby boomer owners will be retiring in the next 6 years. 458,000 businesses in NZ are SMEs (97% of NZ business) and employ 31% of all employees. Most businesses are owned by men aged 35-59 years. There will be many of these businesses coming up for sale.

The business lifecycle has 7 stages - Expansion, Mature or Exit are the last 3.

Expansion – the business needs to continue to grow to ensure it's saleable.

Mature - complacency can set in but are ripe for new entrants becoming a threat. If you can't prove future growth is possible the price of sale can fall.

Exit - profits can reduce close to sale as owners are older and don't start new initiatives. They need to move back into growth and do something different.

The 4 Learnings of Business

1. Learn how to be in business
2. Learning your business
3. Learning how to lead your business
4. Learning to let go

Part of planning to sell your business is to ensure you have other activities that will interest you after your business is sold.

Hugh Chapman & Doug Hitchcock- both have been successful in selling their businesses - they've achieved the dream of not having to work any more if they don't want to.

## Hugh Chapman

I started as a plumber and in 1979/1980 started my business working out of my parents' place. I trained a couple of apprentices. It was mostly jobbing work around South Auckland. Things were ticking along all right and about 15 years ago I was getting a few call outs to domestic properties with water main leaks and I thought it must be a way to sort this out. I found a company that sells leak detection equipment - it can hear where the leak is under the ground. Then I started doing leak detection and that became the main focus of the business.

I ended up doing leak detection in the street - you listen in on the fire hydrants and valves in the street reticulation water mains. There are a few more companies getting in on the act now. Worldwide the industry has been going a little while and is a pretty big industry - it's water conservation or "unaccounted" water. It's not paid for - if you're the water supplier and aren't getting money in for your supply it matters. There are a lot of engineers needed in the industry - it's a huge opportunity.

I had been using Doug Montgomery as my accountant since the early 1980s, his daughter Karen Tobeck of Monteck Carter then took over looking after all my work.

I went to work in Australia when I answered a tender in the NZ Herald in 2000 and Sydney Water were looking for suppliers for 3 parcels of work. There weren't many people doing it then - there was only one in Sydney. I nearly doubled the mortgage on the house to buy a new machine that showed where leaks were.

Initially we used Karen to do all our NZ accounts and we operated a branch in Australia, after a while though we needed to bring an Australian accountant on board and Doug recommended David Carr who is now with Yellow Brick Road Chartered Accountants in Sydney. Between Karen and David we were able to get good tax structure to avoid double taxation, which can be a major issue between NZ and Aus. Karen also worked closely with YBR to ensure all our interests were managed effectively.

My son, Hugh, also got involved in the business. He is a computer man and handled all the tendering and compliance work - which was a nightmare for a plumber like me!

In Australia they run businesses differently - they've got their own culture and it's different. You have to get the right people round you, an accountant is key. We set up an Australian office - it was hard to get a bank account without a residential address and utility bills.

We were fortunate to have long term contracts in Sydney, Melbourne and Adelaide - you had to pay staff good money in each place. We took over quite a lot of NZ staff to work there for us - most of the employees were kiwis and we found houses for them to live in.

I didn't think about selling - you see the business wasn't for sale. We were looking at buying another smart machine from a Canadian company. We did some trials with it in Melbourne and then they knocked on our door and said they wouldn't mind buying the business!

Pure Technologies had tried to expand around the world and they saw an opportunity in Australia / South Pacific and thought it was better to acquire someone with a revenue stream and contracts rather than start from scratch. It's a nightmare dealing with water suppliers to get contracts - it took us 3.5 years to get one contract.

I went to chat to my Australian Accountant, David Carr, about what the company was worth. There was no rule or recipe for valuing a company like mine. We thought up a number, I rang Pure and told him what we thought it was worth. It's a marathon selling to a listed company - getting audited and so on. Having good performance records is important for cross-border tax dealings. We did our tax every year and that was good because Pure had KPMG looking through everything with a fine tooth comb.

I suggest you work hard, keep expenses down, get good staff and pay them well because you can't do it all on your own.

I kept the NZ plumbing business and I now work as a sole operator and that keeps me a bit busy. There are times when you're sitting at home wondering what to do - the next week I'm flat out. My mates are working too so you can't just go fishing or play golf. I'm pleased I got my new plumbing business going.

In our case the Pure Technologies had a 3 year earn out - my son did that. I've been able to spoil myself a little bit and you end up with some money and you have to work out what to do with it - it's not always easy - there's no shortage of advice and you have to think about it. I'm sorry I didn't buy a couple of houses in Auckland!

### Doug Hitchcock

I left school and I joined a stock company because I had a passion for farming and horticulture and was ambitious as hell. I came from Whangarei and it was NMA and is now PGG Wrightsons. I transferred to Auckland. They taught me business acumen. They sold me the idea that security was everything. But when my mates were getting twice the salary I was I started to look over my shoulder.

I ran the seed and grain division from Ashburton -we signed contracts with farmers and we priced the crop. If the price was flat the farmers worked the contracts to fit their needs! I had a burning ambition to start my own company. I got back to Auckland and I bought glasshouses - for the lifestyle. We were mortgaged but I was prepared to work. I felt that if I worked hard I'd get the result. But that isn't the case - it's working smart!

We had that property for 15 years - for the first 10 we grew tomatoes - I would see in the supermarkets what they charged for our product which was 2-3 times our farm gate price. We had to pay 22% on our overdraft and the mortgage was 12-15 % we were just trading water. The threat was of Australian tomatoes coming into NZ. We couldn't borrow more to get larger - my wife suggested we lease the glasshouses and I go and get a job.

Woolworths supermarkets hired me as a buyer which gave me the opportunity to look at retailing produce. They also leased our glasshouses and used them as a research centre. But that passion of owning my own business was there. I could see opportunities in wholesaling vegetables. I joined a company who traded in fruit and veg - there were 3 other partners and they kept on putting up the value for me to buy in. So I left and started my own firm. We dealt with the supermarkets who are notoriously hard to deal with. Woolworths deal direct with growers and they cut out Turners and Growers and we were cut out too. 80% of our business was lost overnight.

Then I joined a tomato growing organising and we started marketing to the hospitality trade. I bought out their share after a while. I got an opportunity for mangos and papaya with Dole - it was a small business but we made a living. I got an approach from the former CEO of Dole for Asia - he wanted to bring his new employer to NZ with us as his local representative. I thought it was great because it was 12 months of the year product supply. At that stage there were two big plays - Turners and Growers and Market Gardeners dominating the NZ market.

We started bringing in bananas 1100 cartons a fortnight and I employed an old fellow and we physically loaded another container and we sold them the fruit retail independents rather than the supermarkets. We did that for 9 months and then I got an approach from Progressive to show them the bananas. He stitched me up on price - but I got in the door with a contract.

The credit for keeping it going was the support I got from the growers at SumiFru. I took a small margin but didn't take a loss - they stood losses for a couple of years until we were established. When we sold we were bringing in 60,000 cartons a fortnight and 68% of the bananas in NZ at that time.

There are 7 million tonnes of bananas exported in the world each year. They are grown in Ecuador, Panama and Mexico for the Americas and Europe and Russia. 2m tonnes are from the Philippines for the SE Asia area. So NZ goes through 100,000 tonnes a year (6 million cartons). We eat 17kgs of bananas a year per person!

There were only 3 importers of bananas when we started. The advantage we had was we shared the boat with Dole to charter the ship to NZ. It gave us an advantage over Turners and Growers who had been the largest importer for years. Today there are 7 importers so it's changed again.

I asked an experienced banana guy to help me open up the market. They are the force that brings customers into our business. I hired a Chinese guy to come and run our market and focus on the asian retailers. Those people we brought on were people I'd met through the trade and got on with them and felt they could do a good job for us - you had to pay them good money to attract them. Big companies had security on offer and we didn't. You are only as good as the people you've got around you. I had this passion to get involved in the bananas and that's what I sold to my staff - we got up in the morning to beat our competitors.

We reached our capacity with our ripening rooms - they're expensive to run. Sumifru built the first ones - we built more and it cost us \$1.5m and the supermarkets who had said they'd support us didn't initially. We had spent the money and there was no revenue coming in. We got an approach to ripen avocados with Foodstuffs. That turned into a good earner.

The key was having the right salesmen selling to the right customer.

I had to rely on a lot of advisors - I'm just an ordinary guy and I thought I needed a consultant. 3 looked at our business from the product coming in, from the people analysing and reporting back, while it cost a bit to do it that was pretty important.

Karen Tobeck of Monteck Carter was the most important boost to my business. Fruit and veg runs week to week - Karen was able to support that. Each month I got a set of results and they were divisionalised I could see what each one was doing and where we were losing money or if there was a mistake we'd made. Karen was integral to my business.

We had an approach from the opposition and so we had to get Karen and my solicitor together to put something together for them to look at. We signed confidentiality agreements. They looked at us twice, - the figures gave us the idea of what was possible in terms of company value.

The opportunities are limited for sale. After those 2 offers I put in a succession plan for my loyal number 1 and 2 guys and giving them a shareholding so I could ease out but we got an approach from a corporate company. This was our third approach (a different publicly listed company), by that stage I'd worked myself out of being the main person. I looked after people and property. Others worked the markets and the supermarkets.

You don't know who is out there and their reasons for wanting to buy - our buyer turned out to have a connection with SumiFru; they recommended looking at NZ and going to talk to me. That was fortuitous. They put you through the wringer with due diligence - they want to know everything and more.

Karen explained that they had to buy the whole company so that the contracts were sold with the asset.

A four year track record of growth was certainly good. We had some debtors who ran at around \$1m and we had to be really on top of that. We wrote off \$10-20k a year maximum. There were lots of small transactions in the market side of our business. Some of our clients had dubious backgrounds - they had 7 days to pay and their account got stopped after 14 days if they hadn't paid. But they'd go to the opposition and ended up rotating around the traders and by the time they got back to me they'd paid the account!

The sale was risky - I had an agreement with SumiFru but no written documents with the supermarkets - there was some risk there. I wanted to get rid of that risk.

The biggest thing you have to have is the passion to be successful. Like what you are doing. Bring the people around you that will lead you there - have the accounting practices in place so you don't run amok. Make sure your book keeping is in order and that your product is pretty secure and that you've got a saleable commodity.

I don't actually miss the business - it's a hard trade to be involved in. I miss my business family - the people who came and joined with me. There's a certain regret I have that the two main guys didn't get to take the shareholding in the company. They may feel I pulled the rug under their feet a bit. I looked after them, but I'm mindful of their possible disappointment.

I'm developing on my 50 acre farm - that's part of the investment plan. I have another company 50% shareholding in a sugar company and my son in law runs that - we talk daily and run through the issues. It's a mirror image of my banana company. I recommend you have something to do - it's a long day otherwise!

For 40 years I worried about where the money was coming from but no more.

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