

FOR IMMEDIATE RELEASE

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RE: RETAIL BUSINESSES - LIQUIDATION OR SALE

What should you do when it comes time to retire from a retail business?

Coopers and Lybrand, an international professional services company conducted a study of the retail industry to explore how retail stores are sold. It surveyed respondents operating approximately 12,000 stores and looked at a variety of means employed to sell the inventory and assets of retail stores, including the following four primary methods:

1. Going Concern Sale – A store is sold to a purchaser who intends to continue operating it as a business and is willing to pay for some “goodwill” over and above the value of the assets.
2. Bulk Sale – Inventory is sold in lots to a business owner for resale.
3. Auction Sale – Inventory and other assets (furniture, fixtures and equipment) are organized in lots and sold at auction.

4. Store Closing Sale – Inventory and assets are liquidated in a going-out-of-business sale.

In my experience, methods #1 and #4 appear to be the most popular.

Retail businesses with large inventories sometimes have a higher asset value than an appraised value based on the store's cash flow (the money that remains after all the operating expenses are paid but before the owner draws a salary or pays any debt service). This is especially true where the owner has been pumping profits back into the business to build up the inventory.

I was once asked to evaluate a card and gift store that had inventory of \$200,000 but a cash flow of only \$25,000. Over their five-year ownership period, the proprietors had taken little salary, choosing instead to plow most of their profits back into inventory. Unfortunately, even if the sellers could realize the value of their inventory in a Going Concern Sale, the \$25,000 *provable* cash flow is insufficient to retire that much debt and still pay the buyer a salary.

In situations like this, it is often a strategic alternative to sell off the assets through an orderly liquidation (store Closing Sale). In many such cases, a retailer will purchase additional inventory to showcase during the liquidation process. The words, "Liquidation Sale - Everything Must Go," are great attention-getters and will drive traffic to a store when all other "motivators" fail.

In a Going Concern Sale, inventory is conveyed “at cost” (what the seller paid for the inventory). However, in a Store Closing Sale, an owner often offers discounts of 20% to 30% at the beginning of the sale. If a piece of inventory cost the seller \$50.00 and was priced to sell at \$100.00 (a typical keystone markup), a 30% discount would equate to a \$70.00 selling price...\$20 more than the owner would have realized on that item if it were included in the price of the business as a going concern. Even at a 50% discount, the owner will recover all the money that has been diverted to inventory rather than his/her pockets.

Other advantages of a Store Closing Sale include:

1. A predictable store closing date; and
2. All sales are in cash and credit cards with no accounts receivable.

There are liquidation companies whose sole purpose is to help retailers plan and execute Store Closing Sales (for a fee, of course) to maximize the owner’s return.

One such Denver-based company provides an on-site consultant to analyze the best timing for a Store Closing Sale, anticipate the return, contact media reps, train employees, price the merchandise and survey the competition.

On the other hand, if a business generates sufficient cash flow to substantiate a “goodwill” figure over and above the wholesale value of the inventory and other assets, an owner should consider a Going Concern Sale. Two obvious advantages of this type of transaction are:

1. The business continues in operation, which often has an emotional value that is priceless to the entrepreneur who started it.
2. The employees retain their jobs, which is often a major concern to an owner with loyal, long-term employees.

Another factor impacting the decision may be the presence of an existing lease. If the business owner is the personal guarantor on a lease with five years left, he/she will have to either make arrangements with the landlord to retire that obligation early, or sell the business as a going concern with the buyer taking over the remaining lease obligation.

In either case, this is a major decision in the life of every retailer and deserves both serious study and professional assistance.