



Succession Planning and Valuing/Buying/Selling/Merging Rep Firms

Attracting and Retaining New Sales People

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Succession Planning and Valuing/Buying/Selling/Merging Rep Firms



The following is not legal or tax advice. MANA offers the following solely as a guide for possible topics for discussion between you and your legal and/or tax advisors.

Rep Valuation Stories



I have
worn out
computers,
tired desks,

and a customer list. How
do I value that?

Rep Succession Planning Stories



I took over
from my dad.
The biggest
difficulty is

finding qualified successor you
can trust. It's a big investment in
money and time to find the
right person.

Rep Succession Planning Stories

I bought business 12 years ago from founder. The price was “make me an offer.”

Now I am 56 looking at 65, and my financial advisors want me to have succession planning in place.

It will give our principals continuity and it's good for your employees in case something happens.

Rep Succession Planning Stories

We sold our company to our employees through an ESOP. Now everyone has a piece. One problem we had was that people who were giving it up



thought it was worth five times more than the people who are buying it. When they reach retirement they cash out their shares in. Employees set aside 10-25% of their salary to go into company stock or mutual funds. The lawyers were really expensive.

Rep Succession Planning Stories

We bought our company from previous owner who was 65.

We've got to get

some young guys in, get them a piece of the pie, and get them interested in buying the rest.



One Rep's Guidance:

Your best source for a buyer may be a direct salesperson from a principal, but don't expose yourself to an unfriendly takeover.



Rep Valuation Stories

Another rep group wanted to move into this area, they approached me about merger, then changed to buyout, offer for business and long term employment.

Multipliers and numbers based on Earnings Before Interest, Taxes, Depreciation and Amortization EBITDA and revenue.

Rep Valuation Stories

Income for first year
spread over 7 years
(14.3%),

Rep Valuation Stories

I had a valuation done, my lawyer and accountant looked at similar firms (comparables). We ended up at 3-4X revenues. Whole bunch of factors. We do a lot of buy and resell, for example we stock and sell filters and filter media. Some we own and some is on consignment from our principals.

Mel Daskal

Rule of thumb: Sell your agency _ years before you really want to be 100% retired, because _____

Mel Daskal

Rule of thumb: Sell your agency 5 years before you really want to be 100% retired, because you will have to “stay around” after the sale.

Mel Daskal

“Your principle problem
is the _____ problem”
and you will risk _____
_____ if you leave
abruptly.

Mel Daskal

“Your principle problem
is the principal problem”
and you will risk losing
your lines if you leave
abruptly.

Mel Daskal

Visit all the _____.

Mel Daskal

Visit all the key principals.

Mel Daskal

Visit all the key principals.

Introduce _____.

Mel Daskal

Visit all the key principals.

Introduce the buyer.

Mel Daskal

Visit all the key principals.

Introduce the buyer.

Get the principals'

_____.

Mel Daskal

Visit all the key principals.

Introduce the buyer.

Get the principals'
blessing.

Mel Daskal

Principals need to know

- The buyers _____
_____.

Mel Daskal

Principals need to know

- The buyers are strong managers.

Mel Daskal

Principals need to know

- The buyers are strong managers.
- There will be _____

Mel Daskal

Principals need to know

- The buyers are strong managers.
- There will be continuity.

Mel Daskal

Principals need to know

- The buyers are strong managers
- There will be continuity
- Prospect of _____.

Mel Daskal

Principals need to know

- The buyers are strong managers
- There will be continuity
- Prospect of increased sales.

Mel Daskal

The message: You are still
there and the buyer feels
strongly enough about the
prospects for success to

.

Mel Daskal

The message: You are still there and the buyer feels strongly enough about the prospects for success to put his own money into the company.

Mel Daskal

Your income comes
from _____.

You have to safeguard

to get paid.

Mel Daskal

Your income comes
from future earnings.

You have to safeguard
those future earnings
to get paid.

Mel Daskal

Set payments that will
let the buyer make the
payments and still

Mel Daskal

Set payments that will
let the buyer make the
payments and still
be liquid enough to run
the company.

Mel Daskal

30-60 Day Repossession Trigger:

If the buyer stops making payments you must be able to take the firm back quickly, otherwise _____

Mel Daskal

30-60 Day Repossession Trigger:

If the buyer stops making payments you must be able to take the firm back quickly,

otherwise the buyer may run the firm into the ground before you can salvage it.

Mel Daskal

Revisit the buyout price at six months because _____

_____. In that case, fairness and pragmatism dictate adjusting the sales price accordingly.

Mel Daskal

Revisit the buyout price at six months because any lines lost in the first six months were already shaky. In that case, fairness and pragmatism dictate adjusting the sales price accordingly.

Mel Daskal

Because the buyer and seller
rely heavily on the other
during this process, it is very
important to buy _____
_____ on both of the
parties.

Mel Daskal

Because the buyer and seller
rely heavily on the other
during this process, it is very
important to buy life
insurance on both of the
parties.

Mel Daskal Typical Valuation

- _____ times a year's gross commission income paid over ___ to ___ years.

Mel Daskal Typical Valuation

- 1 to 1.5 times a year's gross commission income paid over 5 to 10 years.

Mel Daskal Typical Valuation

- 1 to 1.5 times a year's gross commission income paid over 5 to 10 years.
- Longer payout = _____
 - Risk of _____
 - Implied _____

Mel Daskal Typical Valuation

- 1 to 1.5 times a year's gross commission income paid over 5 to 10 years.
- Longer payout = larger amount
 - Risk of default
 - Implied interest

Mel Daskal Typical Valuation

Adjust typical valuation for:

- _____ security

Mel Daskal Typical Valuation

Adjust typical valuation for:

- Line security

Mel Daskal Typical Valuation

Adjust typical valuation for:

- Line security
- Value of _____ and

Mel Daskal Typical Valuation

Adjust typical valuation for:

- Line security
- Value of equipment and inventory

Mel Daskal Typical Valuation

Adjust typical valuation for:

- Line security
- Value of equipment and inventory
- Orders secured with



Mel Daskal Typical Valuation

Adjust typical valuation for:

- Line security
- Value of equipment and inventory
- Orders secured with commission pending.

Mel Daskal Typical Valuation

Include a factor for dropping
_____ lines.

Mel Daskal Typical Valuation

Include a factor for dropping
competing lines.

Mel Daskal Typical Valuation

Include a factor for dropping competing lines.

Consider not only the income from each line, but also:

- How solid _____.

- How solid _____

_____.

Mel Daskal Typical Valuation

Include a factor for dropping competing lines.

Consider not only the income from each line, but also:

- How solid the principal is.
- How solid the relationship is with rep company.

Daskal: Discuss With Your Accountant

Can you structure payments to seller are “commissions” to old rep company? Typically 10-15% of monthly cash receipts. More than 15% tends to strain the new company. 15% paid for 6.6 years equals 1X earnings.

Daskal: Discuss With Your Accountant

Establish a floor, and if they can't pay the floor you may have to take back the company. You set the floor to protect _____, not _____.

Daskal: Discuss With Your Accountant

Establish a floor, and if they can't pay the floor you may have to take back the company. You set the floor to protect the company, not your payments.

Daskal: Discuss With Your Accountant

Establish a floor, and if they can't pay the floor you may have to take back the company. You set the floor to protect the company, not your payments. A floor might be 50% of current commissions for 90 days. Wait longer and _____

Daskal: Discuss With Your Accountant

Establish a floor, and if they can't pay the floor you may have to take back the company. You set the floor to protect the company, not your payments. A floor might be 50% of current commissions for 90 days. Wait longer and the business you repossess may not be viable.

If there is a floor, is there a ceiling?

If the price is a fixed amount, i.e. 1X earnings at the time of the sale, there is no need for a ceiling, they just pay you back faster.

If the price is monthly percentage, then set a ceiling and a floor, say 15% up to “X dollars” and nothing more per month.

Mel Daskal Typical Valuation II

Rolling average could be 15% of the average yearly commissions for the last 3 years.

Mel Daskal “Trial Marriage”

Trial period for merger: 3-6 months. Temporary joint bank account or each just pays pro rata share of expenses. Be sure before you mix the two irrevocably. Back out provisions, no fault.

Consult Your Tax Professional About IRS Section 197

When no services are rendered, payments are only tax deductible over a 15 year period.

Bad for the buyer, but also bad for the seller if the cash-strapped buyer can't keep up the payments.

Mel Daskal On IRS Section 197

“Goodwill” or “Going Concern Value” was completely and permanently non-tax-deductible by the buyers until August 10, 1993.

So goodwill calculations were very biased toward achieving near-zero payments for goodwill.

Skewed toward _____

Mel Daskal On IRS Section 197

“Goodwill” or “Going Concern Value” was completely and permanently non-tax-deductible by the buyers until August 10, 1993.

So goodwill calculations were very biased toward achieving near-zero payments for goodwill.

Skewed toward consulting fees, non-compete agreements, commissions, customer lists.

Mel Daskal On IRS Section 197

Now goodwill and other intangibles are deductible evenly over 15 years. Covenants not to compete, regardless of the length of the covenant, are deductible over 15 years as well.

Daskal Suggestion

For Discussion With Your Tax Professional

This is not tax or legal advice

- Buyer forms a new corporation
- No assets of the seller are sold to the buyer.
- Seller's corporation
 - Keeps the lines
 - Collects the commissions
 - Pays the buyers corporation 85% to 95% of commissions for servicing the lines.

Daskal Suggestion

For Discussion With Your Tax Professional

This is not tax or legal advice

- Covenants not to compete still mandatory 15 year write off.
- After 5-10 years the seller's corporation has no assets so it can be sold to the buyer for a nominal amount, avoiding termination on sale clauses in the rep agreements.

Daskal Suggestion #2

For Discussion With Your Tax Professional

This is not tax or legal advice

- Form a new partnership of Buyer Corporation and Seller Corporation
- Partnership receives commissions due to Seller Company
- Seller receives 10-15% of the proceeds of the partnership for 5-10 years

Compensation Programs
to Attract New Sales
Representatives
and
Competing to Hire the
Next Generation

One Rep's Story

It's hard to bring
in young people.

More success
hiring 40-ish

instead of 30-ish. It's hard to get an
engineer to take a gamble on
commission. And I can't get a recent
college grad to work on commission.

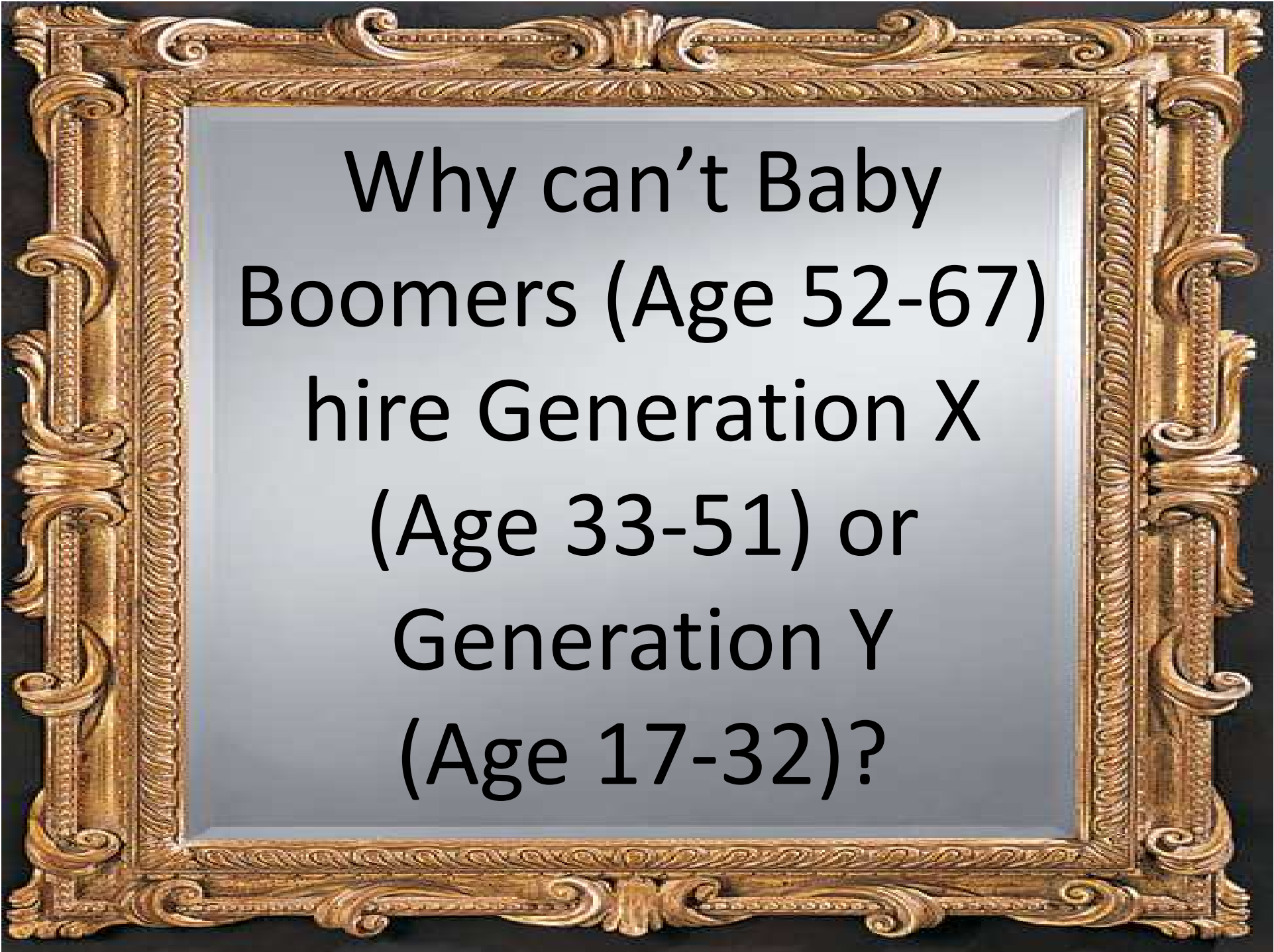


One Rep's Story (continued)

Everyone has
been with me
25 plus years.



Best luck with going back to
alumni placement groups of
schools in our area.



Why can't Baby
Boomers (Age 52-67)
hire Generation X
(Age 33-51) or
Generation Y
(Age 17-32)?

Baby Boomers

Born 1945-1960 Age 52-67

- Invented the word “workaholic.”
- Measure success by hours worked.
- Started work when company loyalty was standard.

Source: Karen Schmidt, “Let’s Work Training” www.letsgrow.com.au

Baby Boomers

Born 1945-1960 Age 52-67

- Expect loyalty from co-workers.
- Security comes from seniority and promotion.
- Status symbols are important.



Generation X Born 1961-1979, Age 33-51

- Work to live mentality.
- They invented work/life balance.
- Look for a person they can be loyal to, not a company.
- Security comes from employability.

Generation X Born 1961-1979, Age 33-51

- Shorter term focus.
- Motto is “look out for number one because you just never know.”
- Want to be judged on output not input.

Source: Karen Schmidt, “Let’s Work Training” www.letsgrow.com.au

Generation X Born 1961-1979, Age 33-51

- Like regular 2 way feedback on performance.
- Value control of their time.

Gen X Workplace issues

- Want open communication from management who are often Baby Boomers and don't think it's necessary.
- Starting to take over the management of workplaces but the Boomers aren't leaving quickly enough for them.

Source: Karen Schmidt, "Let's Work Training" www.letsgrow.com.au

Gen X Workplace issues

- Don't want to sacrifice their personal lives for the organization.
- Respect production over tenure.

How to attract and retain Gen X

- Need to feel they are constantly adding to their skill sets.
- Project work and self-managed teams
- Move them sideways rather than up (or nowhere)

How to attract and retain Gen X

- Give them real flexibility in hours and remuneration packages.
- Family friendly policies for women and men.

How to attract and retain Gen X



- Give them mentors from their own generation.

Source: Karen Schmidt, "Let's Work Training" www.letsgrow.com.au

Gen Y Born 1980 – 1995, Age 17-32

What They Think About Work

- Sense of entitlement.
- Want to feel like paid volunteers.
- Need to have work with meaning.
- Want personal satisfaction from work.

Source: Karen Schmidt, "Let's Work Training" www.letsgrow.com.au

Gen Y Born 1980 – 1995, Age 17-32

What They Think About Work

- Big expectations of income.
- Have more of a group/community focus.
- No expectation of loyalty or a traditional 9-5 job.
- Will have more than one income stream.

Source: Karen Schmidt, "Let's Work Training" www.letsgrow.com.au

Gen Y Workplace issues

- Want constant open communication and positive reinforcement.
- Want to reduce stress.
- See work as an anywhere, anytime, wearing anything arrangement.
- Believe age and experience are irrelevant, what matters is ability.

Source: Karen Schmidt, "Let's Work Training" www.letsgrow.com.au

How to Attract and Retain Gen Y

- Need leaders they respect who will “talk their language.”
- Make sure your marketing image matches your actual culture.
- Get other Generation Ys involved in the recruitment process.

How to Attract and Retain Gen Y

- Provide a community environment at work.
- Make starting at the bottom seem like the right thing to do.

How to Attract and Retain Gen Y



- Give them Baby Boomer mentors rather than Generation X.

Source: Karen Schmidt, "Let's Work Training" www.letsgrow.com.au

How to Attract and Retain Gen Y



- Have the latest technology.

Source: Karen Schmidt, "Let's Work Training" www.letsgrow.com.au

How to Attract and Retain Gen Y

- Realize they won't stay long so make sure they leave on a good terms so they tell their friends about you.