SOURCING JOURNAL

M&A Specialist Allan Ellinger on Prepping for an Acquisition & the Future of Retail Consolidation

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10/3/2017

Retail news has been anything but boring this year, as stores shrink, file for bankruptcy, reinvent themselves and partner up. The activity in the market reflects the tumultuous time that apparel retail, in particular, has found itself thanks to new consumer mindsets, increasing demands on supply chains and the speed at which technology is upending the entire industry.

As a result, companies are being very strategic with their acquisitions, looking for capabilities they can quickly onboard to help them adapt to this new normal. Deals like Walmart scooping up Jet.com and Amazon snapping up Whole Foods demonstrate the ways in which retailers are filling the gaps both online and offline.

Allan Ellinger has a unique vantage point for all of this change. As co-founder and senior managing partner of MMG Advisors, a New York-based financial and strategic advisory firm for the apparel, accessories and home industries, Ellinger manages transitions, restructuring and turnarounds. And just as buyers are being tactical in their planning, he says sellers must be equally deliberate in positioning themselves to land the best deal. When it comes to buying and selling businesses, Ellinger said most companies aren't prepared for the complexities of these agreements, which span far beyond mere dollars and cents.

He recently spoke with Sourcing Journal about how the landscape is likely to continue to change, navigating through transitions and the importance of starting to plan long before a sale or succession becomes necessary.

SJ: There seems to be an increase in M&A activity lately. The most talked about has been the Amazon acquisition of Whole Foods. From your perspective, what made the grocery chain attractive?

AE: They weren't in brick and mortar food business. It was a quick way to jumpstart and get into the brick-and-mortar food business. It gave them 400 mini warehouses from which to leverage.

SJ: Since that deal was announced, it's been something of a parlor game to try to figure out which company Amazon might buy next. In the apparel space, which retailer do you think they should go after?

AE: Given Amazon's interest in developing their own private label apparel products, I would think buying a company like a Mast Industries, a sourcing company that has a strong design and manufacturing capability, would interest Amazon. I don't think they'll buy a brand. They develop their own brands. They don't have to buy them. But what they need is expertise. They seem to be doing good so far, but it's very early in the game to judge it.

SJ: Is there more consolidation on the horizon? It seems that traditional brick-and-mortar retailers are interested in online companies.

AE: Not only do I see retailers doing it, I think you'll see a lot of wholesalers doing it. As values level off in the e-commerce/technology space, you'll see more and more wholesale or vendors acquiring e-commerce companies so they can go direct to the consumer. It's easier and less expensive to buy it than it is to build it.

SJ: Given the challenges at retail, why is this a good time to think about selling a business?

AE: There are a lot of companies looking for scale. They're looking for opportunities, money is cheap right now, financing is available.

SJ: But all companies won't be attractive to buyers. What are they looking for today?

AE: A sustainable business and a reason to exist is the most important thing. You want a company that has a proven track record and one whose product is relevant and sustainable. I would be looking for a company that had a brand, an e-commerce component, a strong management bench, a strong supply chain, diversified distribute and strong maintained margins. That sounds like a fantasy.

If you have a good business and you have a path forward into the future, you shouldn't sell your business. But if you don't have the next generation or you're missing some of those components and you don't have the wherewithal to invest in your company, you should be thinking about what you're going to do as the next step.

And brands—whether it be with a capital B or a lowercase b—are still in demand.

SJ: You'll often hear about business owners who may be receiving offers for their companies but they feel it's too soon. Is there an ideal time in your company's life span to sell?

AE: The way to maximize purchase price is to be able to demonstrate growth. We've advised our clients where possible, don't wait till you've maxed out the growth of your company and reached that peak because you can't demonstrate growth to a potential buyer if that's the case.

In many cases, company owners wait too long to decide what to do with their companies. They go into a period of denial. We've had circumstances where we've had companies worth a lot of money. The seller wasn't ready to sell and a couple of years later, he'll find himself with a company that's worth a fraction of what it was at the original moment in time.

What you're doing is trying to minimize the risking of your family's net worth going forward. In most cases, a family's net worth is tied up in their company.

SJ: In addition to what a potential buyer may want, are there things sellers need to evaluate before entering into a deal to sell their businesses?

AE: The cultural fit of two companies coming together is more important than the price. In most cases, when a privately held firm is sold to another company, the buyer is not paying 100 percent of the purchase price at close. There's an earnout to protect the buyer's downside in case the business falls apart, and more importantly, it's a way of keeping the seller's management team engaged and employed for two or three years after the sale so that way you have a smooth transition. If the buyer and seller aren't aligned strategically and culturally, it's going to be a nightmare. The process of selling a business and putting the money in the bank is a four to five-year process.

SJ: What about family-owned businesses going through a succession? What's the best way to ensure the company survives for generations to come?

AE: There are a lot of family-owned businesses in which the father hasn't been a good teacher. He hasn't given his children the ability to make mistakes as they take on increasing responsibility. There are a lot of family businesses that don't give them the exposure they need to be worldly. We've seen too many instances where the new generation does the same things the two prior generations did because they didn't know any better. It's all about training and all about smarts.

Ellinger will be among the featured speakers at the Consumer Products Forum hosted by Mazars USA on October 24th from 5:30 to 9 pm in New York. The event will kick off with a keynote by Li & Fung Limited Executive Director Rick Darling, followed by the Buying or Selling a Business—It's All About Strategy panel. RSVP for the event here.