

# Exit Strategy for Freight Brokers

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**Y**ou're going to retire—great! Maybe spend a little more time doing some really important things—like spoiling the grand children, fly-fishing or visiting some places you've never seen. Alaska, maybe?

Anyone who has built a freight brokerage business has put in some long hours, many weekends and more than a few sleepless nights. If you're like most freight brokers, you've put a lot into your business—now it's time take something out.

But how do you get the most out of the business and how do you ensure an income stream for your retirement? Good questions. Here are a few more. How much is my business worth? How can I increase its value and make it more saleable? Should I sell the business outright? Should I turn the business over to my children or other family members?

## **Plan Two Years in Advance**

The best time to begin planning the transition of a freight brokerage business is about two years in advance to avoid what otherwise could become a quick sale at a "fire sale" price.

Successfully transitioning a book of business between brokers takes a year or two for the right person; with the wrong person it may never happen. Continuation of the revenue stream is everyone's biggest risk. So if you are currently the sole sales person, consider training others in your company to "sell" new clients, and begin transferring your existing clients to them.

## **Diversify Your Client Base**

Brokerages with too much of their businesses concentrated in either too few clients or too few markets sell at a discount.

## **Diversify Your Sales Footprint**

Identify your key sales producers and consider getting them under contract. If you don't have sales people other than yourself, you need to go out and find one or two. Get competent legal advice when negotiating an employment contract. If you don't have your employees under contract you might have nothing to sell.

## **Getting the Most Out of Your Business**

Small brokerages are typically valued at about 1X or one times the gross profit depending on extraordi-

nary factors concerning the book of business. All-cash deals are usually heavily discounted. Some type of owner involvement financially, and to a lesser degree physically, is usually required. So start planning early. Meet with your accountant and prepare a financial statement together with all the necessary documents that accurately reflects the book of business and overall financial condition. Beware of business brokers who, through the doubtful recasting of financial statements, inaccurately reflecting an alternative reality, promise the moon and deliver little, all the while locking up valuable time under exclusive sales contracts.

## **A Variable Payout Plan**

A variable payout plan transitions books of business, usually to key employees, over a multi-year period. It is far superior to an outright sale because it helps ensure the retention of employees and sales accounts. In addition, it maximizes the income stream to the new owners. And, presuming there is

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a concern for the job security of employees, provides a reward and satisfaction for them as well.

The primary concern of both the seller and the buyer is whether the current employees can be relied upon to maintain and grow the business over a five-year period. The answer is always, it will succeed if done properly.

What about a traditional sale where new owners bring in new management? In some circumstances, an outright sale may be the only option, but in today's depressed capital markets they usually occur at steep discounts to the earnings before interest, taxes, depreciation and amortization (EBITDA) multiples.

## Children and Other Family Members

Turning a brokerage business over to your children or other family members can be a workable situation but it can be fraught with danger. The important thing to remember is to make a sound business decision rather than an emotional one. The big question: do they have the management ability, the work ethic and the ability to work together harmoniously to grow the business thus protecting your retirement income stream?

## A Plan for Success

Without a plan, accounts usually don't transition to new players well but if done in a methodical fashion, over a 12-month period, customer retention can be excellent. This is the key to ensuring the success of the entire transaction.

The sad fact is that acquisitions done without extensive seller involvement and risk often fail. Freight brokers provide a personal business service like a dentist or a lawyer and if new sales personnel don't "hit if off" with one or more prime accounts, that account and the employees who service it could be gone.

With the variable payout method, rewards for new owners can be great. The fact is that they get a jump-start into the business without the struggles that inevitably accompany new ventures.

## In summary

Start early, diversify your book of business and groom new leadership that can transition and maintain your accounts. A few key management decisions now can maximize the value of your brokerage business and help ensure a continuing income stream for you in years to come.



## FREIGHT PAYMENT INDEX

*	<b>TIA</b>	<b>Non TIA</b>	<b>Shippers</b>	TransCredit has been producing credit reports exclusive to the trucking industry for twenty years. They are the sole provider of Credit Score and Days-To-Pay® for all load-board services in the USA and Canada. The TIA column represents a composite payment trend of the TIA membership. The Others column represents a composite payment trend of all intermediaries not associated with TIA.
•	CS-DTP	CS-DTP	CS-DTP	
'07				
June	93.0 – 28.9	86.1 – 30.0	90.9 – 30.8	
July	92.6 – 28.8	86.1 – 30.1	90.9 – 30.8	
August	92.7 – 28.8	85.61 – 30.3	90.1 – 30.8	
September	92.7 – 29.1	85.4 – 29.7	91.0 – 30.8	
October	92.7 – 29.1	85.2 – 30.0	91.0 – 30.8	
November	92.7 – 29.4	85.3 – 30.1	91.0 – 30.9	
December	92.4 – 29.3	85.7 – 30.2	91.0 – 30.7	
'08				
January	92.7 – 29.5	85.8 – 30.4	91.0 – 30.0	
February	92.6 – 29.5	85.9 – 30.4	90.9 – 30.7	
March	92.9 – 29.7	85.8 – 30.6	91.0 – 30.7	
April	92.9 – 29.7	85.7 – 30.5	91.0 – 30.7	
May	92.8 – 29.9	85.3 – 30.5	91.0 – 30.7	

\* TIA = Members, Non TIA = Non Member Intermediaries

• CS = Credit Score, DTP = Days-To-Pay