Consider These Three Steps to Ensure a Successful Transition When Selling Your Propane Business

A Series of Articles by Thomas E. Knauff, Energy Distribution Partners

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1 | Ask the Right Questions up Front.

The conversation almost always starts like this: "What's my propane business worth?" Or maybe "How do you go about valuing a company?" Whether on the sidelines at an industry conference or in a phone call, owners of distribution businesses often ask first about price.

That doesn't mean price is the only thing on owners' minds. Although entrepreneurs considering an exit strategy may start with the valuation issue, they are frequently thinking also about their families, employees who have grown to be like family and customers they have gotten to know in their local communities. Relationships are woven into every owner's business.

Consider what's important to you:

- **How will your customers be treated?**
- **Will your company's name be retained?**
- **Will your employees be treated fairly?**
- **Will you stay involved after the sale?**

In more than 100 acquisitions and uncounted conversations with propane distributors, there is no denying that "the numbers," typically multiples of cash earnings, often guide negotiations toward the ultimate purchase price. But non-monetary factors are extremely important, and they can vary greatly, depending on the individual seller and buyer.

If selling the business has crossed your mind, here are some steps to help investigate options and move toward a transaction that maximizes your value – monetary and non-monetary.

Making Personal Decisions

For most owners of propane businesses, human or "soft" factors come to the forefront in pursuing an exit strategy. An owner will be well-served to start addressing these issues early in the process by making some personal decisions based on values and priorities.

A key up-front question is whether you want to stay involved in the business after selling it. Do you want to exit right away, keep working through a transition time or play a longer-term role?

The *legacy* of the business also matters – referring to what endures after you sell. Many owners care deeply because they have invested so much of themselves in building the company. And while some owners move away permanently to retire, most former owners either stay in the same town or retain deep relationships in the community.

Some legacy questions you may want to answer even before you start talking about a sale:

- How will your customers be treated after you sell? Will they thank you? Do you have specific arrangements with customers that are important to protect?
- How will employees be treated? Are your family members employed, or otherwise supported, by the business? Are there key employees you want to ensure are treated in specific ways? Is it important to you to preserve the jobs of your employees?
- Do you want to be sure the company name continues after you depart?
- Are there certain business practices or characteristics that are important to you and should not be changed?

Of course, your goal in selling the business is to maximize the value you receive – while staying true to personal priorities. In our experience, the ultimate price an owner receives does not vary much between sellers with clear legacy goals and those who think strictly about dollars.

But if the answers to legacy questions are important for you, then thinking these issues through in advance will make subsequent discussions easier.

Preparing Your Organization

Well ahead of any potential discussions of a sale, beginning to prepare your company for the process will pay off by helping you maximize the value of the business. This begins with what is important to a potential buyer and how you can demonstrate the value of your business.

The best thing you can do for the ultimate sale price is to ensure that your business fundamentals are sound. Take an objective look at your operations and practices, and improve any areas of weakness. For example, comparing metrics such as margins and tank control with industry-wide data will reveal possible areas for improvement. Participating in the NPGA's Benchmarking Council and related groups is one way to get valuable guidance on best practices.

Your "back office" practices are something you can influence. Do you have good books and historical records that provide detailed data including financial statements, propane gallons sold and margin by category in addition to operational metrics with regard to tank control, signed customer agreements and "Gas System Checks"? Do you employ and document safe work practices consistent with industry standards? Are your safety and regulatory practices up to snuff? Asking your accountant and insurance provider to help evaluate these administrative practices will bring objectivity to your review.

Speaking of outside help, seeking advice from savvy advisers also will pay dividends. Your regular lawyer and accountant may be wonderful for everyday issues but might lack "deal" experience. So seek out professionals with transactional expertise and have a conversation on how best to approach the process.

Finding the Right Buyer

At some point, you need to begin talking with potential transaction partners. The first step may be an informal conversation at an association meeting or on a phone call, or in a more formal in-person meeting. At EDP we have many of these conversations, and we try to be forthright and helpful in discussing the process and how we approach transactions.

Ideally, as you get to know people in your state propane association or similar groups, you can build relationships that engender trust with potential partners. Taking your time to explore how a prospective buyer does deals (and conducts business after the sale) is critical:

- Talk to a potential partner early, and in detail, about legacy issues that are important to you. Ask about retaining the name, key employees and customer relationships. Find former owners who have sold to the company and ask them about the experience.

Maximizing Value for a Sale

- **Sound business fundamentals**
- **Operating metrics & benchmarks**
- **Detailed, accurate books & records**
- **Solid safety & regulatory practices**

- Find out how the company handles operational issues. Are you comfortable with how the buyer will operate the business? Will your former customers launch into a gripe session when you see them? Will customers be negatively impacted by bureaucracy, such as a manager in your town having to call a distant headquarters for permission to buy supplies or make routine decisions?

- Ask employees of a prospective buyer about relationships within the company. If a business is well-run, its employees should enjoy spending time together.

- Investigate whether the potential partner is a people-oriented national company that can provide broader career opportunities for your employees.

Very importantly, look at the "maximum value" you are seeking in a holistic way. Yes, selling is about the price – getting full market value. But it's also about structuring a specific transaction to meet *your needs* for cash flow, tax consequences and future planning. A buyer should bring to the table flexibility and expertise in structuring an acquisition that works for you as a seller.

Look for a buyer who is serious about acquiring and running high-quality businesses with good people and strong customer bases. Propane business owners who have built a legacy and want to preserve it should seek a buyer who will take good care of the business, its employees and its customers. When you find the right partner, it will be a great match.

2 | Pay Attention to the Human Factor.

We all love our propane tanks, bobtails and other "hard" assets. But we also know, if we've been in the industry awhile, that the No. 1 determinant of long-term success is people.

The human factor affects near-term performance – sales of propane and services are influenced by each interaction your drivers, service technicians and other employees have with customers.

And for the years to come, managing the "soft" side of operations also greatly influences the value of your business. This is important to understand if you are considering potential exit strategies. You need to pay attention to the people you hire and develop, their attitudes and collective culture, and the way they communicate among themselves and with your customers.

Owners who are considering a sale or merger often ponder the effects a transaction would have on employees and customers, and rightly so. But long before entering negotiations, considering the human side can benefit your business and its eventual value in a deal. Potential partners – at least those who buy well-managed propane distributors and retain the employees to build the business further – care a great deal about the human factor.

In managing propane businesses for more than 30 years, including involvement in more than 100 acquisitions, I've found some strategies on the human side of the business that can benefit you financially – and safeguard your relationships for the future.

Invest in the Best Talent

Just as NFL teams draft the most talented players, your propane business should hire the most experienced and talented professionals you can find – managers, drivers, customer service reps or other employees. These people are the face of your business, and their interactions with customers every day determine your success, so the hiring process is fundamental.

To keep your players motivated and performing, you should provide opportunities for development – training and a path toward promotions and higher compensation as your business grows. In addition to federally required hazmat training, consider courses and certifications from NPGA, PERC or your state association. For example, EDP requires all field personnel to complete CETP I and II and has used PERC training services for field management and sales professionals. Activities like these enhance the quality and professionalism of your workforce.

Human resources create value

- **Quality employees are hired and developed**
- **People and relationships drive success**
- **Buyers care about employees and culture**
- **A well-managed business has greater value**

Importantly, a propane business and its employees need regular and objectively based evaluations. Annual performance reviews are a must. If you haven't insisted on systematic reviews, start now, and add to that a regular audit of managerial talent within your organization.

A potential buyer, at least one who plans to retain your employees, will want to see your hiring process, training and development approach, and performance reviews for all. Implementing the disciplines (and documentation) for good management of human resources builds a sustainable business, which can have a positive impact on your profitability as well as in discussions with prospective acquirers.

In considering a possible transition in ownership, you also need to look forward: Will the people on your team thrive if the business becomes part of a larger, more complex organization? Can your employees step up to the opportunities in a regional or national

Making sure new employees feel welcomed and valued is crucial to a successful onboarding process.

One good example of rewarding the right behavior can be seen at Dassel's Petroleum, an EDP operation in Hollister, California. Patty Gere came to Dassel's in 2018 looking for a career change. She had tired of sitting behind a desk and longed to be outside, so she applied to become a bobtail driver. Dassel's General Manager Lloyd Pope says Gere – who is one of only a handful of women drivers in the propane industry - is a star employee. So, when she requested a change in schedule to better accommodate personal and family commitments, Lloyd agreed. "Rewarding a dedicated, hard-working employee like Patty by accommodating her schedule to best suit her personal needs, only made sense," said Lloyd. "She's a terrific driver and I'm thrilled to have Patty on our team."

company? Figure out who the key players will be when your company transitions and — if you lack the talent to go to the next level — take the necessary steps now to recruit top-drawer talent.

Reward the Right Behaviors

We all recall Tom Cruise as sports agent Jerry McGuire screaming, "Show me the money!" And we all understand the importance of a good compensation plan to recruit and retain the best talent. But have you spelled out your expectations for that "right" behavior? Specific goals and behaviors should be communicated — and measured as part of regular performance reviews.

Are your employees clear about your expectations? Do you have the right rewards to motivate them to perform? After all, most people don't work out of loyalty to an institution, they work to benefit themselves and possibly their peer group. So most employees need to understand how the plan that you're asking them to execute will improve their personal lot in life.

Behaviors that contribute to your company's success can be rewarded in many ways — from the powerful personal motivation of a sincere "thank you" to ongoing systems of compensation. It's important to align actions with objectives through job descriptions, training programs, performance evaluations and compensation — all focused on a well-defined set of competencies. A key leadership responsibility is linking strategy to rewards, then holding people accountable — rewarding those who contribute the most. Unfortunately, the other side of accountability is the reality that if someone isn't performing, they need to either be brought up to speed or let go.

Once again, a prospective buyer will be interested in a clear explanation and documentation of your compensation and rewards system and how it contributes to the success of your company.

Communicate in Meaningful Terms

Few people are natural born communicators. Good communication skills are honed over the years, and some people never master it.

But open communication is absolutely essential to a successful business — and it is also crucial to a successful transaction. As you start to assess the "people issues" in your organization, ask yourself these questions:

- How do you currently communicate with your team? Through regular, structured business meetings, well-written employee materials and ongoing open dialogue with everyone on your team?
- Have you regularly shared your vision for the company with your employees? Is everyone on your team aware of the periodic or annual goals you've identified for the business?
- Do your team members understand how their roles fit into the overall performance of the company? Do you keep them abreast of the company's performance, and thank them for their contribution to the company's success?

To ensure that your people "get" what you're sharing with them, communicate early and often — and tailor the method to the information and audience. Broad goals and high-level strategy can be dispersed to all employees in emails or letters from you, supported by team meetings. The "translation to expected behavior" will occur mainly through individualized talks.

Communicating takes time, but making it a priority will pay dividends in performance for your company as well as your employees. A prospective buyer also will be interested in your communication practices as an essential element in the human side of a well-managed propane business.

Lead Your Team into the Future

People want and need a strong, consistent leader, especially during periods of change. In your years of building a propane business, you have been that leader for your team. And that doesn't change as you consider a potential strategy to sell the business and exit at some point.

In the first article of this series for propane marketers considering a sale ("Ask the Right Questions Up Front"), I suggested that you make key decisions in advance based on your values and priorities. That includes how strongly you feel about retaining the employees, name and culture of the business you have built.

Your personal role also will be a key topic in discussing a possible transaction with a buyer. So you need to evaluate your own goals to decide how you want the transition to work — continue to run the business for a period of months or years, exit immediately, or define some new role.

Long before culminating a transaction, you can take actions that will help your employees post-sale. One is to push training, including cross training among jobs, which improves your people's value to any employer. Another is to find a buyer that does not have a local presence, since duplication and layoffs are more likely if you sell to a competitor with an overlapping footprint. Those buyers may be inclined to retain their own personnel vs. employees they do not know.

When the time comes to share your plans for an ownership change with your team, you should continue to provide leadership by communicating what the transition will mean to the business and the employees. Exhibiting consistent leadership and spelling out expectations in language that everyone understands will be crucial to the transaction's success.

Evaluate your 'human factor

- **Does your hiring process find "the best?"**
- **Do you offer training and advancement?**
- **Are regular performance reviews in place?**
- **How will your employees fare after a sale?**

Your team looks to you, and you should work closely with the acquiring organization to help your people understand expectations and the process for making any changes they will see.

Just as the human factor is important to today's business performance, connecting effectively with the people in your company is critical both to a potential sale of your propane business and to its future success as an ongoing part of your community.

3 Take Steps to Ensure a Successful Transition.

You've worked hard to build a high-quality propane business. Over the years you have put the right team in place and grown the operation. The business meets your customers' needs and provides a rewarding career. When you get to the stage of considering a personal exit strategy, one of your top concerns is how to ensure a smooth transition for "your baby" — to hand off to a new owner who will keep your legacy intact and treat your employees and customers fairly.

Networking with industry colleagues, you may hear horror stories from propane marketers who sold their businesses: The new owners came in and laid off employees; customer service declined and the complaints multiplied; workers who stayed saw their benefits cut; entrepreneurial, family-style management was replaced by bureaucratic mandates from headquarters.

From first-hand experience with more than 100 acquisitions over the years, plus untold numbers of conversations, it's clear that a poorly handled transition sometimes leads to regrets – while a smooth integration can serve as a source of lasting pride for owners and their communities. The difference depends on the partner – and your actions. Here are some ideas for ensuring a successful transition.

Steps to Ensure a Successful Transition

- Plan your own due diligence
- Get first-hand perspectives
- Prepare to help your employees
- Seek counsel on your decision

Plan Your Own Due Diligence

Just as buyers of a business want to take a thorough look under the hood before writing a big check, you as a seller also should plan a process of due diligence. From the earliest stages, even before seeking a bid or starting negotiations, you can develop a process to help ensure that you find the right buyer.

Begin with a list of questions based on the priorities you hold dear:

- How do you define your legacy – the business name, operating philosophy, location or service area?
- What is most important in your customer relationships? What do you not want to see changed?
- How do you want your employees to be treated after a sale?
- How do you see your personal transition in a transfer of ownership?
- What do you want to see in future community relations, especially if you continue to live there?

Next you need to consider the universe of prospective buyers. With a list of possible buyers, whether it is crosstown competitors or a national or regional powerhouse, you should be prepared to look into each one:

- Is the prospect a reputable company? Do they do what they say they're going to do?
- How is their customer service? Do they churn through customers or have long-term relationships?
- How are employees treated in the company's existing operations? Are there layoffs? Changes in pay or benefits? Opportunities for advancement?
- Does the company support active involvement in local communities where it operates?

Customer Service Representatives like Brenda at Campora Propane are often the primary contact with your customers. Ensure you have the right people in place as you begin to plan your transition.

When you start having even preliminary conversations with possible buyers, plan your side like a job interview — from the first contact, you are beginning to evaluate their ways of doing business.

Get First-Hand Perspectives

Reaching out to industry colleagues you trust – and perhaps organizing a road trip or two – will help you gather first-hand perspectives on the experience of propane distributors who have sold their businesses.

Consider calling one or more former propane marketers you know who have sold. Ask them to share their transition experience with you. Are they pleased with their decision and with the company they selected? Have their employees been treated well since the transaction? Are their customers being cared for? Were there any surprises or "lessons learned" in their experiences?

Due Diligence on Potential Buyers

- **Do they have a reputation for integrity?**
- **How well do they run their businesses?**
- **What are their customer service practices?**
- **How do they treat (and compensate) employees?**
- **What kind of culture do they cultivate?**
- **Do they engage and support their communities?**

In addition to talking to former business *owners,* consider taking your due diligence a step further and getting a different — perhaps even better — perspective from *employees* who have lived through a transaction. Ask them first-hand if their working conditions stayed the same or improved, if they are happy with the new company's culture, and if they believe that management is treating them fairly.

If uncovering post-sale experiences is important to you, consider getting in your car — or hopping on a plane — to visit an operation that is now owned by the company that wants to buy your business.

Getting real-life, candid feedback from employees who have lived through a transaction can be extremely enlightening. Asking a prospective owner about site visits may also reveal something — see if he/she encourages you to drop by a location and let you hear first-hand how the transition has gone.

A key goal is to select a buyer that will offer your employees and customers a culture that is the best fit. Whether the new owner is one of "the majors," a large regional operator, or a rapidly growing company that is seeking well-run marketers looking for a good "home" for their business, the type of culture in the buyer you select will be instrumental in ongoing success for your community.

Get Ready to Help Your Employees

Confidentiality is the norm during negotiations, but once you have an agreement in place, you need to plan the best way to help your employees absorb the news and make the most of the change.

It's only natural that employees will be fearful about what the transaction means for them. The impact is intensely personal: Will they lose their jobs? Will their benefits be cut? Will their roles change? Will the "new guys" be difficult to work for? And will there be a lot more red tape and bureaucracy?

It's also natural that employees may be angry with you at first. After all, they joined the company to work for you ... they didn't plan to work for someone else. Plus, you may have caught them by surprise with news of the sale, and change and uncertainty can be unsettling.

Thinking ahead to how you will communicate the fact that you sold the business and how the transition will play out will be extremely important. It helps for you to carefully plan your answers to questions like "Why are you selling?" or "What are the new owners like?" You'll want to plan both customer and employee communications in close collaboration with the team you choose to buy your business.

Example: One of EDP's Companies

To illustrate a successful transition and how to achieve it, let me share the story of Ebbetts Pass Gas Service. This is a retail propane distributor in northern California that was acquired by EDP in late 2018.

Yolanda and Harold Mosbaugh started the company in 1942 and — with help from family members — ran it for 75 years. The operation had a dedicated team of longtime associates and had developed a reputation for exceptional customer service.

As the transition was announced, we introduced General Manager Don Vicari, who was a seasoned propane professional with great communication skills. Don was the right person to step in and make the employees feel comfortable. He made it clear that — although the business was now owned by EDP — he valued their experience and commitment to the company, and looked forward to working together to continue to grow the business.

Don quickly took steps to automate processes that had long been manual and had a new website created, something the company had operated without. He also became active on social media where he began highlighting long-time employees. His support and recognition of the talented team he inherited at Ebbetts Pass made everyone feel welcomed and valued.

It's important to mention that Yolanda Mosbaugh, at 96 years of age when she sold the business, wanted to continue to be involved. Don embraced her involvement and today — at the age of 99 — she continues to visit the office frequently. Plus, Yolanda's grandson, who was an employee at the time of the acquisition, remains a valued member of the team after 30 years with the company. It's not often a third-generation family member remains involved after a company is sold!

Fast forward three-plus years and most of the original team members remain, and Ebbetts Pass Gas Service has continued to grow — organically expanding its customer base by more than 10% and exceeding all of its sales goals.

Ask Employees to Give it Time

For employees, the hardest time in the transition to new ownership is the first 30 to 60 days. Emotions run rampant, rumors are inevitable as people go to "the grapevine" for answers, and employees who are most inclined to be negative are often the most vocal.

You may want to share a clear set of talking points with employees on Day One, spelling out what you and your buyers know about the effects of the change on customers and employees.

Encourage all of your employees not to rush to judgment or make a major decision affecting their careers — at least for one or two months. In those first few weeks, employees will get to know the new owners and, if there is one, new General Manager. They will get specifics on their jobs, pay and benefits. And they will get a

Former Ebbetts Pass Gas Service owners Yolanda Mosbaugh and her grandson, Rodney Korbelik — a 30-year employee — appreciate General Manager Don Vicari's leadership.

feel for how the company does business. Having answers will be reassuring.

Seek Counsel on Your Decision

The people you are closest to — and sometimes even new acquaintances with the right experience and values — can offer sound counsel to guide you through the process of approaching an exit from the business you love. Relationships with fellow propane pros that you know from participation in industry associations or activities are an invaluable source of wisdom. Don't be afraid to ask for advice.

If our team at EDP can share information or perspectives on the process, please reach out to us and we'll be happy to help you along the way.

Thomas E. Knauff, CEO of Energy Distribution Partners (EDP), brings 35-plus years of executive, operations and financial experience in the propane industry.

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DISTRIBUTION
PARTNERS
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10 South Wacker
Suite 3325
Chicago, IL 60606
(312) 254-5954