

# Stepping In

## New Owners Discuss the Challenges of Buying a Business

**S**tepping in as the next-in-line owner of his family's business has added significantly to Pete Klingbeil's to-do list.

One of his tasks was earning the trust and respect of customers who had done business with his dad for decades and didn't recognize the 20-something as anyone but a young newcomer.

All of the other employees of Klingbeil Lumber in Medford, Wisconsin, were at least 10, if not 20, years older than Pete, and his father Bill had been an owner for nearly 40 years.

"Oh, you're Bill's boy," customers would say when Pete introduced himself.

But he has built rapport over time with staff and customers by working alongside them and serving them—spending months loading trucks with lumber, training employees to use a new POS system and putting in 12-hour days.

Building those relationships has been a process, though, and he hasn't outgrown being "Bill's boy" to all of the contractors and homeowners who buy supplies from him. However, Pete is learning by doing, and he is certain that

as his dad hands over more responsibilities—such as managing payroll and running the lumberyard—he will be ready to be the boss when Bill retires in two or three years.

In the home improvement industry, businesses like Klingbeil Lumber regularly pass from one owner to the next, often through generations of a family, to a trusted employee or to an outside buyer. Every succession story is different. But each one involves months or years of planning and preparation, even if the stages of transition vary in order and style.

In the following pages, we'll share perspectives from retailers who have purchased or are working to buy businesses. This article is the first of a two-part series on succession planning, and offers the perspectives of different types of buyers who are either the next generation of a family to take over or are the first nonrelatives to come in as owner-operators.

We'll provide specifics on how the retailers found advisers, figured out financing and prepared to lead.

Next month, you'll hear from the sellers of those same businesses and learn their side of the stories, including the processes they went through to sell.



**Brandon Buckalew**  
EGF Hardware Hank

Buckalew and his father have been working through a five-year transition plan. Brandon is buying the business from his parents later this year.



**Pete Klingbeil**  
Klingbeil Lumber Co.

Klingbeil began buying the business from his father five years ago by making payments from his salary. His dad plans to retire within two or three years.



**Chris Hughes**  
Hardware Plus

As a Hardware Plus employee, Hughes had several years to learn the ins and outs of running the business before purchasing it in 2008.



**Jim Stoner**  
Ace Hardware of Cape Haze

Stoner came across Ace Hardware of Cape Haze when he was looking for a business to buy, and bought the store in 2014.

### Stage 1: Preparing to Buy

- Make a financial plan.
- Identify a home improvement business to buy.
- Consider if you and your family are emotionally ready for the added responsibilities.



### Stage 2: Finding Your Advisers

- Find a CPA who can look closely at financials.
- Hire an attorney who can guide you through contracts and other paperwork.
- Talk with mentors who are small business owners.



### Stage 3: Choosing What to Buy

- Choose a business to help achieve your goals.
- Decide whether to rent or buy a building.
- Consider purchasing adjacent property so you have space to grow.



### Stage 4: Financing the Purchase

- Pay cash for a down payment.
- Obtain loans to finance.
- Ensure you have money to cash flow the business after taking over.



### Stage 5: Setting a Timeline

- Meet with advisers.
- Make sure you're ready to buy.
- Work with the owner to plan a smooth transition in leadership.



### Stage 6: Taking Charge

- Learn about the company culture from the owner and employees, and how to lead in it.
- Finalize the purchase agreement.
- Congratulations! You're the boss!

### Deciding You're Ready to Buy

Buying a business is no small task. The first step is determining that you are in fact ready and willing to do so. Have you taken a close look at the big picture? The day-to-day duties? The store's finances? Your personal finances? Are you financially ready and able to buy a business?

It's important to have a well-thought-out plan before you take the step into ownership. You'll need a strong credit history, cash for a down payment and the ability to cash flow the business going forward.

For many new owners, especially those who have grown up or worked for several years in the business, buying is a decision that's been a long time coming—it's just been a matter of when the transition will happen.

Even though a transition may have been discussed, many new owners may not take a more in-depth look at the process until they are approached by their parents or the owner about buying the business.

Brandon Buckalew of EGF Hardware Hank in East Grand Forks, Minnesota, is currently working to buy the store from his parents, and has plans to finalize the purchase later this year.

His dad, Craig, approached him several years ago about the possibility of purchasing the store in the near future. When Brandon expressed an interest, the two set up a five-year transition plan, which has included Brandon taking on more responsibilities over time and learning more about the financial side of the business.

"I don't have a business education or an accounting background or anything like that, so my dad and I would sit down and go over balance sheets quite a bit until I could make more connections," he says.

Jim Stoner, owner of Ace Hardware of Cape Haze in Cape Haze, Florida, has a different story. He had

built a career in the construction industry and had known for some time that he wanted to operate his own business. He bought the store after he realized he could use his management and business acumen to make his own company successful.

Stoner looked at several hardware stores before ultimately choosing to purchase Ace Hardware of Cape Haze, which he found through a broker.

"I liked the location, the size, the co-op and the owner," Stoner says. "Everything looked good with the financials, and we decided to move forward with the purchase."

### Identifying Advisers

Buying a business can be a complex process, and it's important to find a team of advisers who can successfully guide you as you take this big step. No purchase should be made without advice from a CPA and attorney who can help you make sure you have your financing in order and advise you on any legal issues that may arise.

There are plenty of contracts you'll have to read through, and they contain lots of legal jargon. A good lawyer can help you better understand what the paperwork says, and let you know if he sees any red flags. He can also advise you of any terms or agreements you will want to be sure to include in the paperwork.

And a good CPA can sit down with you and your balance sheet and help you make sure you are making a sound financial investment. He can also help you assess the value of the business and figure out if you do in fact have the money to buy the business. Remember, you not only need the cash to purchase—likely hundreds of thousands of dollars—but you'll also need to have the money to cash flow your business. Make sure you have a full financial understanding of what it's going to cost throughout the purchase process and beyond.

Make sure your team of advisers understands the independent home improvement business, or is willing to learn about it. The more knowledge your team has, the better advice they can give you as you take this big step.

When Chris Hughes, owner of Hardware Plus in Osceola, Indiana, was planning to buy his business—which he purchased in 2008—he worked with an attorney to set up a corporation, which protected him legally, and worked with his CPA to make sure he had financials in order. His CPA was the same one the then-owner had used, so he knew he was teaming up with someone familiar with the industry.

Hughes also spoke to a couple of other retailers who were going through the transition process to get some feedback and discuss what had and hadn't worked for them.



Even though **Chris Hughes** worked at **Hardware Plus** for years before buying the store, he discovered he still had plenty to learn about an owner's roles and responsibilities.

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—Brandon Buckalew,  
EGF Hardware Hank

The Buckalews spoke with a representative from their distributor who handles taxes and other financials, and got some advice from him as they planned the transition.

Stoner, meanwhile, says he can't say enough good things about his CPA. "A good CPA firm can advise you along the way and is worth every penny. A lot of people can look at a spreadsheet, but where you might miss something critical, a good CPA will find it for you." He also brought a couple of brokers and an attorney on board.

Some succession plans may involve a smaller team.

The Klingbeil family didn't have a team of advisers who helped with the plan, although they did work with an accountant.

Pete's uncle, Tim, who also works at the store, serves as a mentor and adviser to Pete as he works to take over the store. Pete's father asked Tim to serve as Pete's mentor to help him grow in the business while avoiding potential father-son conflict.

"My uncle and I are very close, and we're able to talk like business partners," Pete says. "We go to each other to make decisions."

### Picking a Financing Route

Financing is key to the success of any business purchase, and the retailers we interviewed took a variety of approaches to coming up with the funds to buy their stores.

Buckalew is putting down a percentage of the total purchase when he buys the business this fall, and will make payments over time to pay for the rest.

At least, that's the plan—it also depends on what the bank says.

He and his father already agreed that if interest rates were too high or the capital Brandon put in wasn't enough, they would hold off on the process. "My dad didn't want to put me in a position to fail," he says.

There are other ways to finance a large purchase. Stoner used a combination of a loan through the U.S. Small Business Administration and his current assets. He had built up a substantial retirement account while he was working in construction, and rolled the money into a self-directed 401(k) so he could invest it in the purchase of Cape Haze Ace. Stoner's self-directed 401(k) allowed him to choose what businesses to buy stock in, and allowed for that stock to come from his own company. The SBA loan covered the remainder of the purchase price.

Stoner says it's important to be thorough, not just in looking at financial documents, but also when looking at the business and everything that comes with it—especially when inspecting a business prior to closing on it. "Know what you're getting," he says. "Don't assume everything is in tip-top shape." He didn't catch that a forklift needed significant repairs, and says he would've

noticed the problems if he had been more thorough in evaluating the value of the business assets, including equipment.

"It's up to the buyer to find these things out," he says.

Pete Klingbeil, a fourth generation owner, is taking yet another approach, with payments toward his business purchase automatically coming out of each of his paychecks.

### Planning the Transition

As you're planning your takeover, don't focus so much on the financial side that you forget about the emotional toll of being on call 24/7, handling employee conflict and solving problems for unhappy customers.

Taking over a business is no easy task. There will be long days, sleepless nights and plenty of problems to solve. Of course, there will also be great rewards.

Some retailers spend several years making a succession plan. For others, it's a much shorter process. Buckalew and his parents put together a five-year plan to transition the store to Brandon, and he's glad he's had that time to work on preparing.

"I would suggest anyone who has time to get involved in the business before taking over ownership should do so," he says. "It was important to get a handle on managing employees and other aspects of the business before it was up to me to do it on my own."

His parents still stay involved in the store and plan to help out on the salesfloor once the transition is complete. However, they will gradually work less and less.

"My dad really enjoys working with people and helping them, and he knows the products and the projects well," Brandon says. "He's a big asset to the business, of course. I think he will like being able to not have to worry about the business and just have fun helping people."

Hughes says he was happy to have a couple of years to plan the transition with former owner Mike Monserez. They spoke with their co-op's territory manager to make him aware of the changes, too.

"We knew one day it would happen, so we were able to be prepared even though we didn't know exactly when it would happen," Hughes says. "We planned ahead well, and everything went smoothly."

Monserez, too, cut back on time at the store as he transitioned ownership to Hughes. They planned out what days Monserez would work and how much he would earn.

Stoner's transition was a much quicker one. He first spoke with then-owner Harold Staats in December 2013 and purchased the business less than seven months later.

After closing, Staats continued to work at the store three days a week for an additional three months while Stoner learned the ropes of

**"It's a whole different world when you're the one making the schedule and signing the checks."**

—Chris Hughes, *Hardware Plus*

running the business. One of Staats' managers also stayed at the store for three months after the purchase before transferring to the other store Staats still owns. The other employees stayed at Cape Haze Ace with Stoner.

"This way, I wasn't going into it totally cold," Stoner says. "It was an extremely good transition."

Pete Klingbeil is in the process of purchasing his family's business, but his dad, Bill, has no plans to slow down just yet. Bill expects to retire in the next two or three years, but right now, he's still working 40 to 50 hours each week.

Pete says he doesn't feel ready to take over the business yet, but Bill is progressively giving him responsibility, and Pete knows he will be prepared when his dad chooses to retire.

In the meantime, he also knows he still needs to learn more of the financial side of the operation, and he's still learning about taking inventory and building relationships with vendors.

He handles most of the advertising and hiring, and he's learning more about the lumber side of the business. When they switched POS systems, Pete handled all the employee training. He also led the company's change in distributors in 2014.

"I'm doing more day-to-day activities than I used to," he says. "I'm not just sitting around waiting for the business to be mine."

Buckalew started with human resources responsibilities, including payroll, scheduling and hiring new employees. Once he'd gotten some experience there, he also took on advertising and marketing duties and then continued to add additional tasks over time.

Hughes found that working with employees, especially on tasks such as scheduling, was the biggest challenge.

"Mike told me the most difficult part of running the store would be the employees," Hughes says. "I was working elbow to elbow with them and thought he was crazy, but he

was right. They're great people and good workers, but it's a whole different world when you're the one making the schedule and signing the checks."

Hughes also brought more technology to the store, a task Monserez had been uncomfortable with when he owned the business. Hughes was instrumental in getting the store on its first POS system in 2005 and says the data from that, coupled with his co-op's rewards program, helped him reach more customers and bring in more sales in a struggling economy during the recession years.

### Are You Ready to Buy?

Stoner encourages anyone who has the opportunity and desire to purchase a business to do so—and sooner rather than later, if possible. In fact, he wishes he'd had the opportunity to buy his own business many years earlier.

"If you believe you can do it successfully, don't wait—go for it," he says.

Keep in mind that it's important to know what your goals and wishes are, but also that you need to keep the seller's ideas in mind as well. In the end, both parties need to think about what's best for the company.

"I don't think the seller can be so in love with the way things are that he or she isn't willing to change, and the buyer can't be so in love with the planned changes that he or she isn't willing to bend on them," Buckalew says.

If you're thinking ahead about purchasing your family's business or the business where you currently work and want a better idea of whether you're ready to buy, *Hardware Retailing* can help. Go online to [TheRedT.com/buying-questionnaire](http://TheRedT.com/buying-questionnaire) for a questionnaire to assess how prepared you are to take over the business. ➔

## All in the Family

Buying a business from a family member has the potential to become a complicated process. To look at the family dynamic and how it could affect the transition of a business, read *Hardware Retailing's* Q&A with Wayne Rivers, co-founder and president of the Family Business Institute. Part of the Q&A is published on Page 74, and the rest is available at [TheRedT.com/succession-expert](http://TheRedT.com/succession-expert).

This article was written by *Hardware Retailing* editors Kate Klein and Liz Lichtenberger.



Jim Stoner bought Ace Hardware of Cape Haze after negotiating a deal with then-owner Harold Staats.