

THE GARAGE, INC. - CASE STUDY

Date Deal Closed: March 15, 2005

THE COMPANY

The Garage, Inc. is a nine-year old award-winning, full-service advertising agency located in Bend, Oregon. It has a reputation as being the most creative agency in its geographic area. The Garage provides a full array of marketing services including marketing strategy consulting, brand management, and the production of all media including print collateral, print advertising, broadcast advertising, interactive applications & web site development, and e-marketing strategy & development. The company's strength lies in its ability to integrate every aspect of the marketing mix to ensure a profound impact of communication. Furthermore, the strength of its client relationships have contributed to consistent success. Its client roster includes local (Central Oregon) companies as well as companies nationwide in industries ranging from real estate to high-tech to the arts.

THE ASSIGNMENT

The owner of The Garage, Inc. sought to exit his business to free up time and capital to devote to a new business venture, Fisheyesoup.com.

SELLER'S GOALS

- Get out of active involvement with the business in a reasonable time frame
- Get as much cash out of the deal as possible to use to capitalize his new business, rather than carrying a large contract
- To have a quality new owner who would continue to provide the same level of quality service to his clients and maintain good relations with his employees

THE CHALLENGES

- Being a small creative business, some acquirers would be concerned that continued business would largely be tied to the identity of the seller rather than the business.
- Many acquirers may want to have an earn-out or hold-back to ensure that there will not be a loss of clients or employees immediately after the transaction closes.
- The business is located in a small geographically isolated market: Bend, Oregon.
- Due to the competitive nature of the industry, there was concern that if other competing businesses learned of the desire of the owner to sell the business, that it could lead to an erosion of business due to predatory practices by competitors using the knowledge of the sale.
- There are few tangible assets to the business – some potential acquirers would argue that they could better use the capital necessary to acquire The Garage, to organically grow an ad agency.

PRICING STRATEGY DEVELOPMENT

The seller wanted to generate as much interest as possible, and was concerned about pricing the business too high resulting in a possible lengthened sales time frame. Consequently, after determining an estimated range of value using Codiligent's proprietary business evaluation program, the business was priced at a very realistic level, and the decision was made to be very firm on price and terms.

POSITIONING & PACKAGING

Codiligent's triad packaging system consists of the development of a teaser package, a confidential package, and a due diligence package.

There were a few primary ways that the business was positioned:

- That the business is located in a resort-lifestyle community – it provides someone who is already a successful employee in the industry to continue doing what they are doing but from a geographic location that offers a high quality of life. Rather than apologizing for the company's location in a small isolated area – we focused on its positive lifestyle attributes, and good proximity by air travel to Portland, Seattle, and San Francisco. Two-thirds of the 7-page teaser package, and one-third of the 75-page confidential package focused on selling Bend's resort lifestyle and positive demographic trends.
- The business, while small, is also quite successful – having won many awards, and producing very high quality work for satisfied clients while maintaining solid steady growth since its inception. The confidential package included information on the awards won, sample work that instantly conveyed the quality of work the company was known for, and positive press.
- That a motivated owner could easily continue to build on the company's success through increased regional & national marketing.
- That a new owner could capitalize on, and gain recurring revenue from under-utilized proprietary web-based tools that the company developed.

MARKETING METHODS

- Teaser Packages were sent to over 200 carefully selected advertising executives primarily working for large agencies in rust belt / concrete jungle cities (so that a mild-climate resort town may be attractive). These prospects were followed up with by phone and e-mail.
- Oversized postcards were sent to 850 people in the advertising industry in select cities nationwide.
- A classified newspaper ad was placed in The San Francisco Chronicle.
- Placed web-based ads on five major national and international business sale websites.
- Contacted individuals in Codiligent's buyer database for whom this business appeared to be a good match.
- Codiligent did not do general newspaper advertising of this business in the state of Oregon in order to help maintain confidentiality.

PROCESS & RESULTS

In early spring of 2004 discussions began with Kevin, the owner of The Garage, about a sale of the business. For the next six months Kevin prepared the business for sale. During that time Codiligent worked with The Garage in analyzing the business, developing quality packaging & marketing materials, and researching likely acquirers.

In September, all of the marketing activities were put into motion at approximately the same time, in order to encourage as much competition for the business as possible.

Codiligent received 17 responses to its marketing efforts, and 8 signed non-disclosure agreements were received from qualified acquirers. Five of those acquirers exhibited serious interest and included three principals from large advertising, marketing, or PR firms in Chicago and St. Louis. One of the prospective acquirers consisted of a married couple, Art & Marie, who had decades of advertising and marketing experience and seemed to be an ideal match for the personality, culture, and creativity of The Garage. Due to the seller's strong comfort level with these acquirers, in early November of 2004 verbal agreement was reached on moving forward. However, there were some deal structure & financing issues that needed to be worked out – there was mutual agreement that these issues should be explored with the assistance of Codiligent to determine the best way to structure a win-win deal before crafting a written Letter of Intent. Codiligent assisted by packaging information on the business and shopping financing with banks.

To the seller's credit, financial performance continued to improve during the sales process. Consequently, while the seller agreed to honor the asking price for Art and Marie, due to serious interest from other buyers the decision was made to increase the price for other parties by 12%. This discouraged any re-negotiation of the full price offer after due diligence. Even at the increased price, the other interested parties desired to look at the business further if the deal struck with Art & Marie fell through.

In January of 2005 a formal letter of intent was signed. Codiligent managed the due diligence process, and an ownership transition plan was established. Because of a variety of timing issues, both parties agreed to close the transaction in March. Due diligence was completed in February, the purchase agreement was signed in early March, and the transaction closed on March 15, 2005 for the full asking price in cash.

All of the seller's goals were realized. Kevin had a plan for a reasonable time frame for transitioning out of the business, he received the full asking price in cash, and he was very comfortable with the skills, quality, creativity, and ethics that the new owners brought to The Garage. The company is rapidly being taken to the next level of success. It was truly a win-win deal.