MassMutual

Case Study

Tune-Up Revs Up Valuation Of Midwest Parts Stores

Car mechanics know peak results often depend on a host of small, interrelated performance adjustments. That same approach worked to build market value for a group of auto parts stores in the Midwest industrial region.

Case Scenario

In less than a decade, the 10-store franchise, which we'll call Superior Parts, expanded to 12 outlets and drove its market value from just over $1.5 million to $13.5 million.

The process began in 2012, when CFO Joe Jackson (name changed for privacy), sought the counsel of Indiana-based Woolman Financial Advisors, whose founder and president Gary Woolman was Jackson's financial professional.

Superior's owner had announced plans to sell, and Jackson wanted advice on how to acquire the business. With Woolman's guidance, he established an employee stock-ownership plan (ESOP) that transferred ownership to Jackson and several other key employees.

Jackson then enlisted Woolman to help manage Superior's ESOP and the 401(k) plan, to secure company-owned life insurance on key employees. They also set up insurance-funded buy-sell agreements to streamline ownership transfer in case any major stakeholders had to exit the company.

The Challenge

In 2015, Jackson engaged Woolman's services again — this time to determine Superior's market value. The chief intent was to confirm the company was adequately insured, but the valuation also gave Jackson an unpleasant shock: The business was worth just $1.58 million. He had thought it was worth considerably more.

Fortunately, Woolman and his son and business partner, Brian, had recently been certified in a MassMutual-endorsed program called ValuCompass. By using the best practices in the ValuCompass program, they were able to identify areas of focus for improving the company's worth. Jackson welcomed their insights and acted immediately.

One key takeaway: Jackson's hands-on management style was hampering employees. By empowering subordinates to make more decisions and providing additional training, the team grew more capable and responsive and employee satisfaction quickly improved.

ValuCompass also helped identify areas where operations could improve, prompting a series of incremental changes for the better that added up to a more positive customer experience and increased sales, including:

- New signage in each store to help customers find items they needed.
- Shifting promotional items to shelves at the ends of aisles to make them more prominent and boost sell-through.
- Installation of security cameras on loading docks to reduce loss.
- Use of those same cameras to improve inventory handling.

Thanks to the new focus on operational improvement, Superior was able to open three new stores and close one that was underperforming.

Jackson also made a personal decision: In mid-2020, he told the Woolmans and his colleagues that he wanted to sell the business by April 1, 2023.

In preparation for the sale, Brian Woolman assembled a "buyer's book" that summarized Superior's financials, documenting operational improvements that fueled revenue growth. The book also highlighted the company's importance to the transportation, heavy-equipment, and construction industries at the heart of the region's economy.

As potential buyers began kicking the tires, many noted that Superior's team culture and operational excellence made it a standout opportunity. Finally, one suitor submitted a bid well above the range he'd been negotiating, with the goal of ruling out potential rivals. The strategy worked. Superior sold for $13.5 million, for a gain in market value of about 750% over eight years.

The Company Today

The deal was made just weeks before Jackson's deadline for cashing out. When the sale is finalized, he'll pocket about 15% of the proceeds — more than $2 million, or roughly 30% more than the entire company's 2015 valuation. By recognizing the importance of setting an exit date, sticking to it, and understanding the value of his business, Jackson was able to establish goals that allowed him to work strategically on his business so that when the time came for him to leave, he was able to do it on his terms.

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