

Remarks by Gail Zelizky

Overview of Background

1. In 1949 my father put together 11 independent owners of liquor stores and launched Foremost Liquor Stores, a chain of independent retailers which advertised under a common name. This was long before Ray Kroc started the McDonald's franchise. Foremost grew to a group of over 200 stores in many states throughout the United States with advertising programs in Florida, New York, California and Indiana. The company was named Foremost Sales Promotions, Inc. and it owned no liquor licenses so that we could work with distillers, wineries, brewers and wholesaler/distributors to create a co-op advertising program that would enable the retailers to compete against the big corporate chains.
2. In 1977 I joined Foremost. In 1982 I became President and Chief Operating Officer overseeing all marketing, advertising, sales promotions, merchandising programs and worked with the franchisees to increase their overall profitability. We allowed the programs in New York, California and Indiana to dissolve one at a time so we could concentrate on Chicago and Florida.
3. We had a strong group in Florida. There were advertising programs on both the east and west coasts. In 1985 I bought a buying group of independent retailers in the northern part of the state. The man who had been running the group stayed on and we created a 10-year buyout agreement with a non-compete clause. There were over 100 retailers in the group. After several years he walked out and we were left to operate the group on our own. The man who ran the advertising programs in the other parts of the state took over the management of this group as well and we created an advertising program there. In 1992 I sold that group to an operator in another part of the state. He also bought the advertising groups. He paid cash up front and we recouped what we spent to originally buy the group and more.
4. In 1992 we also formed the first licensed cooperative buying group in the state of Illinois. 12 of our Foremost Liquor Store owners comprised the group. In 1994 we sold the rights to use the Foremost Liquor name in the State of Illinois to this group.
5. My son and I then went on to create Liquor by Wire. We soon changed the name to Liquor.com and were one of the first 1,000 fully functional sites on the web. In 1999 we were approached to take the company public. Because of the nature of the business with its strong federal and state regulations it had been hard to raise money independently. We built the company to a 3 million dollar business in 4 years and decided to give it a chance. Initial raises went well and we ramped up to 23 employees, brought in outside management and completed the S-1 which was accepted by the SEC. It was now March, 2000 and we were scheduled to go out

- on NASDAQ when our broker called to say he could not finish the deal. We were caught in the .com crash and eventually the business imploded.
6. Today, I am a business performance coach helping small business owners achieve the performance they expect. I consult with them on operations, financial understanding, strategies to grow as well as marketing and sales planning, alignment to goals and creation of business plans.

Entrepreneur Questions

1. *Tell us why you sold your business.*
 - A. I sold Foremost because, in Florida, an opportunity presented itself that could not be ignored. Here was an operator who knew and understood the business, was successful and wanted to grow. I was already thinking about change and knew we had to let go of Florida first.
 - B. In Illinois, the market was rapidly changing. We had lots of competition that believed in low pricing – of product and their service. We had become embroiled in a law suit which we instigated against the federal government on behalf of one of our suppliers and that took us away from our main business – both in time and resources. Also, we taught the marketplace how to do coop advertising so there was more competition for the supplier's dollar. And, perhaps most importantly, I was ready for a change.
2. *What were some valuable life and/or business lessons you learned from the process?*
 - A. I learned that you have to be true to yourself. Because I was in a family business it was very hard for me to make the break and leave my father without someone to run the business. While my son had joined us some years earlier he made it clear he did not want to take over the Foremost operation. My father had been spending more time away from the business, over several years, and was moving towards complete retirement. In the end when I sold the business he passed away only 1 month later. However, we did come to agreement that we should sell and worked together on the strategy that made it possible.
 - B. The most valuable lessons I learned were that you have to have an exit strategy that is agreed upon by all the players. In a family business, too, succession is an issue that must be dealt with early on, with specific stages set for the owner to withdraw and other family members or employees to take on additional escalating responsibilities.

- C. And, finally, to sell a business you must know who is right for buying. In other words, just because you want to sell doesn't mean you can. Who will buy it? Just as you have to sell investors on investing in your business you have to sell potential buyers on why they should buy your business. As with all business strategies you must be creative in your approach.
3. *How did you prepare your company to be sold?*
- A. First, I made sure my financials were in order and tax returns filed timely. Realistically, you need 3 years of solid returns.
 - B. Second, I looked around to see who could buy the business. In Illinois, it was clear that the retailers, themselves, were the best bet because they, like nobody else, understood the value of what they had in the name, Foremost. And, with us out of the picture they would have additional sources of income, but only if they could set up a separate entity to handle the advertising. I dreamt up the idea of their forming a licensed co-op and having the co-op purchase the assets of the business.
 - C. In Florida, I looked to the competition who was ripe to grow and suggested he purchase our name and program.
4. *What was the due diligence process like?*
- A. Not difficult - our financials were in order; our books open to scrutiny.
 - B. It took a lot of time and effort to handle the sales process, allow time to talk to the owners, walk them through the process and get them to sign on the dotted line.
5. *How did you look for buyers?*
See #s 1A & 3B
6. *What has happened to your company since it was sold?*
- A. As a testimony to the strength of our premise and our operation both Illinois and Florida programs are flourishing to this day.
7. *If you had to do it all over again, what would you change?*
- A. The changes I would have made would have come a lot earlier in the game. Looking back (which is easy) I would have turned the program into a full-fledged franchise and not been scared of losing stores in order to grow the program into a business that would have resulted in greater income when sold. I do not believe our business achieved its absolute potential.
8. *What advice would you give the business owners in today's audience?*
- A. Plan your exit strategy
 - B. Prepare your financials for sale
 - C. Be realistic about the value of your business

D. Identify potential buyers for whom buying your business makes sense

9. *What service providers and advisors did you find most/least valuable?*

Accountants and Attorneys – business-oriented ones

10. *How long did the entire process take, from the time you put the business up for sale through closing?*

A. About 1 ½ years for each business.

11. *If you were to start another business (or have already) how would you apply your lessons learned from the sales process?*

A. I would work from a strategic business plan. One that includes an exit strategy and clear vision from which to align goals.

B. From the start my financials would be geared to bottom line profit. When you are a small business owner you want to take cash from the business or pay for items through the business that leave no net profit. If you want to sell the business, the prospect expects to see profits and wants to know what true expenses are. You must plan for this and develop meaningful financials.

12. *Talk about the stress involved in the sale process.*

A. You always worry the deal will fall through.

B. There is anxiety about being scrutinized by another business person to the extent selling your business requires.

13. *How was your business valued?*

A. This is the tough part. We always believe our businesses are worth more than prospective buyers think. Privately-held businesses are often difficult to value because you have to factor in the sweat equity of the owner. Also, the net profits do not always reveal the truth. The best valuation in this scenario then is based on sales.

B. For the due diligence process, we created a separate operations scenario that showed the potential buyer the true value of the business and then allowed him to review financials in that light.

14. *What was the negotiation process like?*

A. Bringing in outside management when ramping up to go public was the most painful of all. In fact, doing so only put us in a much weaker position than prior to the management turnover. No one knows your business better than you and the people who have built the business from scratch. Our negotiation power went out the window when we bought into the idea of extraordinary wealth potential.

- B. Selling an ordinary business is child's play by comparison except that in a case like mine I had the emotional baggage that came from selling a 45 year-old family business.
- C. You must stay cool and as with all negotiation remember the outcome you are seeking.

15. What were some of the things that surprised you about the process of selling your business? What didn't surprise you?

- A. What surprised me was how anxious the buyers were to buy. In hindsight we undervalued what we had and got too excited that the prospects really wanted what we had to sell. Also, the emotion involved was very high, especially as you prepare to withdraw after the sale is complete.
- B. What didn't surprise me was that when it was all over I was truly ready to move on and didn't look back.
- C. What did surprise me was how easy it is to make the same mistakes again!