

BEFORE DECIDING TO SELL

Q U E S T I O N S ?

By David Ryan

Before deciding to sell your business, you should be able to answer the following two questions: Why are you selling your business?, and What do you plan on doing after you sell your business? Possibly you want to retire, maybe you have reached all of your personal goals for the business and are now looking to find another challenge, you are bored, burnout, have other interests, or perhaps you would like to sell only a part of the existing business in order to finance future growth of the remaining product lines or service areas. Whatever your motivation for selling, there are a number of things you should keep in mind as you go through the selling process.

Once a decision has been made to sell your business, it is time to get the company in shape to present to potential buyers. One of the most important things to do is make sure the company records are up to date, you should consider upgrading your financial statements, possibly to an audited financial statement. Not only does having your books up to date help you keep better tabs on the performance of your company, well kept records give potential buyers additional confidence about the value of your company. Don't forget that even if you know how good the margins are on your products, your suitors will have no way of knowing the true impact unless they can clearly see the value in the financial statements.

In addition to getting the books in order before putting your company on the market, it is important to have a good sense of what you think your company might be worth and why. This process will allow you to identify key points ahead of time that are likely to come up during negotiations. M&A Source Members are experienced and can assist you in valuing your company. Though you should be able to make a strong case as to why you think your company might be worth \$1 million (or \$5 million or \$10 million!) to a potential buyer, it is important to avoid putting a price tag on the company when you bring it to market. Prices for closely held companies are determined by a variety of factors, not the least of which is the buyer's desire to acquire the company. If your company has a particularly attractive product line or service niche, a buyer might be interested in purchasing the company for a reason beyond its current financial position, the buyer may have a synergistic motive. As stated in a previous Private Market Report there are four different types of acquirers, the Strategic Acquirer, the Corporate Style Acquirer, the Financial Buyer, and the Industry Buyer.

While it is good to encourage competitive bidding among a number of potential suitors, it is also important not to "over shop" your business when putting it on the market. One of the functions of an intermediary is to target only qualified and serious buyers. If too many people know your business is for sale, it can create the wrong impression, one of desperation or urgency to sell. Obviously, this is not an effective way to get the best price for your company. In addition, if word of your sale was to leak back to your customers they may lose confidence in your company and turn elsewhere for their needs. Not only does this have the potential of decreasing the value of your company by the time negotiations are complete, it can also require significant time and effort for "damage control." Finally, if your employees find out that the company is for sale their morale can suffer significantly, again potentially causing a loss of value through the loss of customers and revenue. The employees will need to see the benefits and opportunity in a sale, a qualified intermediary can assist you in all these areas.

Once a potential buyer enters negotiation there are several things that need to be kept in mind to help the process proceed smoothly and quickly. As with any negotiation you need to enter the process with a clear set of defined goals of what you want out of the sale. This will help distinguish key negotiating points from minor details. Remember many of the buyers are professionals, they have purchased a number of companies. For consolidator's their job and level of income often depend on getting your company for the least amount of money possible. Time in negotiations should be spent on key points - it is a time waste to haggle over things that are more or less detractives to the big picture. An M&A professional can keep negotiations on track and keep negotiations from drawing out longer than necessary, drawn out negotiations could even cause a buyer to walk away from the transaction. Also, do not forget that you have to continue to run your business during negotiations and it is therefore in your best interest to make the negotiating process as short and stress-free as possible. Remember previously defined objectives can help tremendously towards reaching this goal.

It is important to not let emotions defeat a sale. Some business owners are so proud of what they have built that they can not allow themselves to see anyone else being capable to run their company. Do not let the fact that the potential new owners may want to buy the company and run it themselves in their own fashion deter you from completing the sale, remind yourself of your purpose in selling your company. If you really think the business won't survive without you, perhaps you need to go back to square one and ask yourself again why you are putting your "baby" up for sale in the first place. On the other hand, if one of the buyers conditions of purchasing the company is that you stay on board for 12 to 18 months to help with the transition, it may be a worthwhile sacrifice to make in order to complete the sale.

Personalities need to be managed during the negotiation process. You have the personalities of the buyer, seller, the various accountants, attorneys, bankers to manage through this process. Keeping all these people on track and working in a positive fashion toward the conclusion of a transaction takes a great deal of time and knowledge. This again is where an intermediary will help tremendously. One of the more important things to do is to not share too much confidential information without getting something in return. For example, before showing a potential buyer the financial details of your company, it is not unreasonable to ask to see their financial statements to determine if they can facilitate the purchase at a price that is within the terms of what you are expecting. An intermediary can be critical in facilitating this exchange of information in a cordial manner. Not only does this keep the flow of confidential information more equitable, it will also discourage non-serious buyers and competitors who might just be shopping for a peek at your financial statements.

Finally, one of the most important rules to remember when striving for a quick and stress free sale is to not raise significant issues at the end of the negotiations process. Issues should be defined and raised earlier in the process so they can be fully and adequately dealt with during the negotiation process. There is no better way to create a deal breaking situation than not having your exit from the business fully planned.

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These were the added pull quotes!

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