GETTING OUT

By John R. Emshwiller

SOMETIMES THE HARDEST PART OF RUNNING A BUSINESS IS SELLING IT

Frank Rubin learned a lesson when he and his partner tried to sell their Anaheim, Calif., computer-software firm several years ago: You can't neglect running your business, even while your mind is on getting rid of it.

During several months of talks with one would-be buyer, Mr. Rubin and his partner devoted so much time to negotiations - a full 50% of their working hours - that they neglected to generate new orders. The company's sales, which had been as high as $7 million annually, plunged by more than half, prompting the potential buyer to call off the deal. "We essentially took our eye off the business," says Mr. Rubin, who ended up selling to a different buyer on less attractive terms.

Neglecting day-to-day operations is just one mistake made by owners intent on selling their business. Some owners sabotage their chances by placing too high a value on their firm - so high that sometimes they can't sell at all. Others let word leak out that their business is on the block, putting them at a competitive disadvantage. And some don't prepare for the sale far enough in advance, so that financial records aren't in good shape for would-be buyers.

"Business owners who spend years building their business are often ill-prepared for the very different process of selling it," says Richard Israel, president of Sponsored Consulting Services, a Los Angeles firm that specializes in selling privately held businesses.

Indeed, entrepreneurs sometimes have to change their entire orientation: The very self confidence essential to building a business can interfere with unloading it.

Ego Intrusion

An inflated ego nearly killed the sale of one Midwestern manufacturing company, says Gilbert Katten, managing director of Siebert Associates, a Stamford, Conn., mergers-and-acquisitions firm. The 70-year old-owner felt the prospective buyer wasn't paying enough attention to him.

The owner wanted to hear about how he was going to have to be on call and ready to fly back to the company from Florida on a regular basis," says Mr. Katten, who introduced buyer and seller. "Whether it was true or not, he wanted to know how important he was."

The buyer got the message in time to save the deal. The closing came after a half-hour of ego-massaging, during which the buyer assured the seller his advice would be needed even after the sale.

Ego also comes into play when deciding upon a company's selling price. It's hard not to take pride in your creation. After putting in years building a company, "you evaluate it so dearly," says Mr. Rubin, the software entrepreneur.

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He and his partner sought an all-cash transaction. Disagreement over price was a "significant piece of the differences" that made negotiations stretch out, he says. "We became too concerned with negotiating every little detail" rather than conceding on some points and closing the deal, he says. Eventually, Mr. Rubin and his partner lowered their price and settled for stock instead of cash from their buyer, Information Management Associates Inc. of Shelton, Conn.

Owners can also sabotage themselves if they're unrealistic about current economic conditions. In the late 1980's, when the market for selling businesses was strong, owners "kept saying they would wait one more year" to let prices rise further, says Jim Freedman, managing director of Barrington Associates, a Los Angeles business broker. Then the recession hit and prices plummeted. While the market has been recovering strongly in recent months, some owners "still can't get prices that they could have gotten six or seven years ago," says Mr. Freedman.

John Bartko of Forestville, Md., says he spent $34,000, about 18 months ago, on a formal valuation of his moving-and-storage company by an outside broker. But the broker put such a low price on the company that Mr. Bartko put the idea of selling "on the back burner."

Some people, in their eagerness to unload their company, are too willing to settle for a low price. Robert Girvin of Woonsocket, R.I., who sold his mountain bike manufacturing company in late 1993, sometimes wonders whether he got what it was worth. "If I regret anything, it is that I didn't try to get three or four companies vying for the opportunity to do a deal" as a way to boost the price, Mr. Girvin says.

It's tough to know how much a business is valued at. Though there are various ways to arrive at an asking price, none are fool proof. Mr. Bartko paid for an outside broker. Other people retain law, accounting or investment-banking firms. Some talk to fellow entrepreneurs who have sold businesses. Others simply look in the newspaper.

"People who haven't sold a company before grab the New York Stock Exchange listings and see companies selling at 20 to 40 times earnings, "says John F. Taylor, president of John F. Taylor & Associates, a Los Angeles business broker. "They don't understand those are multiples paid for large companies with depth of management and products, and a ready public market."

Small companies rarely have those attributes. For them, Typical prices range from five to seven times earnings before interest and taxes, says Bill Luke, managing director of Stevenson & Co., an investment-banking firm in Evanston, Ill.

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Though shopping a firm to plenty of buyers can secure a good price, it can also make it widely known that your business is for sale. If word gets around, employee morale and productivity could suffer, and customers could switch to other suppliers.

Even when a likely buyers has been identified, precautions are necessary, experts say. Along with standard confidentiality agreements, Mr. Taylor, the Los Angeles business broker, suggests a "tit for tat" approach in giving out information, especially when the buyer is in the same industry.

If the buyer wants to see your (financial) statement, ask to see his on the grounds that you want to be sure he can afford to buy," says Mr. Taylor. If the deal falls through, the seller will have as much confidential information as the buyer, and won't be at a competitive disadvantage.

Another mistake: failing to plan ahead for a sale. Buyers often want to see audited financial statements going back at least a year, to be sure that adequate accounting controls and business practices are in place. A sale might have to be put on hold while the books are audited.

In some cases, a buyer does want the owner's help in smoothing the transition. If a firm lacks strong managers underneath the owner, some argue, the owner should be willing to stay on after the sale for at least a year. Often an owner is a company's chief salesperson- and the owner's sudden departure could hurt relations with customers.

Lengthy Negotiations

Planning also helps when negotiations last longer than expected. Consider Quentin Searle, who with his brother last year sold a majority interest in their Amherst, N.H., precision-tool company. "I expected the sale to take seven to eight months." says Mr. Searle. "It took 14." The launch of a new product line, which needed funds from the sale, had to be delayed.

Being clear about what concessions you will and won't make can help shorten the "very wearing process" of negotiations, says entrepreneur Larry Goodman, who along with his brother sold their Torrance, Calif., screen-manufacturing company last year. One sore point was a buyer's questions about the adequacy of an environmental report showing no toxic waste problems at a company site. Disputes over whether another report was needed went on for weeks, threatening to derail the sale. "It took on a life of its own," says Mr. Goodman.

Though the buyer eventually deemed the report acceptable, Mr. Goodman says he should have stood firm early on, telling the buyer to "either take our report or not."

During the process, Mr. Goodman learned another negotiating rule, but this one affected his personal life more than his professional life. "Never call your (prospective) buyer on Friday," says Mr. Goodman. On several occasions, he found himself embrangled in late-in-the-week disputes. They "made for some horrible weekends."