

# How a Smart Businessman Sells the Firm

---

The selling of a business is not an everyday event for an entrepreneur. For most it is a once in a life time experience. The consequences are generally greater and have longer lasting impact than any business decisions previously made. The result of the sale can be either traumatic or rewarding - financially and emotionally. Given the stakes, the business owner owes it to himself, his family and employees to take steps calculated to maximize success - success not only in obtaining the highest value but also in the continued viability of the company after the sale.

To achieve this objective, savvy sellers approach the process with the planning discipline they impose on important day to day operations and strategy decisions. What follows is an overview of the winning strategies.

- Plan ahead in order that you might present your company to an acquirer in the best light
- Is selling now timely? Obtain the information you need to make an informed decision
- Identify the ideal candidate. A company that would be worthless to one might be worth millions to another.
- Position your company. Package the information the acquirer will need in the decision making process
- Set price and terms for your company that you can defend with confidence and credibility.
- Apply attitudinal and negotiating techniques to enhance your ability to obtain the best price and terms.

Following this procedure will eliminate many problems before they can occur thus saving extravagant expenditures of time, money and energy.

## **Plan Ahead**

Preplanning is one way the savvy seller maximizes his profit when selling. He understands that when it comes to selling, his company is a product. Its financial and operational record will result in its being deemed either a prize or a distress item to be acquired only at a bargain price. Explanations, financial reconstructions, or contingent earn-outs will not completely eliminate lack luster historic performance.

Here are some of the things you can do:

Have professionally prepared statements if you don't already have them. If the size of your company warrants, have audited statements prepared. While buyers generally conduct their own verification as part of their pre-purchase investigation, their level of

concern will be materially reduced if you have complete and professionally prepared statements.

Review your lease, if you are in leased space. Make sure you have 5 to 10 years remaining. If not, negotiate with the landlord for the additional time before you find the buyer. If you own your real estate, consider having it appraised now as part of your preparation and decision making. You may find your building alone is worth more, (with another use), than if the business and real estate were sold together.

The understandable desire to maximize personal wealth by understating earnings may have to be replaced with the desire to increase the value of the company. Items may be capitalized rather than expensed. Salaries, bonuses and redundant personnel may be trimmed. Inventory "cushions", travel and entertainment, charitable donations etc. might be reduced. Discretionary expenses should be curtailed or made clearly identifiable.

### **Is selling now timely?**

Only you can answer this question. However, in order to do so, you need information upon which to make an informed decision. You need answers to several questions. What is the company worth? What might it be worth later? What steps could be taken to increase its value?

Given the stakes, the business owner owes it to himself, his family and employees to take steps calculated to maximize success. Look in the mirror. How do you appear to others that may be involved in decision? To frankly assess our own strengths, weaknesses and appearances is extremely difficult, if not impossible. Seldom are we able to distance ourselves sufficiently to be objective. Additionally, we usually lack the "Market Place Perspective" required to understand how and why others will perceive us.

What to do As in any situation of major importance, you should engage a professional. In this case you need a firm or person actively engaged as business brokers or intermediaries. They interact daily with bankers, buyers and private money sources. They understand the market place, the perspective of the various investor types and their advisors.

The firm you choose should have market place experience in dealing with buyers, sellers and bankers. They should be large enough to bring a team of diverse talents to your project. Make sure they have experience working with private companies. There is a world of difference between private and public companies. The report you receive should review both the objective data and subjective environment that surrounds your business through the eyes of those involved in your decision, (bankers, buyers, investors, etc.).

Appropriate accounting, statistical and subjective approaches are then applied to develop a range of Bench Mark Values for your business. "Bench Mark" Values include, but are not limited to, Market Value, and Cash Flow benefits to you (present and future). A

comparison of the values allows you and your advisors to objectively determine the course of action that represents your best interests. You are now in charge.

### **Attracting the "Right Buyer"**

Value, like beauty, is "in the eye of the beholder" and beauty is very subjective. The savvy seller instinctively understands that the uniqueness of his firm represents its highest value only to a unique buyer. The buyer will have the specific combination of skills, interests, talents and resources the company requires to prosper and grow. In other words, the buyer will "fit" the opportunity the company represents.

During the Business Profile and Buyer Identification portion of the first step, a portrait of the ideal acquirer was developed. You know "what he will look like". You also know where to find him. You understand how he thinks and why he will pay the highest price. As they say in tennis, "Advantage, Savvy Seller."

### **Positioning Your Company**

One might define positioning as "Not what you see but how you see it". During the prior step we corrected several items to enhance the value of the company. Positioning allows those things that either we couldn't or didn't want to change to be viewed in a positive light. "All the right things are wrong with the company." The savvy seller is aware of this and either learns how to accomplish it or engages a professional, usually a business intermediary, for assistance in this all important phase. Purchasers have become much more sophisticated and will insist on substantial amounts of information for even the smallest of companies.

In recognition of this an attractive, persuasive- yet frank selling document is prepared. This document, or business profile, should contain the information necessary for an investor and his advisors to make intelligent decisions. The profile serves as a track that leads to a successful transfer. Financial information, although important, represents a minor portion of the document.

### **Price and Terms**

The savvy seller understands how different buyers value and price companies and positions his accordingly. The first three steps, (business profile and buyer identification, preparation and positioning) are designed to identify, obtain and defend the best price. You are in control. Your company is viewed as a prize representing exciting opportunities. You are viewed as a serious, reasonable and astute business person. Your price and terms can be defended with confidence and credibility.

### **Negotiations**

Negotiating in the emotional atmosphere that surrounds every business transfer requires skill and experience. The Savvy Seller generally engages an experienced business

intermediary to handle this important function. Emotion and ego prevent an individual from negotiating as effectively for himself as he would for others. Know what form or mix of purchase price consideration is best for you. Be familiar with tax, legal and accounting implications. Determine the items that are important to you and be prepared to trade off the less essential ones.

Preparation and planning pay handsome dividends during the negotiation process. Your position is supported by comprehensive documentation. You understand the buyer's motivations. The transaction progresses smoothly. You obtain your price. The buyer is satisfied; he and the business are destined to prosper.

## **Summary**

The seller who takes a casual approach to selling, or is waiting for a suitor who will make an offer that "just can't be refused", usually loses. Generally the sale is not made or is made at less than optimum value. Very often word leaks out that the company is being sold. Possible results? Loss of employees, business, credit, etc. that could prove fatal to the firm. It is no accident that the savvy seller sells his business at a premium price quickly and quietly. Preparation and planning result in a sale that is rewarding financially and emotionally.