May 2009
So You Want To Sell Your Company

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Your Neighbor's House

We have all lived in a neighborhood where all of a sudden one of the houses owned by a long time resident starts undergoing extensive improvements. Suddenly there are new windows, a new roof, new paint, some landscaping, etc. Within a few weeks the house and property look better than they have ever looked in the 10 years that you have lived there. As soon as the repairs go beyond what would be deemed "normal" what is the first thing you think? What is the first thing all of your neighbor's think? I wonder if the Jones's are going to sell, of course.

What I always wondered was why does someone wait until they want to sell a house before they do all the wonderful things that now make it look so beautiful and enjoyable to live in? Why would they allow themselves to miss out on 10 years of living in the house in its current high quality state?

The fact is that almost of all the things that your neighbor would do to improve their home to increase enjoyment and decrease maintenance will also allow them to achieve a higher selling price and a faster closing at time of sale. So, in essence, they get to enjoy the benefits for many years and then get to enjoy them again at time of sale. Not a bad proposition.

Your Business

So, now let me ask you the same question about your business. Why would you wait to do all the improvements that would increase enjoyment (profits, more free time, etc.) and decrease maintenance (losses, increased stress, etc.) until you are ready to put the business up for sale? Why cheat yourself out of a decade or more of these benefits when you can take advantage of the same proposition as your neighbor cited above? Because, as with your neighbor's house, most of the improvements that will optimize your business will also yield the same benefit both during your ownership and at time of sale. Skeptical? Let's take a look at the top candidate improvements that I typically see.

Succession Planning

One of the key areas that you need to have completed at time of sale is succession planning. Obviously, if you are selling the business you do not plan on staying around to run it, other than for a brief transition. The new owner will pay the highest valuation for a "going concern", and that includes leadership, preferably a management team and not just one individual.

So let's say that you address this issue now instead of waiting until you want to sell. What are the dual benefits of addressing this issue?

- You are not tied to the day to day operating details of the business. You can use your newly acquired free time to focus on strategic or growth opportunities, both of which will benefit the business. You could also utilize this free time to pursue other interests knowing the business is in capable hands. You may not have to sell the business now to have time for these pursuits.

- New blood. Let's be honest, no matter how passionate you are about your business after 10 or 15 years it gets routine and it's easy to get tunnel vision. Bringing in the right successor can inject new energy and new ideas into the business.

- A strong management team as opposed to a sole leader, no matter how brilliant or experienced, brings a variety of ideas and perspectives to the challenges facing your business. That is why prospective buyers will pay much more for businesses that have one.

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Clean Financials

Almost nothing sours a business sale quicker than messy or inaccurate financials. What are the dual benefits of addressing this issue now?

- You will have accurate information on the actual health of your business. Messy financials, like a strong pain killer, can mask a serious condition that needs to be addressed. You need to know your actual expenses, which products are profitable, and whether that new salesman is worth the investment.

- Financials are the first representation of your company that a potential buyer will see. Their initial valuation will be determined by what they see.

- It is easier and less costly to maintain clean financials.

- Piece of mind. You will know where you actually stand.

Product Portfolio

Most of the companies I see have too many product offerings given their size and resources. Many of these are legacy products that are still being carried due to the misconception that the more products you offer the larger and more competitive your business appears. What are the dual benefits of addressing this issue now?

- Every product offering, even an inactive one, costs money to maintain. These include costs for documentation, accounting, marketing, and inventory. Discontinuing these obsolete or unprofitable products now frees up valuable resources that can be used to develop new products or improve existing ones. You will get negative credit during due diligence for carrying unprofitable legacy products.

- By focusing your business on fewer products you will greatly increase your chances of becoming a leader in the market segment.

- Cleanse your inventory of obsolete components for these products and utilize the valuable floor space for a profitable activity. Lower inventory is easier and less costly to maintain and reduces working capital requirements. You are not going to get credit for these "assets" during due diligence anyway.

These are just a few of the typical candidate areas for immediate improvement that I routinely see. You can add to the list based on your particular business and industry. The point is that the very things you can do now to improve your business are in many cases the very things that will be valued by a potential buyer. Because, what buyers really value and will pay a premium for is a clean, well run business, with a management team in place to continue its successful operation.

Is that really much different from what you value?

Feel free to forward this newsletter with proper attribution to anyone who may benefit.

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