

Planning to Sell or Transition a Business

Contributed by Jim Angel
Tuesday, 02 September 2008

Although stressful at times, owning or even partial ownership in a business is stimulating, exciting, and fulfilling. Assuming you are in business for yourself, you may be part of the 90% of businesses that are privately held with fewer than 50 employees, which is 50% of the workforce. You may have inherited a business or bought a business, or started your own business from an idea.

Why Plans to Sell or Transition Your Business are as important as Plans to Start a Business.

Although stressful at times, owning or even partial ownership in a business is stimulating, exciting, and fulfilling. Assuming you are in business for yourself, you may be part of the 90% of businesses that are privately held with fewer than 50 employees, which is 50% of the workforce. You may have inherited a business or bought a business, or started your own business from an idea.

No doubt you have learned a lot about earning profits and taking a few losses, and surviving a downturn or two. You have earned the position you are in and worked hard for everything you have. You have learned to keep your options open and be ready for eventualities that will favor your business.

You make decisions for your business based on sound advice and factual information. You make decisions based on what you know, not on what you believe. It's human nature to be against what you don't know. You are more powerful by being aware of your options! You don't want to lose money so you make sound business decisions based on information that is current and accurate.

Most entrepreneurs are so absorbed in their company's operations that they haven't structured the eventual succession or sale of their company, or they miss opportunities to prepare the business for maximum growth and market conditions.

It's a fact: At some point in time you will sell or transition the business to someone else, or die and leave that responsibility to someone else. Will you get the most for your business when the time comes to sell? Do you know what dollar amount you want for your business?

It may come as a shock but 3 out of 4 businesses sell for 30% to 70% of its actual value. Why? Because they didn't know the true value of their company and they did not have a specialist performing the due diligence of preparing the necessary documents that professional buyers want and expect.

If the price was right and the profit was enough, would you sell your business today? If you could find out, quite possibly, that your company is worth more now than at any other time, would you want to know your options? Sure you would!

Perhaps you intend to have a business succession and transfer the wealth to a son or daughter. Perhaps you will retire then. But what if the son or daughter doesn't share the same passion for the business that you did (remember all the hard work and sacrifices you made over time)? What would you do if the new owner, being your son or daughter, really did not want the business after all, or made mistakes and decided to sell the business, and the call came for you to re-involve yourself with the company. Would you be willing to come out of retirement to save the business if things don't work out like you hoped? What would you do if the call came too late?

All of the financial future of the company is at risk if you, the owner, wishes, guesses, and hopes for the best. Just look at some of the airline, trucking, automotive, and financial industries today. Would they sell for a profit now? I bet they would like to!

You can sell your business for a future value because businesses are bought based upon what the future value of the company will be worth, not what they are worth today. Your accountant may be able to tell you how to save money on taxes, and provide you an assets-versus-liabilities comparison, and he or she may even know a few possible buyers for your business. However, there is no equal to a firm that specializes in connecting buyers with sellers of businesses, and preparing companies for future growth opportunities.

Consider the intangibles:

- Number of years in business
- Number of employees

- Number of years of experience of employees
- Number of managers with X amount of years of experience
- Number of repeat clients
- Amount of word of mouth advertising and good will
- Amount of training and development of personnel with your company

Do you know what you want for your company? How did you come up with that figure? How are you valuing your company? Remember that 3 out of 4 businesses sell leaving 30% - 70% of the value of the company on the table!

Let's remove the financial risk from the equation and say that you could make as much income as you are now (maybe more), plus you have your future dollar amount value already in your pocket. Often an investing business will buy a company and keep the present management in place to continue running the operations of the business. The company grows, you have your money and prestige, and everyone is happy.

You should know what your company is worth in advance of selling it. For example, if your entire net worth were in a stock such as Microsoft, although any stock would be acceptable in this example, you would likely be checking the value of that stock religiously. A business is similar in that you should know what your company is worth. If you want to get the most out of your company and sell when the market dictates (not when you thought was the best time for you, such as when you were ready to retire someday), you will need to prepare in advance and allow a private equity firm that specializes in mergers and acquisitions to represent you to ensure that you do get top dollar for your business.

The right time is controlled by outside factors such as the market, the economy, and other factors you don't control and you need to be well prepared for that time in advance. Large organizations that want to infuse money into companies or buy companies are looking for particular things on particular documents, prepared in a precise way. (48% of announced deals in 2007 were from buyers outside of the U.S., and 45 % of announced deals were from outside industries.) They can sum up the company viability in about 5 minutes if the paperwork is properly prepared and presented in the way they want it. That takes time and it would behoove you to become aware of all your options.

These big investors do not have time for, and will not bother with, documents that are not prepared for them the way they are used to seeing them prepared. That is why if you are not yet ready to sell this minute, you are in the driver's seat and you have some time to make the decisions you will eventually need to make. Generally speaking, a good private equity firm cultivates their clients over a 9 - 15 month period, because interested businesses need time to research and evaluate the information they get.

Your private equity firm will put your company in front of multiple buyers, similar to how a realtor lists homes in front of many buyers. Just as a realtor wants to earn higher commissions from more valuable properties, a good private equity firm will be able to share information that will elevate your company's value to prospective buyers and get you top dollar for your business. Because up to 80% of all businesses leave 30% - 70% of their company's value on the table, you will want to keep as much of that money as possible.

Jim Angel
jim@jhowardco.com

ww.jhowardco.com

See also:

www.acg.org , www.businesslink.gov.uk, www.mergerstat.com, www.entrepreneur.com , www.gwequity.com