Preparing to sell

Planning is critical to a sale you can feel good about well beyond closing

INTERVIEWED BY MARK SCOTT

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While business owners strategically plan for growth and other key initiatives, when it comes to selling a business, preparation is often lacking among those who are nearing the next phase of life.

This lack of planning happens for a number of reasons, but the most simple is that business owners are not in the business of selling companies and they typically don't focus on a sale until either an opportunity presents itself, or worse, a health or other life event makes a sale necessary.

In either case, the sale is reactionary and almost always results in owners leaving money and other desires on the table.

Smart Business spoke with Mark E. Krohn, a partner at Brouse McDowell, about the right way to prepare your business to be sold.

What's the first step?

Create a strategic plan around the sale of your business and do so a year or two in advance of when a sale is likely. In the process, you should identify accounting and legal experts who have great experience representing buyers and sellers, not just the company's everyday accountant or lawyer who says, "I do that." Selling a business is the culmination of a life's worth of work and is a specialty, so finding people who know the process can maximize value and the terms of the sale are essential.

What should one consider when beginning the planning process?

Start by talking to your advisers about your dreams, goals and non-negotiables. Considerations such as price, payments over time, continued involvement in the business, continued opportunities for employees and keeping the business local are all important. What matters most, where you are willing to compromise and what is not an option, usually paints a clear picture of what you want and dictates the next steps.

In most cases, it's not about maximizing price. You may feel an incredible loyalty to the cities, counties and employees that helped you get to the sale and you want to be loyal to those people post-closing. Very few owners are happy if a company is relocated after the sale. Options exist to keep a company local, but those priorities have to be identified before a buyer is found or a term sheet is executed.

If the main consideration is price, you may need to make certain adjustments to increase value, such as improving revenue/EBITDA margin (an approximate measure operating cash flow based on the income statement), securing management succession and achieving better customer diversification. Making some of these changes can take months/years to achieve, but the end results are worth it.

How do you find the right buyer?

Many advisers are simply looking to find "a" buyer and evaluate "an" offer. It's often more beneficial to create a competitive bidding environment, so long as you do so under strict confidentiality so that the news of a possible sale does not become public.

Once your team knows what is important to you, it can evaluate who the most likely acquirers are, both strategic (in the industry or vertically aligned) and/or private equity. This team can develop a package establishing who the company is, what the company wants, the value proposition offered and that the entity being contacted has been identified as one of a select group of potential acquirers.

This creates an air of selectiveness and makes the buyer feel special. Establish a timeline for the prospects to express interest and then close the transaction. It is typical to have two to three companies desiring to purchase the business, and it is much easier to get the price and terms you want when there are multiple parties vying for the right to buy.

What else should an owner be thinking about?

Ensure that key pieces of information about your company are organized in a central location, where they can be easily accessed confidentially by your advisers and the purchaser.

One of the most disruptive parts of a sale is due diligence. Taking the time in advance of a sale to make certain that the things that an adviser or buyer is going to review, and having those things in one place is paramount.

It saves a lot of time, money, stress and employee awareness issues. ●