



Always be prepared to capitalize on a chance to sell your business

You may think you're not ready to sell your company, but you never know what may happen in the future.

By Mark Rittmanic

IN A RECENT SURVEY by wealth management firm Laird Norton Tyee, fewer than 30% of the family business owners who responded have succession plans in place. Yet unplanned circumstances such as health issues, divorce and external market consolidation can bring about the need to sell a business without warning—not to mention the unsolicited offer you can't refuse.

Many owners of private businesses fail to recognize the importance of running their companies in a way that ensures they are fully prepared should the need to sell arise. Owners who adopt a prepared mindset receive the dual benefit of a business with higher value to any external buyer and enhanced profits until a sale occurs. Though the payoff is clear, the path to maximizing value often requires intensive refinement to management and operation practices.

Fortunately, there are methods business owners can use to avoid common mistakes and continually keep their companies running at optimal performance. If owners keep the following five points in mind, they can help ensure their establishments will operate at a desirable value and attract the highest-quality potential buyers.

1. Think like a buyer.

The first key to making sure your business is always up to buyers' standards is to fully understand who represents the best potential buyers and what will make your business most attractive to them. Most sellers do not consider buyer needs until a sale is imminent, which



***Mark Rittmanic** is the founder and CEO of ForteCEO, a firm that specializes in providing executives to help privately owned, middle-market businesses excel through hands-on leadership (www.forteceo.com). He has conceived, built, led and sold several businesses.*

often results in them scrambling to make changes and can reduce the sale price.

Buyers should see that you have cared for the business enough to ensure it can compete with the best and be a profitable investment for them. The better you care for your business from the start, the easier it will be to attract the attention of a quality buyer when it becomes necessary to sell the business.

Potential buyers almost always can see through a rushed attempt to make a business seem as though it's running at the highest standard. Failing to put solid financial systems in place or to make sure each member who has an important role in management of the business is fully capable of leading when you're not around is like waiting until the week before your child graduates from high school to look into college admissions requirements. Simply put, it's too late.

2. Make your company attractive to brokers.

When you sell a private business using the services of a top-level investment banker, you will notice two benefits—the chances of a successful sale happening are higher and so are the net proceeds to the seller.

The world of business brokers is comparable to any other service profession: There are a select few companies whose calls are always answered by potential business buyers because they can pick and choose among the best companies. Because these investment bankers are so selective, unless you have an attractive business without major “impairments” (which essentially means your business will be flagged as a risky investment), you will have a tough time attracting reputable brokers.

While selling a business might be a once-in-a-lifetime experience for a business owner, brokers do it all the time and have the skills to review your business to determine if they can find qualified buyers. The good brokers will not waste their time on impaired businesses that they know will be a headache to try to sell; in fact, they often complain that there are

few “easily sellable” businesses. Businesses that are fully prepared will easily stand out in the eyes of the best brokers and the highest bidders.

3. Develop a simple strategic plan that is known throughout your company.

It is surprising how many companies run for years without a clearly understood plan for the future of the business. When this is the case and it becomes time to sell, buyers have a hard time valuing a strategy of simply “doing more of what you did last year.”

For this reason, it’s crucial not to hesitate in drafting a clearly written strategic plan that tells a believable and easily sharable story about the future of your business. It is also a good idea to attach financial projections to the plan. This signals that you are confident about what’s in store for the operation and have nothing to hide.

Having a plan that is clearly communicated throughout the business is key in achieving extraordinary results from every member involved in day-to-day operations. This will serve as a big help in molding your business into an attractive investment.

The family business dynamic can be a plus or a minus in this arena. In a family firm, there is likely to be a higher level of comfort in creating and sharing these details among members, but at the same time conflicts that arise over the information are more than just business-related—they’re personal. For this reason, a clear plan that hides no details is even more important. Family business owners will probably have to put added effort into communicating the plan to other family members.

4. Keep your financials in check.

Poor internal bookkeeping has hindered many potential sales and cost owners millions of dollars in proceeds. This is a common problem with fast-growing businesses whose owners do not see the value in investing in internal financial staff and systems. Once these owners have suffered through a buyer’s financial due diligence the value is apparent, but by then the damage to the sale price has been done.

Remember that if you can’t measure the financial strengths of your business, the buyer can’t value it.

5. Escape the “founder’s trap”—ensure that your business can run without you.

Buyers are not likely to consider a business whose the owner is indispensable because owners who are committed to staying with the business can easily change their mind post-sale, even when there are large earn-out bonuses on the line.

The solution to this problem is to attract and train highly qualified managers who can properly run the business in your absence. The added bonus for the owner in this situation is that it also increases his or her ability to work on—not in—the business.

For many owners, escaping the founder’s trap is nearly impossible without assistance from someone who has taken that journey. If this is the case, find an experienced operating executive who understands your dilemma and is willing to help, and start shaping your business to be self-sufficient. You will thank yourself when the sale of your business proceeds smoothly. FB