Strategies for a Successful Business Transfer in a Down Market

By Michael F. Coyle, CBI

Addressing the inevitable exit from their business can be chilling for most business owners. Selling the business that you have spent years nurturing and feeding to a third party can be an emotional and trying experience**. It is estimated that less than 15% of business owners have developed an exit plan from their business, despite the reality that it is a certain outcome for every business owner.** For most owners of closely held companies their business assets account for the majority of their net worth, yet few business owners have a quantifiable value for their business or an understanding of what drives value.

I have recently observed that some business owners are standing on the sidelines waiting for better economic times to plan for or exit their businesses. They seem to believe that better economic times will lead to a higher value for the business when sold. This strategy is worth consideration, but for many business owners it leads to unnecessary delays in their lifestyle plans without any measurable increase in the value of their business at a later time.

In fact, for many, the business value declines during this delay because the business owner has lost interest or energy to keep the business growing and competitive. In the end the business owner can lose several years off of their retirement experience and fail to add any additional value to their net worth.

We have been experiencing variable economic conditions in the last few fiscal quarters which seem certain to continue for the immediate future. Selling your business in what would be considered a weak economic time, however, can produce outstanding results based upon two realities:

1. **The value of closely held companies is most often determined by internal attributes of the business and less from external economic factors.**
2. **QUALITY sells in any economic market.**

Any "down market" is categorized by an increase of inventory (in this case, businesses for sale) and a decrease in the number of buyers looking to buy the inventory. Economics 101 and the theory of supply and demand has taught us this situation creates a buyer's market characterized by lower prices, longer lead times to sell, and terms more favorable to buyers. In the case of the business for sale market place that is true for all the businesses at the bottom of the value and quality range. The businesses that are properly positioned in the higher value and quality range retain their value in any market conditions.

The correct strategy for many business owners to enhance their wealth upon exiting their business is to improve value and not wait on the side lines for better economic times. In my consulting work with small businesses I find that there are some elements that are common to every business that enhance value when marketing a business. Some are quite easy to implement and amount to the "low lying fruit" that can be picked with little effort or expense. In preparing your business for sale to be considered a QUALITY opportunity for buyers and therefore maximizing value I recommend the following:

1. **Eliminate the things that detract from value.** Clean out the "clutter" in your business to get the highest value. This can included divesting underutilized or obsolete inventory, assets and employees. Minimize the business dependency on you the owner. Delegate more and spend more time managing the business rather than running the business. Replace your tired logo and other image materials to show a fresh and successful image. Get your books and records organized and defensible for a buyer evaluation. All of these kinds of improvements can allow a buyer a clearer vision of the strategic value of your business that is not obscured by the "clutter" that has accumulated over time.

2. **Accentuate the things that add to value.** This can include documenting client/customer/supplier contracts or securing employment agreements with key employees. Shine a light on positive attributes and achievements of your business. This can include visual signs of quality and achievement like productivity measures displayed in the workplace, industry awards displayed in the lobby or testimonials framed and hung on walls. Document procedures, process, and knowhow which is often a strong contributor to success. Create a positive working environment and enlist key managers' support of the business transfer process. Buyers know that happy and committed employees are essential to success

3. **Polish your apple.** Literally clean out the closets, pick up the shop, paint the flag pole, and do the small things that makes the workplace look clean, crisp, and productive. Dirty means a discount. Don't stop at the workplace; give your web site, marketing materials, and other image materials a face lift. Step up some public relations to get your name into the community and industry to show the potential buyers how successful and progressive you really are.

4. **Get the best help possible and have a plan.** Selling a business leads to many complicated tax and legal issues resulting from the transaction and you will need a committed and talented accountant and attorney. Identify a business intermediary/broker who will help you to determine the true value of your business and what type of buyer will bring you the most value and with the terms that you seek. Finally, you will need to work with a wealth planner to ensure that once you convert your business assets into cash you have sufficient assets to create a pay check for you through retirement and that your other goals and risks are properly addressed. Very few companies have all these skills under one roof so you will most likely need to assemble a multi-disciplinary team. Avoid blindly hiring your neighbor the broker or the advisor who has done your taxes for years. These people may not have the specialized skills and experience to help you achieve maximum value. You only get to do this once so make sure you have a qualified and committed team.

5. **Conduct a pre-due diligence scan of your business.** The part or the sales process called due diligence is when the buyer is allowed to access detailed information about the company, employees, products, customers vendors, finances, etc. This is a thorough look under the hood and the process can be very intensive and exhausting for a business owner. It is also the point in the transfer process where value can be lost or the transfer fails due to skeletons in the closet. Your team will be able to lead you through a pre due diligence scan of all of the strategic, financial, operation, and legal items a buyer will examine. This gives you the ability to head off problems that may derail or redirect the transfer.

6. **Expose your Business to the broadest number of qualified target buyers.** Many business owners make the mistake of selling their business to the buyer who approaches them with what appears to be a reasonable deal. You can leave tremendous value on the table without allowing various types of buyers to bid on your business based upon the strategic and synergistic value. The larger the business the more this applies. If your business has unique competitive advantages or resources like people, products, process, and technologies these may be very valuable to one buyer and not valuable to another. Generally speaking for companies with gross sales over $10MM a controlled auction process without setting a price works best at achieving maximum value. Smaller companies are generally better marketed with a realistic market value using a negotiated sales process. Your business intermediary/broker can help you determine the best strategy.

In summary, don't stand on the sidelines in a down market believing that you will achieve higher values later. If now is your time to move on with the next phase of your life, make a plan, assemble a team and focus on making your business for sale a QUALITY offering that will sell in any market condition.