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"Top Ten Strategies" When Selling a Business

When a business owner decides to sell his or her business, it will likely be a "once-in-a-lifetime event". Sometimes it's a sale to family members or to employees, but often these *insiders* lack the capital and talent to both purchase and run the business. A sale to a third party may be the best exit strategy in meeting the owner's objectives.

Here are the "Top Ten Strategies" for business owners to consider in maximizing value when there is an anticipated third-party sale.

Darrell V. Arne
CPA, ASA, CM&AA
Investment Banking Representative

10. Keep the business until it is properly positioned for sale.

Timing is everything.

The best time to sell a business is when these three (3) things are in place:

1. The owners are motivated but not compelled to sell.
2. The market is receptive to more growth for the business, buyers are motivated & competing to buy, and finance sources are willing to fund acquisitions.
3. The business is showing an upward trend with operating cash flows and is properly positioned for sale. This article describes specific *positioning strategies*.

9. Keep outside advisors who are experienced in the selling process.

Selling a business is a team sport.

Here are four (4) advisors – experienced in the selling process – to be included as part of the deal team:

- Business Intermediary
- Attorney
- CPA
- Financial Planner

This article describes the *roles* these advisors play in the selling process.

8. Keep post transaction risks to a minimum.

After price and terms, it becomes an allocation of risk.

Negotiations don't stop at price and terms. It's important that an experienced attorney negotiate post transaction risks that are set out in the definitive purchase and sale agreement. Items such as representations & warranties survival period, indemnifications, baskets, caps, escrow amount & period– all impact the risk the seller takes on after the sale. This article describes certain *deal point benchmarks* associated with risk allocation.

7. Keep tax liabilities to a minimum.

Sellers want to maximize after tax proceeds.

How the transaction is structured is a clear example of "it's not what you make that counts, it's what you keep". The role of an experienced CPA Deal Team Member is to be aware of those strategies that help lessen the tax impact on the seller. This article provides a listing of inventive deal structuring options.

6. Keep the selling process structured and confidential.

Goodwill is often based on employees and external relationships.
What's typically not on the balance sheet of a business, but often significant in amount, is goodwill. Goodwill – being an intangible asset – can decline in value particularly when it's tied to employees and external relationships (e.g. with customers and suppliers). The danger is that a pending sale may trigger a negative reaction to these parties – often because change is imminent. Therefore, maintaining confidentiality is critical in preserving goodwill value.

5. Keep the time to sell the business to a minimum.

Selling a business is a process.
A lengthy time period to sell a business can have an adverse affect on the principals, employees and other stakeholders. It's best to have a structured approach when selling a business to shorten the time period that a business is being marketed and sold.

There are generally four phases to the business sales process:

I. Planning II. Research III. Negotiation IV. Integration

4. Keep management focused on running the business during the selling process.

When earnings slide – so does the price.
The most critical time during the selling process – when management must focus on running the business – is during the Research and Negotiation phases. A distracted management team often leads to a slippage in earnings. This gives buyers reason to be concerned about the future of the business, which can lead to reduction in the selling price. The role of the business intermediary is to oversee the selling process while management focuses on running the business at an optimal level.

3. Keep the deal momentum going and emotions in check.

Time kills deals.
One of the biggest deal killers is *time*, often when exchange of information comes to a standstill. Buyer and seller principals are busy running their businesses; attorneys and CPAs who are advising their principals may also become distracted. It's easy to put deal tasks aside, leading to what's commonly referred to as *deal fatigue*. One of the primary roles of the business intermediary is to maintain deal momentum; and, keep the seller's emotions in check.

2. Keep buyers motivated and competing when the objective is to maximize the price.

One buyer is no buyer.
Every buyer would like to have exclusivity by being the only one looking to acquire the business. This may not be in the owner's best interest – particularly when the objective is to maximize the price. This article discusses how the price can be maximized by marketing the business under a controlled auction process.

1. Keep in mind your original purpose in deciding to sell the business.

Begin with the end in mind.
With all the challenges associated with selling the business, the owners should never lose sight of "why" they're making the decision to sell the business. On the surface, it may be to provide the owner with financial security after the sale, provide security for other family members, or maybe support a favorite religious, charitable or other organization. Beneath the surface often resides a bigger *purpose*, one that speaks to one's reason for being. Keeping the bigger purpose top of mind will help the owner through the rough waters of selling a business.

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