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Strategic Planning Best Practices

Selling Your Family Business?

Get Ready – Get Set - Go

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GET READY.

Deciding whether or not to sell the family business can be a much more difficult decision than the decision initially made to invest time, effort, and money to start the business. Why? It's because both the pressing everyday business needs and the sometimes volatile family emotions come into play. Even if the founders can get past the formidable obstacles of dealing with other family members' concerns, changing dreams and possible objections, they still have to deal with their own separation anxieties – all while trying to stay focused on the business.

It's perfectly normal for entrepreneurs to find themselves wavering back and forth on the "keep-or-sell playing field". They should expect to have strong emotional ties to the business that consumed their waking hours for a great part of their life. They have had a long ride on the family business roller coaster and experienced its ups, downs, jerks and turns.

BUT - Once the decision to sell has been made, it's time to move forward and prepare for the sale.

GET SET.

Begin by asking yourself the big question: "Do I have a saleable business?" The answer to the question isn't always "yes", even though the face in the morning mirror swears it is.

Several factors make a business attractive to buyers. A history of steady or growing profits is the primary factor. To show the business's profitability in the best light, entrepreneurs may need to "recast" their financial statements. Sometimes entrepreneurs can be overly aggressive in claiming all of their legal tax deductions and a financial recasting exercise may be fruitful. Aggressive deduction areas may provide opportunities to decrease expenses on a "proforma" financial statement. For example, if the yearly training was conducted overseas, the excess cost could be replaced with the cost of local training. Also, any generous family compensation costs could be replaced with "arm's length" compensation levels. All owner benefits should be examined during the recasting exercise. The purpose of the recasting exercise is to show prospective purchasers the level of "normal" profits that they can hope to achieve.

Long-term sales contracts can be a very attractive feature to a prospective buyer, especially if pricing is favorable and the contracts are transferable. If there is an opportunity to convert long-term customer relationships to written contracts, the buyer will gain comfort knowing that cash flow is not solely dependent on the current owner's relationships with the customers. This will give the buyers breathing room to build their own relationships.

If a lease is on a month-to-month basis, explore the possibility of negotiating a long-term lease. Also make sure the lease is transferable to a new owner without price escalations. If the lease will not be renewable by a new owner, consider moving immediately. Buyers will not want to deal with relocation as they are learning the business.

A dirty and unkempt workplace can be an initial turnoff to a buyer. Just as a homeowner may not notice excess clutter, a business owner may not notice the lack of basic maintenance. View the business from a buyer's eyes. Any lack of routine maintenance will stand out to a newcomer. Also make sure equipment is in good repair and obsolete inventory is disposed of.

Enthusiastic employees leave a lasting good first impression with a buyer. This is the time to "out counsel" poor performers and create some cheerleaders. This is especially important at the supervisory level, since the buyer will eventually wish to speak with management personnel. Sometimes having employment contracts with key personnel will ease any fears of business disruption on the part of both the key employees and the buyer.

GO.

Planning to sell a business is no small task, and the end result is never certain. It can seem like a second job. Enlist the help of other family members. They can be great cheerleaders. Consider hiring a professional. They can help you stay focused and help make the business more saleable.

When asking the big question, "Do I have a saleable business?" look at the business from a buyer's point of view. If you were in the market to buy a business, would you buy your own company?

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