

## Five Ways that Sellers Self-Harm

So you finally decided to sell your business. Bravo! The road can be long but ultimately rewarding. There are lists to prepare and an equal number of things that need to be trued-up. But a certain kind of disaster still lurks in the shadows. Alexander the Great comes to mind: “I have met the enemy, and it is I”. Yup, there are things that only we as sellers do that can make the process much longer or the outcome less valuable. Five of the most common of these are:

1. Overvaluing or undervaluing the deal
2. Not investing financially in the process
3. Not understanding your earnout
4. Not surrounding yourself early with the right advisors
5. Failing to pace yourself or your staff (because deals can take time)

### **Overvaluing or Undervaluing the Deal**

There is a bit of the goldilocks situation where overvaluing the company can frustrate the process and drag it out, and undervaluing can just leave you mad. There are factors that will affect the price up or down but getting an outside business valuation is the best place to start. Further, understanding the market multiple that strategic and financial buyers are using will provide some guidance when negotiating the sale price.

If you’re new to this or own a middle-market company, you’ll learn quickly that the process can take a while. Use the time and do your homework. Talk with others who have sold, or decided not to sell, to your buyer. Ask lots of questions about what it will be like to work for the buying entity. Do they keep their promises?

### **Not Investing Financially in the Process**

Imagine you’ve socialized your desire to sell with an investment bank that will take you through a process. Your current EBITDA is just under \$4 million. The banker tells you to raise EBITDA to \$5 million if you want to get the multiple and price you believe the company is worth. So ... do you invest in your company and yourself by automating, or reducing cost through process efficiency, or by hiring staff that drive revenue? Many sellers just focus on the immediate cost and decide it’s too risky. But if executed correctly, the cost of these investments may be returned to you several-fold when you sell.

This is just one example of investing in the process. A clearer example is paying for the advisors you’re going to need to make this deal happen: attorney(s), accountant(s), consultants, and bankers, but that’s further down the list.

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### **Not Understanding Your Earnout**

Though hard to quantify because of confidentiality, nearly 30% of M&A transactions include an earnout [according to the American Bar Association](#). If your deal has an earnout, not fully understanding its components can lead to a lot of unhappiness when:

- You forecasted growth aggressively to secure the deal, but you still must make the numbers.
- You counted on the buyer infusing a large sum of cash, but they didn't, or you didn't understand how those dollars counted vis-à-vis your earnout.
- You lost productivity when top performers left because they felt betrayed, disliked the new culture, had their compensation changed, the list goes on.
- You now work for someone, and it wasn't anything like you thought it would be but to collect you "must be present to win".
- You were merged with another entity and have control only over your portion of the business, but your earnout is predicated on the performance of the collective.

### **Not Surrounding Yourself Early with the Right Advisors.**

If you're serious about selling, then you need to get serious about a team that'll bring you to market. There are different kinds of bankers, brokers, attorneys, consultants, and accountants. Knowing what each does is like bringing the right tool for the job. For instance, many investment bankers and business brokers tout their consulting skills, but they make their money only on the transaction closing. M&A consultants exist to help you increase enterprise value, keep you on track so you can run your business, and make you ever more attractive to buyers. Even more specifically, a generalist closing attorney might not be the right legal resource if your company has important intellectual property. Know the difference and pay a little more to ensure that your patents don't infringe on another's or that your licensed technology can be legally transferred once the business is sold.

By getting on this early you'll build trust with your advisor team. They'll provide input to help avoid costly mistakes and delays. They can also help can establish a cadence allowing you and your employees to keep the business operating at the expected level of performance.

### **Failing to Pace Yourself or Your Staff.**

Selling a business has its share of false summits. According to a survey by [IBBA Market Pulse](#), the average time to close a middle-market deal was around 6-10 months. Not pacing yourself creates the same issues as any other large undertaking: burnout, mistakes, and attrition. The time and energy you and your team will invest cannot be underestimated and this all-consuming effort can, if run too hot, impact the functioning of the business and its ultimate financial outcome.



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### **Blue Pasture Advisors**

You probably won't be surprised to learn that Blue Pasture helps middle market companies and their capital partners throughout the transaction lifecycle. We're a different kind of advisory firm. We combine years of buying, selling, operating, and consulting to companies large and small. Our approach focuses on buyer-seller profitability and considers leadership, culture, operations, pricing, and yes, financials. We have unique tools allowing us to assess risk and opportunity no matter where you are in the lifecycle.

Learn more at [www.bluepastureadvisors.com](http://www.bluepastureadvisors.com).