Preparing your Business for Sale, Part II

North Bay Business Journal – March 12, 2010

A bad system will beat a good person every time. ~W. Edwards Deming

This is a continuation of my article in the October 12, 2009 issue of this publication discussing factors that increase the value and marketability of privately held businesses. These factors are within the control of every business owner and management team. You can use them to assess your company's readiness if you are considering exiting in the next few years, or just interested in increasing enterprise value.

Value, to a purchaser of your business, is a function of their expected financial returns, adjusted for risk. For this article, "marketability" relates to the degree to which there is a sizeable and readily accessible pool of willing buyers with the necessary experience, credentials and financial ability to purchase and assume leadership of your business. Value and marketability often go hand in hand, but it is helpful to consider them separately when your exit strategy involves selling to an external third party.

The five factors discussed in my earlier article were 1) Financial Results, 2) Financial Records, 3) Scalability and Growth, 4) Tangible Assets and 5) Facilities. Now, from the viewpoint of an informed potential buyer with multiple investment options, take a fresh look at your company's:

6. **Products and Services —** How will prospective buyers rate the variety, age, value, relevance, quality, profit margins, price elasticity, proprietary content, branding and warranty exposure of your firm's existing products and/or services? How are new technologies affecting the need for your products or services? Will they find your new product/service pipeline adequate and promising? The right time to sell is often just before a major new product/service introduction.

7. **Overall Competitive Position —** Many businesses have declined recently due to the economy, but are new entrants, franchises or dominant industry players taking market share? Can your firm compete head-to-head with overseas producers, home-based firms, or other low-cost providers? Is it capitalizing on the Internet, or being eroded by it? Is the industry consolidating around you? Develop a unique and truly compelling value proposition that differentiates your business from its competition, using the best channel to the market.

8. **Systems, Policies and Procedures —** Will qualified buyers clearly recognize, understand and agree with the effectiveness of your firm's systems, procedures, policies, standards and operating agreements? Often too many of these items are informal, outdated, ineffective, or even misleading. Ideally, all should be documented and institutionalized in such a way that a new owner/general manager can successfully assume leadership with a basic understanding of your business and a minimum amount of training, and the business won't miss a beat. Having to rely on you and pay you to document and/or transfer all this after a sale will reduce your total sale proceeds, or worse, render the business unmarketable.

9. **Customer Base —** Are your customers demographically desirable, monetarily distributed, and loyal to the business instead of you personally? Buyers usually discount value when a high percentage of your revenues come from a few clients, because the risk of losing a major client in an ownership change is too great. Diversify to reduce that risk. Have systems and staff for

lead generation, new client development and retention. Also make sure that your customer contracts will survive a transfer of ownership.

10. **Employees —** Buyers will look at your employees' skills and productivity, credentials/licenses, years to retirement, relationship to you, unionization, compensation and benefits, and financial incentive to stay. Lack of management depth is a limiting factor for most small businesses. Special attention must be given to key employees that will be vital to a smooth ownership transition and the future success of the buyer. They should be carefully informed of the upcoming sale and introduced to the buyer at the appropriate time, and should have a financial incentive to stay through the transition.

11. **Other Stakeholders —** Will an ownership change be broadly and enthusiastically supported by your suppliers, dealers, channel partners, subcontractors, franchisor, landlord, insurance and service providers, banker and other constituents who have an interest in the continued success of the company? Does your company have exclusivity, multiple sources and competitive pricing and terms with its suppliers? Take a fresh look at your important stakeholders and assess whether they will support a transfer of ownership.

Earlier, I said that value is a function of expected financial returns, adjusted for risk. While the future prospects of your business, after a sale, will depend on the decisions and actions of the next owner, the number of buyers lining up to purchase your business, and the price they will be willing and able to pay, will be influenced by your company's performance in these areas under your leadership. The earlier you prepare your business for an ownership succession, the more you'll put in your pocket when you're ready to retire or move on to your next venture.

These eleven factors aren't a comprehensive list of value drivers for every type of business, but they represent an excellent start for most business owners. Best of luck implementing them in your enterprise!

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