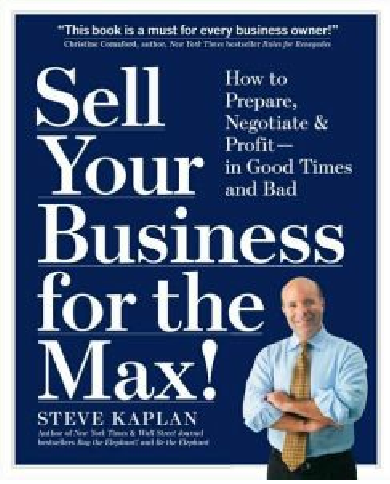

Book Sell Your Business for the Max!

How to Prepare, Negotiate & Profit -- in Good Times and Bad

Steve Kaplan
Workman Publishing, 2009
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Recommendation

To sell your company, you must understand business valuation. You must find a qualified buyer. You must present your enterprise in the best possible light. You and anyone who represents you must be good negotiators. Get any of these wrong, and you may not be able to sell your firm for what it is worth. In this well-informed book, Steve Kaplan shows you how to get the best price for the business you've invested so many years in building. He expertly explains how to spruce it up to entice potential buyers and how to present it in the most compelling fashion. He provides worksheets and checklists to use during the process. With more than 100 business-sales transactions under his belt, Kaplan has the expertise you need in this specialized field full of pitfalls. If you have a business to sell, *BooksInShort* recommends reading his savvy book.

Take-Aways

- Don't wait for the perfect time to sell your business. That moment will never come.
- Usually, the buyer chooses the method of determining the company's value.
- Whatever process you use, always estimate an upside value based on strong business prospects for the future.
- Use the services of a team of professionals to sell your organization.
- Include an M&A (mergers and acquisitions) specialist; he or she may be able to negotiate a better price than you could on your own.
- Use a "business overview document" to present your firm favorably to prospects.
- Make a list of the "unique selling propositions" (USPs) that make it special.
- Convey the impression that your enterprise can run well without you.
- Due diligence is as vital to the seller as it is to the buyer.
- How you plan your payoff can be as important as the price you get for your business.

Summary

What Not to Do

Here's a hypothetical case: Suzanne Baker opens a neighborhood café, Harvest Coffee Company, shortly after her divorce. Working seven days and 60 hours a week, she attracts loyal customers. The annual profit of the business grows to $80,000. Then, a chain coffeehouse decides to move into the neighborhood. Baker anticipates that it will offer her a buyout. She decides she wouldn't mind selling and sets her price at $240,000, or three years' profits. She also plans to ask the new owner to hire her to manage the business.

"Selling a business isn't for the squeamish."

The chain offers her $175,000, or less than "75% of her desired settlement." Baker panics. If she refuses the offer, she's afraid the company will lower it or move into the neighborhood and run her out of business. Pressured, she gives in and takes the $175,000. The new owner doesn't offer her a position. Baker basically throws away $65,000 and the opportunity to work. If Baker had made a counteroffer she would have had a better chance of getting her asking price. She could have offered to stay on as manager as a "concession."

When Should You Sell?

The perfect time to sell never comes. Make sure you understand why you want to sell: Are you looking for wealth? Independence? Knowing what you want will help you get it. In addition, you cannot get the maximum payout if you do not understand valuation, that is, how to determine the current worth of your company. Buyers and sellers develop their own independent valuations. To get the ball rolling, ask prospective buyers to submit a term-sheet, which should, at a minimum, describe what they are purchasing, the price they are offering and how they will pay. The term-sheet is an initial offer. It does not lock you into anything.

Valuation

Valuing your business is a two-step process:

1. "Calculate the average earnings before interest, taxes, depreciation and amortization (EBITDA) over a five-year period."
2. "Multiply the average earnings by a factor relevant to the industry." For example, a database firm may sell for "anywhere between six to 14 times profit." To use a "comparable value" approach, check out relevant 10-Q and 10-K U.S. Securities and Exchange Commission filings, "financial search engines," Hoovers.com, and EDGAR Online. Or, calculate your business's "emotional value": the price that would make you happy. The buyer will not care about this, but it can figure in your calculations. Always value your business on the upside, using a positive forecast for the future.

Lassie, Get Help!

To sell your business you may need help from a "tax adviser, accountant, financial planning adviser, attorney, mentor, representative or agent, [and] others as needed for your specific industry." For a mentor, find someone who has sold his or her own business. A representative is also known as an "M&A (mergers and acquisitions) specialist." The best do not charge upfront fees but rather make their money on commissions.

"About 98% of us want to get out of our businesses – some of us right away, the rest of us at some point in the future."

As in the rest of life, first impressions count. Make sure everything about your business is shipshape before you talk to buyers. How you present your company may determine how much you can get for it. Create a "business overview document" that includes a "business overview, description of services, clients, operations, information systems, management and employees, financial performance, strategic vision for combined companies, [and] summary."

The "Value Identification Process" (VIP)

To get top dollar for your business, use this seven-step Value Identification Process to make the buyer feel he or she is getting something special:

1. **"Identify and develop USPs"** – "Unique selling propositions" are the assets and capabilities that make your business stand out from the crowd.
2. **"Select your USPs"** – Focus on the ones that will be most meaningful to buyers.
3. **"Brand your USPs"** – Employ acronyms to make them more interesting to buyers, for example, ACE – "automated cost efficiency."
4. **"Create a descriptor sheet"** – Use one to showcase each USP. Make it as compelling as possible. You may want to enlist an ad agency's help for this purpose.
5. **"Create your vision"** – Detail your company's prospects. Then, write another version that describes the prospect's business and your firm united.
6. **"Communicate your message"** – Include USPs in the business overview document.
7. **"Present the organization"** – "Organization" sounds more impressive than "business."

Put Your Best Foot Forward

To motivate buyers, show them that your business does not need you to operate. No one wants to buy a "one-man show," especially when that individual will probably move on. Develop a succession plan and share it with the buyer. Make sure your accounting is perfect. Have an independent accounting firm perform an audit of your company. Discuss your company's work flow – but don't reveal trade secrets or other proprietary information until you are well down the road with a prospect.

The Kinds of Buyers

Buyers fall into five categories:

1. **"Direct competitor buyers"** – These are your competitors.
2. **"Complementary service buyers"** – Firms that can benefit by purchasing your enterprise. Maybe you have customers they want, a distribution channel they can use or other assets they value.
3. **"Financial buyers"** – These are entities such as "holding companies, private equity fund managers [and] venture capital groups."
4. **"Preservation buyers"** – Organizations that will buy your business to protect their own positions in the marketplace.
5. **"Opportunity buyers"** – These include entrepreneurs as well as managers who are suddenly out of work.

Start a Bidding War

Follow these eight steps to encourage firms to bid against each other for your business:

1. **"Draw up your hit list"** – Include all your potential buyers.
2. **"Select your lead"** – Target your top five prospects.
3. **"Engage the five in discussion"** – Contact the presidents. Provide "top-line financial or growth information." Expect strong initial interest if your company is solid.
4. **"Select your stalking horse"** – Use a low-priority prospect to put pressure on the lead prospect.
5. **"Generate the want"** – For example, if a competitor wants to expand his or her business locations, stress the excellent locations you already have.
6. **"Spread the word – judiciously"** – Call the presidents of prospect firms, explain that other organizations are interested in buying your company and tell them that you want to explore all options. This approach can work wonders.
7. **"Use a go-between"** – Find a trusted individual outside your business (possibly your financial representative) to make the initial contact.
8. **"Play all your roles"** – Learn to be "part businessman, part actor, part CIA operative and part poker face."

Negotiate

Due diligence is crucial for both you and your buyer. Fully answer all your buyer's questions. Work from the buyer's due diligence list. At the same time, conduct your own due diligence to make sure you don't experience any surprises at closing time. Request three years of financial statements, balance sheets and annual reports. Ask the buyer about pending litigation and his or her short-term business. Gain as much information as you can; what you find out may come in handy during negotiations.

> "If your company is a moneymaker and you're not eager to sell, you're as alluring to a buyer as a shiny new lure to a hungry largemouth bass."

Your every action, even phone calls and e-mails, can tip the negotiation one way or the other. Set your price. Make sure you understand the valuation formula you've agreed upon with the potential buyer, who usually designates which method to use. Do not make the first offer; wait for your prospect to do it. The prospect's term-sheet should present the lowest price you will accept. Compare your valuation against your buyer's.

> "More than 90% of businesses do not identify and communicate all of their available value."

Leverage your buyer's vulnerabilities to get the best deal. During the negotiation, focus on one of your strong suits, such as higher margins or advanced technology. Emphasize comparable values if this enhances your position. Stress the possibilities for growth. Don't get cute, pushy or hung up on minor details. Keep cool. And, never forget about your employees. They helped you make the company into an attractive asset. Do everything you can to protect their jobs and finances.

The Payout

Receiving the payout is usually the most enjoyable aspect of selling your business, but you should still keep an eye on two issues: "the timetable for payment and the nature of compensation." Payments usually take one of three forms:

1. **"Upfront payment"** – You get all your compensation in one lump payment. This is great if you plan to invest the money, but not so great if your business is poised for strong growth and a payout over time would mean more money in the long run.
2. **"Earn-out"**– You bet that your company will become stronger and take your payments in installments according to an agreed-upon formula. This process enables you to disengage from the business over time, but it's risky if the business does not do well, something you cannot control.
3. **"Upfront/earn-out combo"** – You get paid now and you get paid later.

> "A good selling strategy for you would be to lead the buyer into feeling excited and optimistic about the deal, without pushing so hard that the buyer gets deal fatigue."

The closing is a (tedious) formality. You have many documents to sign. The "asset or stock purchase agreement" is the most important. It details your agreement, "including the representations and warranties," as well as schedules, which include items such as "inventory, list of receivables...deposits, prepaid assets, contracts [and] customer lists."

Mistakes That Can Kill Your Deal

You can do everything right – find a great buyer, present your business well, negotiate skillfully – but still inadvertently destroy your deal. Avoid these common blunders:

- **"The 'Yak Yak' Factor"** – You have not sold your business until you have signed the contracts and received your payout. In the meantime, you have a business to run. Don't cause anxiety among your employees about new ownership of the firm before it is necessary. If you tell even one person about your sales plans prematurely, the news will spread fast. Morale may plummet and important employees may leave. Suddenly, your business is not as attractive as it was.
- **"Invisibility"** – Even if you hire an M&A specialist to negotiate for you, don't drop out and become invisible. You, not your consultants, have the most to gain from the sale. Play an active, upfront role.
- **"The 'Yee Haw!' Factor"** – Keep your eye on the ball; don't get carried away by the vision of all the money you'll make when the deal goes through.
- **"Deal fatigue"** – Selling a business is a complex process that takes time. Sometimes, one or both parties get so tired of the process that someone backs out. To keep mentally fit, take occasional breaks. Eat right. Get enough rest. Exercise.

> "For someone who has been totally involved in starting, growing and running a business, getting out of the game suddenly can be like leaving a roller coaster on impulse."

Be prepared for a psychological letdown once you sell your business. Ease your withdrawal by spending a little time at the business after the new owner takes over.

You'll see that the company can continue to thrive under the new management, even though it's no longer your baby. The best way to deal with the transition phase is to have a plan in place for your next steps.

About the Author

Steve Kaplan is a consultant to businesses. By age 35, Kaplan had built one of his firms into a leading promotion, marketing and database company in the U.S. He currently owns several other organizations, including a venture capital group.