

Letting Go of Your Business

02/20/06

I want to sell my company! I want to spend more time with my spouse, and I want to be free of the business in order to do that! I've put in 30 years, that's enough, I'm ready to let go. There, I've said it, now what do I do?

Our reader is the owner of a small service business – just under \$1million in annual revenue. I've actually heard this theme a lot, lately. Maybe it's the time of year – cold and dreary – when the thought of escaping is enticing. For many of us, as baby boomers, it is time to think about the next stage of our lives. And for some, the economy has taken its toll.

Here is my first piece of information for this owner, and everyone else, who owns a company. Someday you won't be coming to work – whether you plan for that or not! When that happens, sale is just another word for change.

What will it take to sell the business? Committing time and energy to the project can increase the value you get out of the deal. Describe the assets of the business: customers, the market, delivery, financials, history and employees. Market the business, just like you would anything you sell. Show you understand your business, and can back up what you describe with facts and numbers.

Customers – describe customers, attributes, why they do business with you, what they value. Group customers: interest in products, industry that they are in, size of purchase, profitability, are four typical ways. Find out what else your customers might be interested in buying: untapped potential is valuable.

The Market – is it growing, flat or dying? How can your business grow and keep up with the trends? How will your business get more than its fair share each year? What kind of game-plan do you suggest, for outliving competitors and profiting during a decline? And what other niches can the business jump into?

Delivery – how can you produce and deliver easier, faster, better? If you had more money, what changes would you make? How long are you willing to stick around, after the sale, to show the next buyer how to produce and deliver your product or service? What other else should the company offer, and how would it do that? Put your thoughts into writing – people will pay for what they can see.

Financials – are they strong? If they are, that's great. If they aren't, figure out what it would take to make them great. Maybe the company just needs a 20% increase in sales, in order to make a much bigger profit. If so, describe how a new buyer, with an investment in a marketing

campaign, could accomplish that. Show a buyer financial trends – several years' worth. Avoid saying, "Just trust me. I can't prove it, but I know it's true." Have your facts, and paint a picture for growth and profit: either how you're getting that now, or how that would happen if a new owner came in and made some changes.

The value of the underlying assets must be clear, and of value to someone other than yourself. The underlying assets may be as specific as furniture, equipment, inventory, or product ready to be shipped. Or it may be as intangible as the ability to deliver your work over and over again at a consistent standard. Assets include documentation about how your company does its work.

History – Do a little research on your industry. Your regional or national trade organization can help, so can the research librarian at the local library. If you're internet savvy, take a look at what Dun and Bradstreet has for industry trends – it will cost you a little, but make you much more informed, which will add to the value of the sale. Compare your business to the industry at large. If you've performed better than the industry, that's terrific. If you haven't done as well, explain how the new owner could do better. If you don't have the answers, get someone to help you figure them out.

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Employees – Consider your workforce as an asset. If they know how to run parts of the business, and they agree to stick around after a sale, things will be much easier for the new owner. Ask yourself, what additional employees would the business need to get to the next level, where would you find them, and how would the business afford them? Show a buyer how to expand by tapping into human potential.

How do you want to market the business: power point presentation, a brochure, a series of reports? If you were buying the business, what would you want to see? Ask others what they have seen work well. Talk to people who have made recent purchases, about what they wanted to see.

Here are some questions to consider: Can you answer a potential buyer's questions? Can you quickly get to the back up? Is it consistent? Does it support what you have been saying? If you say the business has 100 customers, can you point to all 100, or can you only find 10? If you say the business has \$1 million in assets, can you demonstrate that, without liabilities tying up the assets? It's okay to have debts and bank loans. But you have to show how the business will pay off debts and still have asset value left over afterwards.

How will you find potential buyers? Start by considering the options. You might sell it to your employees, your family, a partner, competitor, someone you know who wants to get into your business, or, possibly a complete stranger. Make sure your buyer is someone who is truly interested in your business. Avoid the temptation to browbeat children or other relatives to come in, just to bail you out. This is a serious commitment for anyone who joins you – make sure they are as interested in doing this, as you have been.

You can put the word out as quietly, or aggressively, as you want. You can put an ad in the paper, or a trade journal. Send letters to competitors, people you buy from, major customers. Companies that sell to you, or buy from you, may want to go further up, or down, the distribution channel. You can try to recruit your buyer, by looking for an employee who wants to grow into ownership. You can work through brokers, if you want to keep things quiet.

As you start working on the sale, remember that prices are very fluid in the entrepreneurial marketplace. Value is in the eye of the beholder, and depends on the quality of the picture you paint. Be willing to negotiate, be flexible about how you execute the sale, and don't accept too many promises about future payments. Get advisors to help

you – people who have done this before can help you avoid pitfalls and secure the deal for you.

As you consider your options, remember that the only likely alternative to selling is to shut the business down, liquidate, or give it away. And those alternatives do not pay you for the value of the years you invested getting to where you are.

Looking for a good book? Try *How to Sell Your Business: And Get The Best Price For It*, by John E. Sampson.

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