The Seller's Great Dilemma

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Business owners all too often deferred decisions related to the need to sell and or transition their family businesses. There are series of rationalizations for such behavior. The most common are:

- I am not planning to retire for several more years so I have time to worry about this
- I am waiting for my children to decide if they want to come into the business
- I have too much on my table to think about it now
- I have a profitable business and it will be easy to find a buyer

On the surface such positions seem reasonable to the owner. But they all fail to address the issue and that could spell disaster when the time come to actual put the business on the market.

Let's take a look as to what these rationalizations fail to take into account.

- Health issues can arise at any time and the need for succession and or sale comes crashing down. The owner is not available to assist and sooner the need to sell causes a significant drop in the selling price. Competitors make offers to the Company's customers to move their business. Customers and employees become concerned about their relationship with the Company.
- Children frequently avoid family business and the issues related to such. Even if the children decide to enter the business, questions arise with respect to both the ability to run a business and the competition between siblings. Will the eldest yield to a more business savvy younger brother or sister. Another issue is how key employees' will respond to the generational transition.
- The question of being too busy raises a whole litany of issues related to the internal structure of the business. Does the owner have quality management people he can rely on handling the day to day operations? History has proven that many successful entrepreneurs have failed to make the transition to business operators. They have promoted worker bees to key rolls of management. Accounting clerk to CFO; sales clerk to VP of sales. These types of promotions tend to lead to followers rather than thinkers. The owner says jump and they respond "how high".
- Profitable businesses can crash overnight. Technological innovation is happening at an increasing rate. Watches have been replaced by smartphones. VCR's are now antiques. Newspapers have lost out to the internet. What's next is anyone's guess. Business owners' need to be looking at how technology can affect ones business and plan to embraces the change and not chooses to wear blinders.

These are the problems facing owners and they have created problems for business brokers, investment bankers, equity funds, financial planners, lawyers and accountants. Advisors have tried to get a message across to their clients that before one sell a business the owner must undertake actions to improve the value and salability of the business and that takes time and money.

The most common response to spending money is "what will it cost and why do I have to undertake the expense when my business is running well". The answer given makes a lot of sense but more often than not does not resonate with the business owner. Undertaking sell side due diligence will make it easier for the business broker to sell the company. The business owner only hears that "this will cost me money".

Let's focus on a better approach to get the business owner to sign on the process.

Sit down with the owner and start with the following:

> John, you have invested your adult life to build this company. When you started you invested your savings and sweat to get the business off the ground. You continue to invest to grow the business. Hired employees, bought equipment, marketed your products, acquired smaller competitors. This all happened because you invested time and money to bring the business to the stage it is in now. It only seems logical for you to invest time and money to enhance the business further as part of the process of selling it.
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> Let's take a closer look at what I am getting at. By engaging consultants to undertake the review and documentation of your operations it will make it easier for us to price out your company and present it to qualified buyers. By interviewing management and employees about what they do and their suggestions for operational improvement and comparing such to the managers assessment of job functions of their staff could improve communications, controls and operational effectiveness. Over the years you have upgraded your computer systems several times. Studies have indicated that few companies review the operational procedures related to pre and post conversions and as a result frequently have either duplication and or gaps in operational controls. By improving the procedures waste can be eliminated and operating costs reduced.
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> Plans can be developed to invest in key personnel and marketing programs to increase sales and profits while looking for the best suitor for the business. Programs that may take several years to implement should be outlined so that the potential buyer will have guidance and will increase the potential of sale.
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> **One very important thing that you should consider is that by undertaking such a review missed opportunities can be identified which could both enhance the selling price or change the direction of your transition plans.**

You know that company's typically sell for multiples of EBDITs. If you invest say \$50,000 to \$75,000 to prepare your business for sale and that commitment improves your bottom line by \$100,000 that can effective increase your sales price by \$500,000 to \$600,000. The longer we have to undertake such studies and to implement the operational changes the greater the selling price reward will be.

I know that you have been the captain of your ship for many years and this will allow you to better control the best course for business transition.

The key to this approach is to get the business owner to sign on to the investment. More than likely if the owner does he will come to believe that it was his idea all along. That's what business owners do.