



Start Early When Planning to Sell

Five years. That's the minimum amount of time a business owner needs to plan his or her exit from a company. Five years of intense planning will give most owners time to assess the state of the company and take the steps necessary to maximize its value.

Because increased risk means less value, one of the most important exercises an owner can undertake is a comprehensive assessment of the business, followed by an aggressive risk mitigation plan.

Conduct An Effective Assessment

Take a look at where the organization stands:

- What are the company's strengths, weaknesses, opportunities and threats?
- What is the state of the industry and where is it heading?
- What is the competitive landscape — both now and in the future?
- Who are the company's key employees and what are their goals?
- What are the owner's options in terms of an exit strategy? Selling to an investor? Selling to employees? Gifting to the family?

Carefully documenting current conditions will allow the owner to assess risks and make changes or improvements in anticipation of a sale.

Avoid Superficial Fixes

During this planning period, owners may be tempted to cut corners, knowing that the business will soon be someone else's responsibility. To save money and make cash flows look better, some owners might consider cutting advertising or marketing spending, or ceasing equipment or system upgrades. The problem with these shortcuts is that they actually damage the value of the business. Buyers will not be fooled by these superficial fixes.

On the other hand, taking steps to tidy up the business in other ways will pay off. For example, organizing records for due diligence will save time and give potential buyers confidence that the business has been run efficiently. Cleaning out storage spaces, recycling or disposing of old equipment and discarding redundant records also helps with the appearance of organization and productivity.

Selling a business is the largest transaction most owners will undertake. It is wise to gather a team of professionals to help guide the way. Consider calling on an accountant, an attorney, a valuation professional and an investment banker for input.

An accountant can help not only with getting the books in order, but also with tax planning. Earlier is always better in terms of estate planning and retirement strategies.

An attorney will be helpful with documentation and risk mitigation in terms of the sales transaction itself. He or she can also review key contracts and put non-compete and confidentiality agreements in place for key employees.

It's also wise to engage a valuation professional to conduct an early business valuation to identify potential risks and possible improvements.

Finally, an investment banker or business broker can help by preparing the confidential memorandum, creating a market for the company and negotiating in the owner's best interests.

If you are considering the sale of your company, please call on us for assistance.

All in the Family?

Family businesses pose special challenges in terms of exit strategy. The biggest mistake most owners make is assuming that a family member wants to or is capable of running the business. Be sure to ask a trusted advisor to weigh in on succession options before any decisions are made.

If the company is to be sold outside the family, be prepared for other issues. Sometimes family employees are overcompensated or enjoy special perks that new owners will not approve of or match. Or, maybe a lack of outside experience has kept the company stagnant or inefficient, and a new owner will want to clean house.

These concerns can be more easily managed before the company is actively on the market. Planning early allows time to address even the stickiest of family situations.