

## “The Call” Will you be Ready?

by Tom Stocker

You just received an offer for your business...now what? If it hasn't



happened to you yet, it probably will...IF your business is something worth buying. It sometimes starts

with a casual conversation with a competitor or it could be an unsolicited call from an investment banker on behalf of a client, or from another direction all together. Most likely you weren't even thinking about selling your business, and now you are intrigued enough to be thinking about it. But what are you thinking? You probably aren't sure where to start or if you should confide in anyone. You may be curious enough to want to know what they might want to offer, or during the conversation you may have thrown out a number just to see how the conversation would go.

### Be Prepared

A better outcome can be predicted if you were to have a few things in place before “the call” ever comes. If your business is like over 50% of the private businesses in this country, you don't have a formal vision, strategy or a forecast for the future of your business. This is a basic requirement for you to be

able to control your destiny and extract a greater value from any transaction. If you don't paint a picture of where your business is headed, you will be leaving it up to your suitor to paint their own. And believe me, you will be at a major disadvantage to negotiate a favorable deal if this is your strategy.

When “the call” comes, you will be able to articulate how bright the future is for your business and bring the expectation bar significantly higher if they sense you have a clear path. And, if you want to remain with the business, it may give your potential new owner a favorable impression to make sure you come with the deal. Regardless, having a vision, strategy and measuring your business through a forecast is a world-class methodology to drive business value, one that every business needs to have in place.

Most likely your business hasn't had a formal valuation, so any value you put on your business is going to be pure conjecture and most likely higher than it may really be worth...especially if you haven't done anything to build your business around an eventual transfer.

What about you personally? Do you know what you want out of the deal, both financially and emotionally? A significant amount of deals do not get completed because these two questions

weren't adequately answered by the owner (to themselves). An industry statistic is that only 20% of businesses that go on the market ever get sold. So unless you are different than the 99% of other owners who didn't complete a deal because of this, you will not give up control of your business or complete any deal without knowing these two answers either.

### **Start Yesterday, Not Tomorrow**

Getting your business ready for any transfer takes time, usually three to five years. Owner's Edge shares a philosophy with our clients that works very well. That is, build your business as if it is going to be sold, no matter when or if it may happen. To drive value a business must be transferable and sustainable. If you agree these two facts are true, you have the basis for a vision and can create and implement the strategies to get there. By following this philosophy, the bonus is that you don't need to have an exit planned at all. You can do anything because you've built a business, not a job, and your business will be ready whenever an opportunity right for you presents itself.

To realize the most value from any deal, you must be able to show with great conviction that your business is worth it. Sounds obvious, but it takes time and a lot of work to achieve. In effect, your business' value is determined by how much risk the business has. The less risk, the more value. The top value drivers for any business are:

- *Is your business growing?* After all, future cash flows are what the other party is going to buy, so the valuation they will be willing to pay is heavily weighted on this factor. Revenue, margin, profit and cash growth are all extremely important to driving higher than average multiples.
- *Is your management team top notch?* Removing management risk is the #2 value driver. If you haven't spent much time building a strong team, and your team's depth ends with you, you will be penalized. You need to spend time building a team that can carry on without you, and in fact show they are driving the business forward with confidence and skill.
- *Do you have a killer product (or service) or a defensible niche?* If not, chances are you haven't gotten "the call." If you do, you need to show you are taking advantage of this by increasing market share, introducing new or add-on products (or services) and otherwise exploiting your market advantage.
- *Is your customer concentration sellable?* Having a recurring revenue stream and not tied to only a few customers is a lot more valuable than a customer base of one or two. A rule of thumb for concentration is to have no more than 10% to 20% of revenues tied to

any specific customer. Of course this differs by industry.

### **Are You Experienced?**

Have you ever sold a business before? Probably not. It will most likely be the biggest deal of your life, and you can count on it being the most emotional as well. But because you are a savvy, smart and confident business person, you may think you don't need help, especially from a seemingly expensive M&A professional. You couldn't be farther from the truth.

You may be thinking, "why do I need an expensive M&A advisor?" Because selling businesses is what they do, just like selling your products and services is what you do. Would you expect an M&A advisor to be able to sell your products or services? Then why do you think you are good enough to do what they do? Here is an analogy for you to ponder; selling your business on your own is akin to you and your golf buddies challenging your favorite pro football team to a touch football game. Who do you think is going to win?

An M&A advisor provides significant experience to your side of the table. Some of the skills they will bring include increasing the deal value on your behalf significantly and smoothing

over much of the emotion during the deal. They will help you prepare your financial statements for "public" consumption, including helping you create a future forecast (very important to paint the picture needed to establish a price) and determine what is needed to keep the deal moving. They are the intermediary who will handle much of the negotiations, especially when they get testy (and they will) and more. All of these skills will more than make their fees reasonable and them a crucial part of your team.

### **Don't Try This at Home**

You can't do this alone. You need a team of advisors, several of whom are most likely outside your current group of trusted advisors. Your CPA and business lawyers are very important to the process as is your wealth manager. As I discussed above, the M&A advisor is absolutely essential to the process. To prepare or change your business, create your vision and strategy, and to assess your personal needs you will need the expertise of a business advisor from Owner's Edge.

You spent your life building your business and deserve to reap its full value. Don't leave it on the table.

## Where should you start?

Owner's Edge can help in three major ways:

- **Is your business poised for growth?** Our strategic owner advisory and execution services will help you and your team focus on the strategies and actions that can bring your business to a significantly higher level of performance and profitability.
- **Is your business saleable?** Owner's Edge is experienced in getting businesses ready for a sale or transfer. Our Operational Assessment™ will identify and prioritize what your business needs to change in order to grow to a higher level of performance, be transferable and saleable.
- **Are you ready personally?** We will help you articulate your personal and family goals, assess your emotional readiness for a change and estimate your family's financial needs for the future. To understand how much your business may be worth today, we will compute a range of values as a financial guide and assess your potential transfer options.

**Call Owner's Edge for a no obligation consultation today.**

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About the author; Tom is the Managing Director of Owner's Edge, LLC. Contact Tom directly at 401-451-9799 or [tstocker@OwnersEdgeLLC.com](mailto:tstocker@OwnersEdgeLLC.com).

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