

# How NOT to Sell Your Company

When the time comes to sell a business, many considerations must be weighed and balanced. If a company is not being passed on to family or sold to employees, there is an optimal method to successfully selling a company. Without a strategic plan for the sale, the sale will surely fall short of providing the greatest market value for owners or stockholders.

Few business executives and owners are aware of this fact and therefore, take the conventional approach which typically generates a less than stellar selling price. When the time comes to sell, they turn to a business broker. This is perfectly understandable as for most small to medium sized businesses, selling is a once-in-a-lifetime experience and the relentlessly advertised business brokers are the first to come to mind. But in reality, this is how NOT to sell a company!

Business brokers are not the solution because when you are selling a company, clinching the deal is just the final step in the process. For best results, preparation is the name of the game. To begin with, two very important initiatives must be considered. The first is **how you position your company** and the second – **synergy**.

Positioning involves all aspects of preparation and is vital to the outcome. It should begin with a carefully planned, value maximizing strategy initiated as soon as the decision to sell has been made. Preferably, two to three years prior to the intended sale. Preparation is usually viewed in terms of first maximizing sales, then – cash flow and third – profitability. Although these are essential, other seemingly peripheral factors can also prove crucial to the outcome. Key personnel, processes, systems, the customer base and the identification of possible future opportunities for the company will all play a role in the success of the acquisition.

Where do business brokers most often elicit interest in a company that is for sale? Among competitors, but is this really the best place for a seller to seek a buyer? Once word is out that a company is on the auction block, competitors have two objectives: try to buy it cheap or spread the word among customers, employees and suppliers deliberately driving down the value so that it can be ransacked, hobbled and eventually bought at an even lower price. It is for this reason that savvy business sellers will either try to parlay their listings outside the local marketplace or attempt to maintain secrecy.

Hand-in-hand with positioning is the role synergy plays in enlarging the sphere of possible buyers. Synergy, here, refers to the potentially advantageous correlations between the functions of the company being sold and the existing needs of potential buyers. Take for example a gulf coast machine shop which supplied a very localized clientele. Machine shops are a dime a dozen in most

locales and this one was no different. However, instead of offering the business in its local market, a large foreign based corporation was found to buy it at several times the price it would have fetched locally. Furthermore, the owner was asked to stay on and run the business for a very attractive compensation package. What was the motivation behind this transaction for the large foreign corporation?

As it turns out, the European corporation was indifferent to annual revenues, cash flow, profits, the customer base or various other features of the machine shop, because they had a more pressing problem. As a supplier of large equipment to the off-shore oil and gas drilling industry, turnaround time for repairs was critical both for existing customers as well as for luring new customers away from domestic competitors. The local machine shop was just one in a string of such acquisitions along each coast for the sole purpose of rapidly repairing large gears. The acquiring company was unconcerned about the machine shop's profitability; only their reputation for excellent work mattered. In air freight alone, the annual savings from not having to transport large parts to their European repair facilities far exceeded sales totals of the acquired businesses. If each machine shop just broke even on their regular business, the parent company would realize substantial bottom line savings as well as the additional benefit to customers of a greatly improved turnaround repair time.

Another example of synergistic sales began with one of the simplest businesses imaginable, a wooden pencil company. California Cedar Products Company was a premier manufacturer of finished pencils as well as the wooden slats used by other pencil manufacturers. In 1970, they established the Duraflame brand as a premium processed fireplace log manufactured from wood scrap and sawdust. Their primary channel to market began with specialty fireplace stores, but real growth came when they entered the major grocery chains. In 1978, Duraflame was very profitably sold to Kingsford Charcoal, a division of Clorox. Kingsford controlled summer barbecue season shelf space and maintained that space all winter with the sale of Duraflame logs, ensuring continued year round control of that valuable shelf space.

Many businesses have been similarly acquired for the purpose of gaining an established product or channel to market, a profitable horizontal or vertical market integration, a technology with potential spin-off opportunities for a new owner, or other innovative applications possibly unrelated to the existing operations of the company being sold. In each instance, the buyer recognized a greater value for the business than could be obtained within its own industry. This directly translated into a much higher selling price than anticipated.

In preparing a company to be sold, one of the critical priorities must be to clearly ascertain all strategically related industries where a synergistic opportunity may exist. The successful identification of correlating functions could significantly increase or even multiply the value of the business being sold. When this is achieved, along with the other crucial steps in positioning the

company for sale, the resulting value attained by the seller can, indeed, be exponential!

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