

How NOT to Sell Your Company

When the time comes to sell a business, there are many considerations that must be weighed and balanced. There is, however, only ONE right way to sell an on-going concern, unless a firm decision has been made to pass it on within a family or sell it to the employees. In the majority of instances where this is not the case, the sale falls short of providing the greatest market value to the selling owners or stockholders.

Why? Although there is only one right way to sell a company, few business executives and owners are aware of this fact and therefore, take the traditional, but less effective approach. When selling time comes, most executives of small businesses turn to a business broker. This is only natural, as for many selling is a once-in-a-lifetime experience and business brokers are frequently “top-of-the-mind” due to their aggressive marketing tactics.

If business brokers are not the solution, then what is? The question must be answered from two aspects. The first is **positioning** and the second - **synergy**.

Positioning entails all aspects of preparing a business for sale and is an effort critical to the outcome. It should therefore, encompass a well thought through and rigorously planned, value maximizing course of action beginning two to three years prior to the intended sale. More often than not, preparation is viewed almost exclusively in terms of first maximizing sales, second, maximizing cash flow and third, maximizing profitability. Although each of these aspects is clearly important, there are many other factors that can prove equally crucial to the outcome. Key personnel, processes, systems, the business sector’s diversity, breadth, depth and loyalty of the customer base, the opportunity for vertical and / or horizontal market integration into a competing or complimentary company as well as other variants can each play as important a role in the ultimate acquisition result.

Where do business brokers most often seek to elicit interest in a company that is for sale? Among competitors, but isn’t this also the worst place for a seller to seek a buyer? Once word is out that a company is on the auction block, competitors have two motivations; buy it cheap or spread the word among its customers, employees and suppliers in order to drive down the value so that it can be raided, hobbled and finally bought at an even lower price. It is for this reason that savvy business brokers will try to parlay their listings outside of the local marketplace or attempt to maintain the secrecy of the sale through confidentiality agreements. However, in today’s rapidly shrinking global marketplace, it is increasingly difficult to maintain the necessary shroud of secrecy when a company is offered within its own market sector.

The second aspect of the solution, operating hand-in-hand with positioning, is the role of synergy which creates an exponential enlargement of the field of possible buyers. Take the example of a gulf coast machine shop supplying 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 this business at several times the price it would have fetched in the local area. Furthermore, the acquiring giant invited the owner to stay on and run the business at a very attractive compensation package. Why? Had the corporate chieftains lost their minds or suddenly become altruistic? Neither.

The large European corporation was indifferent to annual revenues, cash flow, profits, customer base and other aspects of the machine shop, because they had a much more critical 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 of a string of such acquisitions along each coast — for the sole purpose of rapid repair of large gears. The acquiring company was unconcerned about the profitability aspect of the machine shops, only their reputation for excellent work mattered, as the annual savings in air freight alone that resulted from not having to transport large parts to their European repair facilities was greater than the combined sales of the acquired businesses. Thus, if each of the machine shops just broke even annually on their regular business, the parent company would, nevertheless, achieve a huge bottom line cost savings as well as the benefit to its customers of a greatly improved repair turnaround.

Another example of a synergistic sale 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 in specialty fireplace stores, but real growth would only come from entry into the major grocery chains. In 1978, Duraflame was sold to Kingsford Charcoal, a division of Clorox. Kingsford controlled shelf space in grocery stores during the summer barbequing season and was able to maintain that valuable shelf space in winter with Duraflame logs.

Other businesses have similarly been acquired for the purpose of gaining an established channel to market, a profitable horizontal or vertical market integration, a technology with here-to-for unrecognized spin-off opportunities for a new owner, as well as a myriad of other innovative reasons and synergistic applications, each unrelated to the existing business operations of the company being sold. In all of these instances, a much greater value for the business was recognized by the buyer than would have been supported within the traditional marketplace. This translated directly into a vastly greater selling price than the business executives had ever imagined.

During the period of preparing a company to be sold, one of the critical priorities must be to determine all strategically related industries for which there may exist a synergistic opportunity to multiply the value of the business that is to be sold. When this is done properly, in conjunction with the other key steps in positioning a company for sale, the resulting value received by the seller can frequently be much greater than a sale within the industry would have ever accomplished.