

Now's the Time To Sell Your Business

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If you've ever thought of selling your business, do it now!! That's been my advice since a close friend phoned me to say he had sold his business. When I asked why, he said the economics were simple. There is so much money chasing so few deals that the final price was way beyond reason. And he figures he can re-purchase his company for a fraction what he received once the buyer blows it up (and from what I've seen already, it won't be long)!

"You'll make more money selling your company than you'll ever make selling your products or services" exclaims Stephen Watkins, founder and CEO of Entrex, an entrepreneurial exchange launched to create a market for privately-held firms (www.entrex.us). A modern day Alexander Hamilton, Watkins' Private Company Index (my company Gazelles is reporting to the Index) is giving private firms visibility to the capital markets and documenting how the private company sector of the economy is growing three times faster than the public company sector – and the people with money to invest are taking notice.

In fact, dozens of friends and clients have sold their businesses in the last six months and more are in the process. Granted, there's some critical knowledge you need, starting with understanding how large companies are trained to steal companies from entrepreneurs. I'll get to their tricks in a moment with some countermeasures you can make.

But first, what's going on? The baby-boom! It always comes back to them. They are pouring billions into retirement funds while the stock market is flat, so these funds are ending up in the private equity market. Last year alone it's estimated that \$100 billion went unspent. Combine this with Corporate America needing to innovate its way to the next level, while incapable of innovating internally, and you have an environment where large companies are willing to purchase ten entrepreneurial firms to find the one home-run new product or service while trying to outbid private equity firms looking for a place to stash their cash. And the winner is...you! But only if you play your cards right.

Warns Watkins, "It was obvious when we were interviewing various entrepreneurs that they were excellent at knowing how to sell their products, but struggled when it came to selling the value of their company." Just watch some of their interviews on the Private Business Channel (www.privatebusinesschannel.com) and you'll see what Watkins means.

Someone who knows how the game works is Patrick Thean, Charlotte business advisor, who has been leading a series of workshops around the nation on *Selling Your Business for a Premium* (my firm is helping Thean promote these workshops). Having sold several firms himself in the U.S., he boldly states “if you simply end up selling for some multiple of EBIDTA, you’ve failed.” The key to garnering a premium is finding a couple strategic buyers – companies that have to purchase your firm for strategic reasons and need to do it quickly – and then creating an auction.

This leads me to the tricks buyers play. Here are their steps:

- 1) Offer the entrepreneur a price at the very top of their price range and suggest that the deal can get done in weeks vs. months – the idea is to lull the entrepreneur into not wanting to look for another buyer.
- 2) In turn, ask the entrepreneur to sign an exclusive arrangement where they are forbidden from shopping the deal during due diligence (which is only supposed to take six to eight weeks anyway, so what’s the big deal!). This prevents an auction.
- 3) Take the entrepreneur out to dinner frequently in the beginning and get them to discuss what they are going to do with all their money. Best if you can get them to describe in detail the boat, house, car, and/or trip around the world they plan to purchase. The key is to get the entrepreneur already spending the money in their mind.
- 4) Now, drag out due diligence as long as possible – six months, nine months, even a year – all along telling the entrepreneur that its only a “few more weeks.”
- 5) During this time find out when the entrepreneur has scheduled a vacation, has a critical trade show to attend, or is planning a company retreat and then demand certain information or meetings that disrupt these events.
- 6) Count on the entrepreneur, in the meantime, to hold off on all tactical and strategic decisions i.e. releasing a new product, hiring a key executive, upgrading technology, or making a key investment. After all, the entrepreneur is figuring “why go to the expense if I’m closing the deal in the next few weeks.”
- 7) Wait for these delays in time, decisions, and emotional costs to catch up with the entrepreneur. This in turn will cause company performance to slip just enough so the large company has reason to dramatically reduce the final price.
- 8) At the 11th hour, 59th minute, slash the price, toss in all kinds of demands and restrictions, throw a room full of lawyers into the mess, and crush the unsuspecting entrepreneur. The entrepreneur is now so invested in the process and has delayed so many critical decisions they have to sell. Victory has been had!
- 9) And best of all, use your size to avoid paying the entrepreneur any of the earn-out payments. What are they going to do, sue you? Just hope the entrepreneur goes away.

To counter these moves:

- 1) Identify several strategic buyers and keep them all engaged in due diligence initially. You want several firms investing time; for you its just duplicate boxes of documents. This will also give you more time to assess the buyers. And when you pick a finalist, give them a set time to close the deal or you're back negotiating with the other firms.
- 2) Don't make a single decision differently until the check is cashed. One entrepreneur released his five year plan on the eve of closing the sale of his firm. Sometimes your only leverage if you've failed to create an auction is your willingness to keep running the business.
- 3) Keep your best customers extremely happy – they are your best defense. One entrepreneur identified four key customers and encouraged his team to do whatever it took to keep them ecstatic.
- 4) Focus on company performance during due diligence. Nothing is better than producing higher revenues and/or profits than the buyer expected. The key is hiring some help to run interference with the buyers so you can stay focused on running the company.
- 5) Maintain a position of strength. One entrepreneur went to a wealthy friend and secured a huge line of credit as a way to demonstrate to the buyer he had access to the capital needed to compete in the market. In turn, he's paying the friend a fee, in addition to interest, once the deal is done.
- 6) Be proactive. Another friend, who is in the middle of due diligence right now, planned his vacation in the town of the buyer! When the buyer then requested the anticipated emergency meeting, he showed up within the hour.
- 7) Have a #2 in place that will be attractive to buyers so you can extract yourself from the company as soon as the sale is made. You want to avoid earn-outs as much as possible, or at least accept the fact that you might never see another penny, so be happy with the cash you receive upfront.

I'm on my way out to see another friend in a couple weeks who is so tired from the due diligence process that she's about to give up and sell the company for whatever price she can get.

It's sad to see an entrepreneur reach this point after putting in 15 years of blood, sweat, and tears. Selling your company is the final stage of building a company, whether it's to a buyer, your children, the public, or as part of your estate settlement. Make it count.