Writing Sample: A newsletter BEI members use to engage prospects. See commentary at the end.

Whether You Sell Your Business or Not, the Planning Is the Same

There are many things for you to consider as you think about the future of your business ownership: When is the right time to move on? How much money will I need? How do I even sell this business? These questions dovetail into an important decision you'll try to make early in the process of planning your future: Whom you'll sell or transfer your ownership to.

At the end of the day, business owners can sell to two different types of buyers: insiders or outsiders (also referred to as "third parties"). There are different flavors of insiders (e.g., children, key employees, co-owners, and even ESOPs) and third parties (e.g., competitors, venture capitalists, private equity groups, strategic buyers), and owners sometimes get bogged down in what seems like an endless supply of options and strategies to plan for the future of their businesses. However, whether your goal is to sell to an insider or a third party, it's important to understand that, no matter what, third parties set the standards by which we judge just about all ownership transfers.

It may sound odd that a third party can set the standards of an ownership transfer even if you wanted to transfer your ownership to, say, a family member. But professional buyers, such as private equity groups, set the terms of ownership transfers based on their experience with buying businesses, their competition with other buyers, and their abilities to find strengths and weaknesses in potential acquisitions. In short, they know what makes successful businesses successful, and they demand that the businesses they buy have the elements of a successful business. Like professional buyers, just about anyone else you'll look to sell to will want those same things.

So, even if your dream is to transfer your ownership to your children or employees, it's important for you to prepare your business for a third-party sale. Let's look at three reasons why.

1. Professional buyers determine value.

Professional buyers have the experience, resources, and understanding of the market to find what makes a business successful. They know what a strong management team looks like, they know what good operating systems look like, and they often know how to leverage a business' strengths beyond what the current owner can do. Thus, they are the arbiters of value.

Because professional buyers can determine a company's value, it's wise to build your plans around what professional buyers look for in a potential acquisition. If a professional buyer would value your company highly, it's likely that other third parties and insiders will do the same. Additionally, if a professional buyer values your company highly, it can mean that your business has elements that make it run smoothly whether you're present or not.

2. Many buyers want similar elements in their businesses.

Many buyers want strong management teams, a competitive advantage, and a proven growth strategy in place before they buy a business. This is true of professional buyers as well as insiders. Insiders—especially children and co-owners—can develop a blind spot for the company's weaknesses and take its strengths for granted. This can put you at risk if you're relying on the company's performance to provide your income after you exit. On the other hand, if you propose that your top managers take over ownership, they may start to scrutinize flaws in the business, creating skepticism and uncertainty.

You can position yourself to mitigate these risks by planning as though you needed to impress a professional buyer. Again, if a professional buyer sees the value in your business, it's likely because it has certain elements that allow it to run smoothly, whether you're in control or not.

3. Third-party sale planning gives you an out.

Sometimes, transfers to insiders can fall apart even with the best planning. For instance, a family member or key employee may decide that the pressures of ownership aren't worth the benefits and pull out at the last moment. Or, a co-owner you hoped to sell your share of ownership to may realize they aren't cut out to fill your role. By preparing for a third-party sale even when you don't intend to sell to a third party, you can give yourself an out if the insider you choose can't or won't take the reins.

Many of the big picture elements that go into third-party sale planning apply to planning for an insider transfer. If you'd like to evaluate or begin your plans for the future of your ownership, please contact us today.

A client's comments on this newsletter: "I talked with a client business owner yesterday who contacted my partner in charge of the account. He told me one of the reasons he's decided to start planning is from reading your newsletters! Awesome, keep up the excellent work!"