Business Transitions – What to Expect

Key Points

- A business sale can be an exciting and frustrating experience for both buyers and sellers.
- A good deal is more than price
- Try to be upfront with the good and bad – if you hide something from a buyer they will likely find it, which damages your credibility
- Companies that have the best preparation pre-sale usually get the strongest offers

What to Expect

Selling a business can be both stressful and exhilarating for the seller and buyer. Both parties want to get the 'best deal possible', and don't want to regret the deal after it is completed. For the buyer, this means not paying too much, as well as not taking on too much risk (debt loads, time to learn the business, uncertainties, etc.), and being sure that they are still happy with their decision in years to come.

Having met with many different business owners when I was searching for a business to buy, I saw several issues recurring. When selling your company, you need to keep in mind that:

- Your company may be worth more to you than others are willing to pay
- Selling your business can be a long and frustrating process
- It will be a time-consuming process, even with outside help
- Even after the sale you will probably need to remain engaged with the business and new owner, as a trainer and advisor, and you may have money left in the business in the form of 'vendor takeback' for one or more years

If you are selling to an external third party, you may also find that:

- You will need to share a lot of very sensitive information with potential buyers
- Buyers will ask a lot of questions, including ones that seem obvious, irrelevant, or deeply personal

Even if you plan to sell your business to a family member who already works in the business, it probably isn't as simple as agreeing to the price and throwing them the keys. There likely needs to be additional training, completing the transition of relationships (employee, customer, supplier, etc.), and financial considerations (loaning them money to afford your business, paying out other family members to be equitable, etc.).

A Good Deal is More Than Price

Although price is the focus in most deals, there are other factors for both buyer and seller to consider.

As a seller, you need to think carefully about what you want out of the sale and how to achieve it. Some things to consider:

- Your exit: Timing and process, such as whether to stop working completely in 6 months, or gradually reduce your involvement over 5-10 years. What are your goals for this period and how will you know you have achieved them?
- Disbursements to family and others: If you have children or others you plan to help into the business or provide some of the proceeds from the sale
- Target sale price: The above and other factors will help determine the amount you need to sell your business for. Getting a business valuation will tell you if you're close to these goals, or if expectations need to be adjusted

From these criteria, you should be able to develop a picture of what the ideal buyer is like. This will then influence who you market to. Some types of buyers include:

- Family:
    - If they already work in your business, they probably understand it
    - They may need financial assistance to afford to buy your business. If there are siblings, it can be complicated to structure a deal that is seen as 'fair' to everyone. Remembering that fair and equal are not always the same thing often helps
- Management buy-out: some or all your existing management team:
    - Depending on level of autonomy, may need limited training and a short transition
    - May need more financial assistance than other buyers to afford your business
- Private Equity firm:
    - Most target companies with $3 million profit or more
    - Usually see it purely as an investment, and will likely build and sell the company over a 3 to 5-year period or roll it into a larger entity
- Independent buyer:
    - Most buy a company that they will also run full-time and keep independent
    - Likely to have limited funds, so may need financial assistance and are targeting companies with under $1 million in profit
- Competitor:
    - Often a quick transition, as they won't require much training, etc.
    - Likely only paying for customer lists, technology, etc., rather than a complete company
    - This can be a sensitive process, as competitors may use the uncertainty of a sale to target your customers, etc.

Individual buyers will vary from the generic descriptions above. But the size and type of company you have will limit the types of buyers interested, so this needs to be considered when developing options. Ideally you would determine target buyers 5 years before you intend to sell, to give time to adapt the company to suit buyer needs prior to sale.

About the Author

Alastair grew up on a large sheep farm in New Zealand and has spent much of his career in the agricultural sector. His career has focused on improving businesses, including over 3 years as a management consultant in Deloitte's Strategy and Operations practice. Alastair spent 18 months searching for a small business to buy and operate, and quickly saw the significant challenges facing business owners transitioning their business. Through Sheepdog Strategies, Alastair's aim is to improve the experience of business owners of agricultural businesses planning a transition.

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