

TouchStone Nugget

Common mistakes by owners, who try to sell their business themselves.

Over the past 20 years, the Alliance of M&A Advisors has found, surprisingly, that the ten most frequent mistakes made by businesses owners trying to sell their businesses are repeated, repeatedly.

Following are a list of the 10 common mistakes and added comments about the circumstances.

1. Owners have an unrealistic price in mind. (no valuation)

Recent surveys indicate that few companies have a current, accurate business valuation. Half of the time, owners are unrealistically high in their asking price, and the other half of the time, they are too low. Whether the owner thinks it's worth \$5 million or \$50 million, without a professional opinion for reference purposes, an owner has difficulty discussing or justifying their asking price.

2. Owners do not understand the value of the business. (no valuation and no plan)

Most owners of closely held businesses have suppressed profits to reduce taxes. The company's financial statements do not begin to reflect the true value of the business. The actual financial statements should be re-stated to eliminate the owner's discretionary and non-recurring personal expenses. In addition, attention needs to be drawn to "off-balance sheet assets," tangible and intangible. Historical financial statements do not tell the real or complete story.

3. Owners do not plan for the sale. (no plan)

Many business owners have not given enough thought to what their real personal financial needs are or will be. If the owner is willing to hold a note, the investor has more flexibility to pay a higher price. If the owner insists on an "all-cash" deal, a well-informed investor will discount their offering price by 35% or more!

4. Owners try to sell to the wrong people. (no plan)

One of the biggest mistakes is to think that the best investor for the business is a local competitor, customer, supplier, or employee. If the deal does not happen, and most do not, then a great deal of confidential information will have been disclosed about the company. Suddenly, everybody knows more about the company's profits and operations than they should. An owner should be careful with the disclosure of proprietary confidential information; otherwise, any offers for the business will be at the low end of the value range.

5. Owners do not understand the investor's motive. (no plan)

Rather than emphasizing the business's growth potential, an owner will dwell on past performance. Investors are looking to the future for a solid return on their investment and growth potential. BUYERS DON'T BUY - WHAT THE SELLER THINKS IS BEING SOLD.

6. Owners assume the best investor is local. (no advisor)

Most sellers naturally assume that the market for their business is the immediate surrounding area. It is a global marketplace and the best investor may be across the country, or elsewhere in the world. Thousands of very quiet private investment groups and offshore investors are interested in acquiring profitable, U.S.-based, privately held companies.

7. Owners do not have proper counsel. (no advisor)

Owners talk with business owners who made an ill-fated attempt to sell their own business. Most wish they had used an experienced intermediary. Without professional help, owners are prone to taking advice from the wrong people.

8. Owners are first to mention price. (no advisor)

One cardinal rule of negotiating is - Don't be the first one at the table to mention price. An experienced acquirer, who sees the potential, may have a higher price in mind. Value is very subjective. An owner will always regret "leaving money on the table". The sad thing is that the owner may never know what they gave up or if they find out, it's disappointing and now too late to renegotiate.

9. Owners fail to maintain proper documentation. (no advisor)

Investors are evaluating the purchase based primarily on future growth potential and expected return on investment. They want to see what the profits would have looked like if the owner had run the business like a public company. They also want the owner to prepare three-to-five-year pro forma financial projections, backed by solid market research substantiating the potential of the business. Simply stated, create a presentation to explain the past and sell the future!

10. Owners have not positioned the company for sale. (no advisor)

Organizational strength, growth opportunities, reputation, market conditions, and industry leadership, are some of the many intangible qualities investors appreciate. Documenting improvements that should be made by an investor with new capital may help better position the company and increases value. There can be a swing of 50% or more in price, if the company is solidly positioned for future growth.

Essentially, there are three reasons why the mistakes are made. They are as follows: 1) owner have no plan, 2) owners do not have a current valuation (or know what that is) and 3) owners have not hired a professional intermediary or advisor to help with the sale.

TouchStone Strategies addresses all of these issues (cures) and more as part of its normal approach in an "Exit Strategy Program".

Ronald W. Bird is President of *TouchStone Strategies*. Mr. Bird is an Accredited Merger and Acquisition Advisor by the Association of Professional Merger and Acquisition Advisors. He is an Accredited Executive Associate of the *Institute for Independent Business*. Mr. Bird is also a New Jersey Licensed Real Estate Broker. Mr. Bird received his MBA in Finance and BS in Accounting from Fairleigh Dickinson University, New Jersey.