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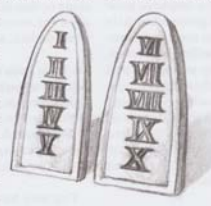

Selling your business? Follow the 'Ten Commandments'

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If you're a family business owner, chances are you're thinking about what you'll do when your working days are over. As William Rothwell, a professor at Penn State University, noted in the foreword to *Exit Right: A Guided Tour of Succession Planning for Families in Business Together* (by Mark Voeller et al., Summit Run Inc., 2002), "More than 40% of the people who run the closely held operations that comprise 80% of the North American economy will retire by 2007."

Even if you currently view the idea as outlandish, you are wise to consider the possibility of selling your company. The decision to sell is all too often a reactive one rather than a proactive one -- the primary reasons are a serious health issue, owner burnout, the death of a principal, general industry decline or the loss of a major customer.

Advance planning can ensure that you exit your business from a position of strength, not from weakness due to necessity. Good faith alone won't get you the best price. You must follow the "Ten Commandments" for business owners who plan to sell:

1. **Thou shalt not wait too long.** Have you ever heard anyone say, "I sold my business too early?" Probably not, but it's likely that you've heard the classic lament: "I should have sold my business two years ago." In most cases, waiting too long to sell a privately held business reduces the proceeds from the sale. The erosion in business value typically is most pronounced in that last year before exiting.

2. **Thou shalt be prepared personally.** Create a plan for how you will enjoy the rewards of your labor. Where do you want to live? What would you do if money were not an issue? You need to establish an identity for yourself outside your business.

3. **Thou shalt prepare thy business for sale.** Engage a professional accounting firm to do your books. Buyers fear risk, but audited or reviewed financial statements reduced the perception of risk. If you find that a large percentage of your business comes from a very few customers, embark on a program immediately to reduce customer concentration. Buyers fear that when the owner exits, the major customers will leave as well. Start to delegate management activities immediately, and identify successors internally. If no one fits that description and you have enough time, seek out, hire and train someone who would stay on for the transition and beyond. Buyers want to keep key people who can continue the momentum of the business. Analyze and identify the growth opportunities that are available, and capture that in a growth plan document. Buyers will have their own plans, but you'll increase their perception of the value of your company through your grasp of the growth opportunities.

4. **Thou shalt keep thy eye on the ball.** A major mistake business owners make in exiting is to focus their time and attention on selling the company, as opposed to running it. In case after case, these businesses suffer a significant competitive downturn. If the acquisition doesn't materialize, the company's value has eroded significantly. There simply is not enough time for the owner to operate his business while embarking on the full-time job of selling it. If the owner attempts to sell his business himself, by default he has broadcast that his business is for sale. Competitors would love to have this information. Bankers, employees, customers and suppliers get nervous. The owner has inadvertently created risk, a potential drop in business and a corresponding drop in the sale price.

5. **Thou shalt hire a mergers and acquisitions firm to sell thy business.** You improve your odds of maximizing your proceeds while reducing the risk of business erosion by hiring a firm that specializes in selling businesses. The buyer of the last company we represented for sale had previously purchased 25 companies. The sellers were good businesspeople and knew their stuff, but this was their first -- and probably their last -- business sale. Who had the advantage in that transaction? By engaging a professional M&A firm, the sellers helped balance the experience scales.

6. **Thou shalt engage other professionals that have experience in business sale transactions.** Consider hiring an accounting firm and a law firm to advise you on important tax and legal issues that can result in swings of hundreds of thousands of dollars. Each element of the deal that's favorable to the buyer for tax or risk purposes is generally unfavorable to the seller, and vice versa.

7. **Thou shalt get multiple buyers interested in thy business.** The typical sale transaction for a privately held business begins with either an unsolicited approach by a competitor or a decision by the owner to exit. If a competitor initiates the process, she typically is trying to buy your business at a discount. Outside of yourself, there is no one in a better position to understand the value of your business than a major competitor. She will try to limit the sales process to a negotiation of one. If she succeeds, it's unlikely that you'll get the highest price the market has to offer.

8. **Thou shalt be reasonable in thy expectations for sales price and terms**. The days of irrational exuberance are over. Strategic buyers, private equity groups, corporate buyers, and the like are either very smart or don't last very long as buyers. Generally there is a range of sales prices for similar businesses with similar growth rates and similar financial performance. Your objective is to sell your business at the top end of the range under favorable terms.

9. **Thou shalt disclose, disclose, disclose -- and do it early.** A seemingly insignificant negative factor revealed early in the process is an inconvenience or a point to negotiate around. That same negative factor revealed during negotiations or due diligence becomes, at best, a catalyst for re-examining the validity of every piece of data; at worst, it's a deal-breaker.

10. **Thou shalt be flexible and open to creative deal structuring.** Everything is negotiable. You may have in mind a gross purchase price of $13 million and all cash at closing. But you may have to get creative in order to reach that purchase price target by agreeing to carry a seller note for $3 million with $10 million cash at closing.

You may have spent all your working life building your business to provide you with income and wealth. You prepared and were competitive and tireless in your efforts. Take that same approach to selling your business. Exit on purpose and do it from a position of strength. You'll end up receiving the highest and best deal the market has to offer. FB

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