

Are You Being Your Own Worst Enemy?

Many business owners believe that they want to sell their businesses to a third party when first considering their business exits. Some fear that tight-fisted buyers will be the primary “enemy” in the way of a successful business exit. However, experience shows that it is business owners themselves who are often their own worst enemy when pursuing third-party sales, because they succumb to two common *Deal Killers*.

Briefly, a Deal Killer is a negative aspect of the business or its owner that can kill a deal with a third party if it isn’t resolved before the buyer learns about it. There are several Deal Killers, but two common ones are:

1. An unwillingness to recruit the best possible players for the Deal Team.
2. Failure to preserve the company’s most valuable asset: key employees.

Consider the story of Maxwell deHaan, a business owner who became his own worst enemy during the third-party sale process.

Maxwell deHaan was in the middle of exiting his business, deHaan Custom Tempering. His sons Hogan (the company’s CPA and unofficial HR representative) and Dylan (a deal attorney), and daughter Hildegard (a business consultant) worked diligently to position Maxwell to sell his business within the next 12 months. They had taken pains to keep Maxwell as far away from negotiations as possible, due to his short temper and refusal to agree to concessions. They were in contact with a buyer willing to pay \$16 million for the business, double what Maxwell needed for financial independence, provided deHaan Custom Tempering successfully passed the buyer’s strict due diligence protocol.



This issue brought to you by:
Chuck Baldwin
Baldwin & Clarke
Advisory Services, Inc.
chuckb@bcasi.net
baldwinclarke.com

The Baldwin & Clarke Companies have served New England entrepreneurs for over 45 years. Services include business valuation and consulting, M&A, executive benefit, wealth transfer and business continuity planning, investment management and retirement plan design and consulting. Our membership in BEI’s Network of Exit Planning Professionals provides access to The BEI Seven Step Exit Planning Process which has enabled thousands of business owners to develop and execute successful exit strategies.

Baldwin & Clarke
Advisory Services, Inc.
116 A South River Road
Coldstream Park
Bedford, NH 03110
(603) 668-4353
(800) 639-2711

Hildegard and Dylan both agreed that for their father's company to pass the protocol, they would need to recruit additional advisors to address key business issues. When they approached their father about this, he was livid.

"I spent all this money to get you all these degrees, and now you're telling me you need more help? Absolutely not. I'm not spending any more money on this. Get it done."

As Hildegard and Dylan struggled to determine how they could get the company to pass the buyer's due diligence scrutiny, Maxwell ordered Hogan to inform company employees that he would be leaving the business within the year and that the best performer would receive "5% of the final sale price." Hogan, who always strived to appease his father, carried out his duty.

Nearing the end of the buyer's due diligence team's review, Maxwell summoned Dylan and Hildegard for their final report. Hildegard explained that they had managed to get the company "as close to compliant as possible" with the buyer's expectations given their limited deal experience and resources. Dylan said that he would do his best to get the most money for the business as possible.

As Maxwell berated Hildegard and Dylan, Hogan entered his office. He told Maxwell that Jeffrey, who was the company's top salesperson by far, had resigned. In his resignation letter, Jeffrey said that Maxwell's disregard for his years of hard work by offering a share of the final sale price to "just anyone" was the final straw and that he was leaving the industry to pursue opportunities that valued his work.

"Fine, one less paycheck to write," Maxwell said in response. "It's not my fault he's having a bad quarter right when I'm ready to leave."

"Dad, this is a huge problem. The buyer thinks that Jeffrey is staying on with the company. Him leaving is going to hurt this deal," Dylan pleaded.

"I'm paying you to figure it out. So, figure it out." Maxwell yelled.

The due diligence review team came and went, with deHaan Custom Tempering failing in several crucial areas. Combined with Jeffrey's departure, the best deal Dylan could negotiate was for \$7 million, provided Maxwell stayed with the business for five years to give the buyer time to fill in the gaps Maxwell refused to address.

Maxwell demanded that his children decline the deal and take the business off the market, telling them that he would fix the mess they created. But without his key employee, deHaan Custom Tempering began to hemorrhage money. Maxwell never found a capable replacement for Jeffrey, and his children—who grew weary of their father refusing their professional advice—left the company one by one. Maxwell ended up liquidating the company for \$2.5 million five years later.

A cavalier attitude toward Deal Killers is a common mistake business owners make. If you'd like to discuss appropriate ways to avoid becoming your own worst enemy in the third-party sale process, please contact us today.

The information contained in this article is general in nature and is not legal, tax or financial advice. For information regarding your particular situation, contact an attorney or a tax or financial advisor. The information in this newsletter is provided with the understanding that it does not render legal, accounting, tax or financial advice. In specific cases, clients should consult their legal, accounting, tax or financial advisor. This article is not intended to give advice or to represent our firm as being qualified to give advice in all areas of professional services. Exit Planning is a discipline that typically requires the collaboration of multiple professional advisors. To the extent that our firm does not have the expertise required on a particular matter, we will always work closely with you to help you gain access to the resources and professional advice that you need. Any examples provided are hypothetical and for illustrative purposes only. Examples include fictitious names and do not represent any particular person or entity. This is an opt-in newsletter. We appreciate your interest.