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3 Things to Remember About Third-Party Sales

As a business owner, you're likely used to having as much control over how the business functions as possible. You're the go-to person for big decisions and of course you own the consequences of those decisions, whether they're good or bad. Some of the most important decisions you will make is how you will plan for your business' future, especially if you have any intentions to one day sell your business to a third party.

In this article, we'll outline three facts about third-party sales and present a few consequences you might face if you are unaware of them.

1. Buyers Want to Buy the Business, Not the Owner

A mistake many owners make as they consider a third-party sale is that they should remain heavily involved in business operations. However, staying too heavily involved in how the business runs is the last thing a buyer wants to see. Buyers prefer businesses that run smoothly without the owner because they usually don't want to commit the time and capital necessary to replace the owner after the owner sells the business. This is even true of financial buyers and private equity groups: They may be more likely to support continued owner involvement, but too much owner involvement can have a negative impact on the overall value of the business.

When planning for your business' future, it's important to position your business to function well whether you are present or not. If the business' performance relies directly on you, that will negatively affect your business' transferable value, which is what the business is worth *without* you. If you

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The Baldwin & Clarke Companies have served New England entrepreneurs for over 47 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.

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ever plan to sell your business to a third party but are also crucial to the business' success, you will likely need to work for the buyer for a few years until they've found or trained people to replace you. If you do some of that work before the sale, it gives you more options and potentially more value.

If the idea of selling your business only to work for the buyer is unpalatable, you aren't alone. Many owners share this distaste. However, this brings up another consequence of being too consequential to your business. If you put your business on the market, find that buyers require you to stay for a few years because you're too important to leave, and you then take the business off the market, you can permanently damage your business' value. In third-party sales, there's no such thing as "testing the waters." Buyers want to buy businesses that other buyers want to buy. If a business comes off the market without being bought, it's called *tainting the marketplace*, and it can damage your prospects.

2. Buyers Want Your Key Employees

Key employees tangibly contribute to the success of the business in ways that go above and beyond expectations. Given this definition, it's obvious why buyers want them to stay with the company after you sell it. However, it's your responsibility to incentivize those employees to stay with the business as and after you leave.

If key employees feel that you haven't properly recognized their contributions to the business' success, they can negatively affect your plans for a sale to a third party. In a best-case scenario, they'll simply leave for greener pastures, which can negatively affect business operations and value. In the worst cases, they'll work for a competitor, take clients with them, or demand a cut of your final sale price at the 11th hour.

Formal incentive plans can keep key employees tied to your company as you complete the sale process. However, formal incentive plans must do four things to be effective:

1. Be tied to performance standards.
2. Be clear, consistent, specific, and in writing.
3. Create substantial bonuses (in the eyes of the employee).
4. "Handcuff" the employee to the business.

3. Buyers Want a Documented, Proven Growth Strategy

Providing a documented, proven growth strategy to buyers can make the sale process easier for you in two ways. First, having a documented growth strategy positions you to grow your company more effectively than owners who don’t have documented growth strategies, possibly making your company more valuable. Second, having a documented growth plan eases the transition between your exit and your next-level management team’s entrance as the decision-making body for the business. Getting them involved in setting business strategy and action plans to implement the strategy brings in new ideas, enthusiasm, and commitment to seeing the processes through to success. This can make the business more valuable to buyers because they will have to put minimal effort into absorbing the new business. It also positions you to move toward only doing things that you want to do within the business, rather than acting as the decision maker for every little issue.

If you’d like to discuss how you can prepare yourself for a third-party sale or do any of the things buyers tend to look for when buying a business, please contact us today.