

Reprint

How NOT to Sell a Business

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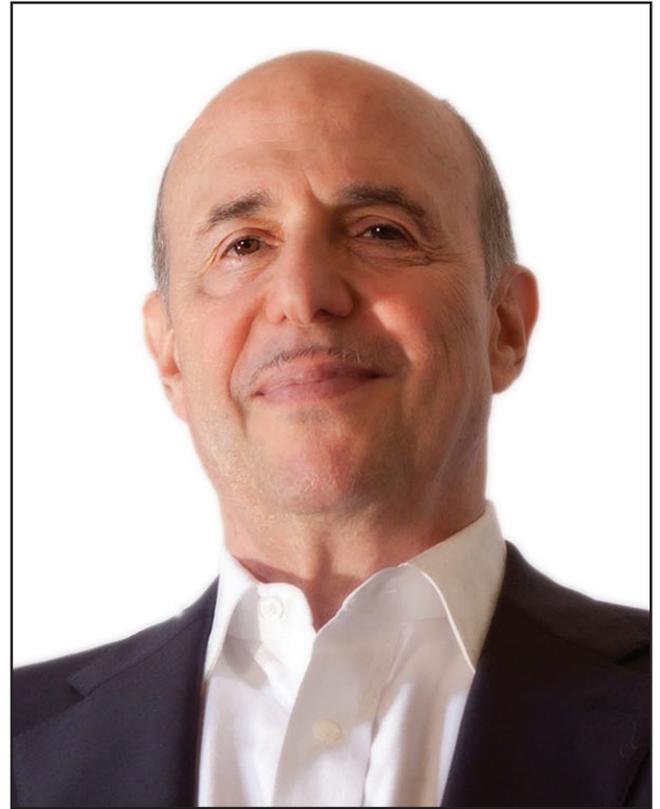


How NOT to Sell a Business

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This past summer my wife and I went to my college reunion at Miami University in Oxford, Ohio. It had been many years since I'd seen former classmates, and over the weekend several discussions transcended small talk to "What have you done with your life?"

A number of classmates had become entrepreneurs, and two of my closer friends had founded businesses shortly after graduating. Both had done quite well, but with none of their kids having an interest in their businesses, both decided to sell so they could retire.

Unfortunately, the stories they told me were not pretty and not new. In each instance the attempt to sell was unpleasant and unsuccessful. Although neither friend was in our industry, they were both in somewhat similar US-based manufacturing businesses, so I am sharing a glimpse of their experiences as cautionary tales. We'll call my old friends Al and Bob.

Al had built a \$10M-revenue business and was approached by a prospective buyer in a similar industry who proposed putting together the deal himself. Not only was the buyer coming forward with a fair price and terms, but he was also committing to retaining Al's management team. This was a key concern of Al's, and he signed a letter of intent and began involving his attorney and accountant in sale preparations. The expectation was that within 60 to 90 days, after due diligence, there would be a closing.

Even though the due diligence did not turn up any nasty surprises, the buyer used some due diligence findings as justification for modifications in price and terms. One adjustment would have been bad enough, but when renegotiations kept recurring, Al eventually halted further discussion. With no potential buyer waiting in the wings, Al had to put his sale and retirement plans on hold, and he was still in limbo at the time of the reunion.

When Al asked for my input, I had to level with him. In the absence of a competitive sale process (more than one interested buyer), what he had experienced was not unusual.

Bob's experience trying to sell his \$25M-revenue business was different but equally frustrating. He had been approached by a "buy side" broker who told him he had relationships with private equity firms that paid him to bring them deals. This sounded mighty attractive: no fees or other expenses and no preparation he or his team would have to contribute to the process.

Because the broker was going only to trusted private equity firms, it appeared that confidentiality was not an issue, and because there would be more than one potential buyer, the process would be competitive. No wonder Bob concluded that this was an excellent way for him to sell his business.

As the broker continued to schedule conference calls with private equity firms, however, Bob realized none of them really knew anything about his business or the market he served. Consequently, he had to spend an inordinate amount of time educating prospective buyers about the basics of his business and the industry. And because all prospective buyers had been provided with his financials, Bob routinely had to field questions he was totally unprepared to answer, often finding him-

self on the defensive.

Over time, Bob recognized that the broker's criterion for selecting buyers was not industry knowledge; it was readiness to pay his fee. Moreover, none of the firms had in their portfolios any companies that might create synergy with his company. With nothing going the way he had anticipated, and no offers on the table, Bob's decision to terminate the process was an easy one. But what was not easy was resigning himself, like Al, to keeping the company and delaying retirement.

Does either of the approaches my friends tried ever work out? Sure, but not often. Without a competitive process and without the involvement of someone who has a track record

in your industry, a seller can waste valuable time without achieving a positive result.

The reunion was great fun, with lots of laughs. And next time I connect with my friends, I expect them to be in even better humor, having wised up about a few critical steps in selling your business.

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