SELLING your business?

A few lessons learned from a liquidity event.

BY CHARLIE CARR

We had multiple conversations with clients who sold businesses in 2021. We asked them what lessons they learned or what they would do differently. Most of these were third- and fourth-generation owners, although one was the business founder. For all of them, it was the first time they had sold a significant business. Each of them engaged investment bankers to sell the business. What advice might these owners have for you?

Professionalize the business

These business owners — and even those who did not sell their companies — regretted not having implemented more professional and proven business practices: reporting, meeting discipline, performance reviews, integration across divisions, etc. "When we took over from our parents, we knew there were better practices." They didn't implement those practices because of culture, longstanding employees who were accustomed to the old ways and fear of offending the older generation of owners.

However, the various buyers expected those practices to be in place. They wanted sophisticated reporting that matched industry standards, detailing profitability by customer, product and division. They expected performance management for the staff. Each assumed the business would have detailed budgets and management for the divisions and products, as well as long-term strategic plans. They were counting on integration and communication across the divisions, acting as one enterprise.

We heard comments that such practices would have made the business more profitable while they were running it as well as likely providing a greater premium when they sold it. Sellers feared they might have left their managers at a disadvantage with the future owners — their lack of experience with such practices might shorten their tenure or limit their advancement under the new owner. Such professional practices were the right answer for ongoing operations or for a sale.

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START BY FINDING A GOOD TRANSACTION ATTORNEY WITH LOTS OF EXPERIENCE, THEN LOOK FOR AN INVESTMENT BANKER.

Hire someone to oversee the transaction

"We had no idea about the level of workload related to the transaction." Late-night emails that required immediate response. Numerous unscheduled meetings. Last-minute phone calls and questions. Owners told us that if they had to do it over again, they would pay a premium to hire someone about a year in advance just to oversee the transaction. Such an administrator or project manager should get to know the firm, then coordinate and oversee the various requests and activity. Sellers didn't want to incur the additional cost of such an employee, viewing it as not necessary. But in hindsight, they realize it would have paid dividends by reducing their own stress.

Related to this, they would be intentional about identifying who on their leadership team needed to be involved in the transaction and bringing them "into the tent" early. They were hesitant to bring leaders in, partly because of fear that the transaction might fall through, but later realized that better communication and involvement would have made for a smoother process.

Thoroughly vet the transaction attorney and investment banker

Each of the sellers said the transaction attorney's experience and involvement was the linchpin of the process. Their recommendation is to start by finding a good transaction attorney with lots of experience, then look for an investment banker.

One seller was not as happy with the banker they chose. If doing it again, they would make sure they received three to five referrals (not just one or two) and ensure those referrals used the exact team, not

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just that firm or leader. They would want to know how well the banker acted as an intermediary between the buyer and seller, as well as what platform and technology they used. They would want to know the detailed experiences of the referred clients, including communication, processes and outcome.

Building diligence files is difficult, and haggling deal points is stressful. These are made worse by participants emailing complex files back and forth with edits. This seller commented that their company had much better tools for collaborating, which they should have required participants to use. This seller also wanted a more detailed plan from their banker. A banker has the experience to predict how the transaction will flow and what can go wrong. They should have been able to provide more guidance on the steps and process in advance.

What-if scenarios

Each of the sellers we spoke with had successful transactions at a price they were pleased with. However, they discussed stress points throughout the transaction that could have gone more smoothly. Their advice is to think through what type of challenges might arise, and conduct at least preliminary reviews of those areas beforehand. FB

Charlie Carr, CFP®*, is president of Big Canyon Advisors LLC, which advises family businesses and family offices (bigcanyonadvisors.com).*