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5 Ways to Earn Maximum Value When You Sell Your Business

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Smart business owners think proactively about how they can get a premium valuation for their business. This mindset is critical when the time comes to sell your business. You will need to be able to articulate the main value drivers of your business to potential buyers and paint the picture of what the future can be.

Prior to committing or launching a sale process, these steps can help you prepare your business and communication strategy to ensure success.

1. Understand what makes your business unique

The unique aspects of your business are the value drivers that buyers will use to determine the amount they are willing to pay.

For example, does your business possess highly differentiated products or services as compared to competitors? Do you have high market penetration in geographies or markets that are difficult to enter? Does your company possess IP or technology that act as a barrier to entry for the competition? Use these value drivers as the foundation of your marketing communication strategy to help crystallize why a buyer would be interested in your company.

For example, a wholesale hardware products distributor might have differentiated themselves from competitors by using a consultative sales approach and bundling their products with tailored problem-solving solutions for customers. By providing this service to customers, the distributor was able to generate significantly higher margins than their competitors. In addition, they had developed a strong e-commerce distribution platform to attract another market segment. The combination of these value drivers — dual-distribution channels and industry leading margins — enabled the business to be positioned for an outlier valuation.

2. Address key business risks

While it is important to identify value drivers, it is equally as important to clarify risks prior to proceeding with a sale. Here are three common examples:

- **Customer Concentration** – While you might value your best customer, that same customer could be a red flag for a potential buyer. If a top customer accounts for more than 15-20% of your revenue, then now is the time to diversify with new clients and contracts. Keep in mind that high concentrations could potentially lower the valuation range for your company as the buyers may discount your earnings, and lenders may minimize their loans.
- **Supplier Concentration** – If you are heavily dependent on just one main supplier, begin to pre-approve alternative suppliers to remove the dependency on a single entity.
- **Owner Dependency** – Are you the only executive driving sales, finance, and/or operations? If so, consider training the next tier of management, give them greater responsibilities, and begin to move yourself away from the day-to-day operations.

A buyer wants to know that risk is mitigated as much as possible. Understanding and addressing these and other key business risks can greatly increase the amount a buyer will pay for your business.

3. Turn your weaknesses into value

Knowing what potential value detractors your business may have is central to devising a plan to turn them into value drivers. In addressing weaknesses and threats to your business, it will likely be necessary to make a few changes. These may be time consuming or costly in the short term, but will absolutely add value during the sale process.

One way to first identify some of the company's weaknesses is through a "self-due diligence" process. Force yourself to critically evaluate each area of your business, be honest, and look at the company as a buyer would.

For example, we have seen manufacturing companies with above average labor costs reduce them significantly by investing in technology as part of preparing the company for sale. One building products manufacturer installed a new ERP system, resulting significant labor savings. A precision machining business adopted the use of robots, which boosted productivity and cut direct labor costs. Each dollar saved improved EBITDA and resulted in higher prices and higher multiples.

A critical review of your company will allow you to "fix" weaknesses and improve valuation.

4. Prepare for the due diligence process

In the past, due diligence required mostly accounting, financial, and legal analysis. In today's world, it has expanded to incorporate a broader scope of disciplines such as cyber security, e-commerce, and intellectual property review. If your business uses technology, has exposure to international markets or does not utilize disciplined accounting procedures, you may want to consider engaging an independent accounting firm to review your operations via a Quality of Earnings (QOE) analysis which can help you prepare for the scrutiny you will face in a sale process.

The sell-side QOE will ensure that the numbers your business is presenting are correct and that they will stand up to due diligence from the buyer. They may also uncover hidden EBITDA adjustments, one-time expenses, cost savings, or efficiencies that you didn't realize existed. From the perspective of time, typical due diligence efforts extend three years into the past but may extend back further. By conducting a QOE upfront, you will be able to address many issues before going to market. This may take more time upfront, but you will also be more likely to negotiate a higher purchase price when you have buyers at the table.

5. Prepare your team of advisors

You are an expert on the ins and outs of your business, but chances are you have never sold a business. While a typical sale process can take 6-12 months to complete, meeting with advisors early on can help you by engaging with accounting firms or investment bankers earlier on, they can identify opportunities that will give you time to make specific changes that will increase value. Be sure that your team of advisors possesses the relevant industry experience and that their strategic objectives are aligned with your own.

How well you prepare your business for sale will make all the difference in its perceived value in the marketplace. Prospective buyers look for very specific factors when developing their valuations of your company. If you begin your planning early and focus on these five areas, you will be in an excellent position to maximize the value of your business.

About the Authors

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