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Mistakes to Avoid When Selling a Business

Avoiding common and costly mistakes can ensure optimal value and success in the biggest transaction of a business owner's career.

Successful manufacturing business owners know what it takes to run a company well, generate profit, and capture market share. They understand their customers and how to satisfy them. When it comes to selling their *own* business… that is a different story.

Years of advising middle market business owners have given us a birds-eye view of the most common (& costly) mistakes made during a sale process.

Not Being Properly Prepared

Selling a manufacturing business to earn the maximum value requires the same strategic planning as running the business. Business owners who don't plan ahead for a sale transaction often leave a substantial amount of value on the table. Planning ahead will ensure you have enough time to implement strategic initiatives to maximize value.

A key factor in planning ahead is looking deeply into all facets of the company—*through the lens of a potential buyer*. With your advisors, evaluate how buyers would look at your business from the outside, considering their perspective and protocols. This gives you an opportunity to control the narrative. It allows you to avoid leaving yourself open to a prospective buyer identifying problems and using them as a negotiating point to lower the value of the offer. This also puts the level of trust toward the seller in question. Trust is a critical factor to a successful transaction. The last thing you want to put into the mind of a buyer is doubt.

Analyzing your business through the eyes of the buyer gives you the ability to inoculate your business from otherwise damaging issues. A few of the common but easily remedied shortfalls include obtaining supportable financials, ensuring all your patents and trademarks are up to date, and "protecting" key employees with a non-compete or non-solicitation agreement.

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Falling Prey When Someone Makes an Offer "You Can Refuse"

Business owners are sometimes courted by companies that would like to acquire them and want to start the process immediately. Owners are often flattered by a number that may be higher than they ever imagined their business is worth.

Owners need to take a step back and consider—is this a prudent approach? What are the key value drivers that are attractive to this buyer and could there be other interested buyers? How might you negotiate a better deal?

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This is the largest financial decision of your life. *Owners who do not fully understand their business value often leave 20-50% of its value on the table.* When someone makes you an offer—versus you and your team of advisors running a full sale process that will generate multiple offers—it is called a single buyer process and lacks the competitive dynamic that broader auctions provide. When a single buyer is left to determine business value, a below market price is often the result. Even if the offer sounds good, you have no comparison for how much you actually might earn if a competitive process was initiated.

Not Understanding WHERE the True Value is in Your Company

The reality of a business sales process is that the value of a business is determined by the buyer as much as any other factor. One of the biggest mistakes is when valuation is simply set based on a multiple of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). This "simple" calculation leaves millions of dollars on the table and less in the pocket of the seller.

It is the seller's responsibility to "paint a compelling picture of the future," allowing prospective buyers to understand the accretive value the acquisition can bring. The key is to understand what the company is worth to the buyer, considering their economics and potential to grow the business and increase its value.

Buyers also tend to pay much more for a deal that they believe is competitive. Running a competitive bid process involves a broad-based search and discipline along with negotiating, creative deal making, and people management skills. For the seller, the competitive process provides optionality, allowing them to negotiate on various terms to drive the value and optimal outcome.

Net-Net

You only sell your business once and you cannot afford to make a mistake. Selling a business requires a different skill set and the ability to view the business through a much different lens than an owner has—the lens of the buyer.

Selling your own company is not a task you want to take on without the assistance of experts who can navigate the process and bring value to the table. The best way for business owners to earn the maximum value for their company is to plan early and hire knowledgeable, trusted M&A and legal advisors who can help strategize, orchestrate, and negotiate the sale. The investment made in these experts pales in comparison to the value they will bring.

About

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About

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