# SELLING YOUR COMPANY:

## FOLLOW **3 T'S** TO A WIN-WIN DEAL

A MASTER MATCHMAKER'S SECRETS TO SUCCEEDING BEFORE, DURING, AND AFTER THE SALE

If you're struggling to decide whether to sell your business—especially if it's a company you or your family built from scratch—I feel your pain and I want to help. I wish I could give you a foolproof blueprint to follow. But you already know those don't exist, right?

Instead, to get you through the long, foggy, rocky road to a win-win business sale, I want to switch on three beacons to light your way: *trust, transparency, and timeline.*

## Where the 3 T's came from

I've learned these three T's over almost five decades, since I first participated in a business sale.

It was a company my father had led to great success before buying out the previous owner. We then spent more years building the firm into an even more attractive target for sale.

My father sold the company to a venture capital firm, and I stayed on as an equity partner and executive operator until selling my equity position three years later.

Since then, I've built on that foundation of knowledge as a business owner and entrepreneur, eventually devoting my career to shepherding family businesses and other companies through the buy/sell process.

**I've learned that although every sale is different, deals tend to hinge on trust, transparency, and timeline. Let's take a closer look at each of these critical factors:**

## **Trust:** Selling your business shouldn't be a competition

Establishing trust is the first step in making a good deal for you and all other parties involved. Business owners who are selling their company don't always understand this—instead, they see it as a competition.

After all, most of us are staunch competitors. That's likely what got us where we are. But in my experience, collaboration and cooperation—not competition—drive the most successful business deals. That's why I look for chemistry between potential buyers and sellers, built upon acts of honesty, empathy, and respect.

Trust must be earned in this arena, however. Buyers will conduct due diligence on your company, and you should do the same with them. Be careful not to overpromise throughout the process.

In return, potential buyers also need to earn your trust. Use your intuition about whom to trust, certainly, but also work with an experienced M&A advisor who knows the industry, and the key players' reputations for fair dealing and integrity.

Violating trust during a business sale can also be a violation of contract law. Sellers typically present potential buyers with a non-disclosure agreement up front that both parties sign.

Confidentiality is particularly important for you as the seller. Information leaks can hurt or end the deal on the table, and make it more difficult to negotiate with other potential buyers down the line.

Before establishing trust with a potential buyer, you'll first need to establish trust among all the key players on your side: board members, executives/employees, and any third parties you bring on board to help you with the sale. To accomplish this internal culture of trust, the next section on transparency will be critical.

## **Transparency:** Keep the transaction legally and ethically sound

Transparency builds on the idea of trust. For example, be honest with the data you present to potential buyers. Most buyers retain lawyers/accountants who will do their due diligence to vet your data, and they need to see that you've been honest.

Also, don't forget that if your M&A documentation isn't complete and truthful, you're probably violating contract law. I've seen this quickly sink deals and reputations.

The longer you've been in business, the more likely it is that qualitative and quantitative financial and other documents contain a multitude of "sins." For example, your documentation may disclose past regulatory fines, lawsuits, foreclosures, labor disputes, etc. Experienced buyers expect things like this, of course, so the best policy is not to try hiding anything.

Also, be transparent about the sales process among the key players on your own team. Rumor mills run 24/7 with a potential sale in the works, and the more open you are, the less likely you are to sacrifice productivity and goodwill.

**It's simple:** Confusion costs money. Not only can it hurt employee performance, it can cost you more in billable hours from outside attorneys, accountants, etc., you may bring in to assist with the sale.

## **Timeline:** Stay on track—but be patient and expect surprises

Sellers often go into the sales process all too hot to sell quickly. When inevitable roadblocks appear, they get frustrated and make poor decisions that cost them money or even kill the deal. Here are two ways to avoid this:

1. **Expect surprises.** These are complex transactions, technically, legally, and emotionally. Prepare yourself for complications involving the business valuation, real estate, staff, legal holdups, cash at closing amount, etc. Check your emotions at the door and get prudent, experienced professional guidance to work through these issues.

2. **Be patient.** Most businesses take two to five years to sell. This is especially true if you're selling your business as a going concern rather than just liquidating assets. Patience, discipline, and a commitment to open communication are the foundation of a successful deal closing. If you're not prepared to invest a serious amount of time, education, effort, money and other resources in this sales process, you're giving potential buyers a huge advantage.

## Seven hard questions to answer before deciding to sell your company

I understand the three T's are somewhat philosophical, so let's get down to brass tacks: Should you even be considering selling your business now? Answering the seven questions below—which I've tied to one or more of the three T's that relate to it—should help you clarify whether to take the next step toward selling.

### 1. Why are you considering selling your business? (Timeline)

- **The reasons for selling your business should drive the type of deal to pursue.** Are you retiring altogether? Do you want to change directions and start a new company or career? Is your company failing and you just want to get out? Do you need new leadership or investors to push your company forward? Do you even REALLY know why? Your answers may indicate one or more of the following options, among others:
  - Sell to a competitor who wants your firm for its strategic value (adding a new capability or territory, etc.).
  - Sell to a private equity firm or another third party for its financial value as an asset to improve and sell.
  - Sell to a buyer who expects you to stay on as an active executive or contractor.
  - Sell only your stake in the company to existing partners/executives/employees/family, or to an outside investor.
  - Quit. Close the doors, liquidate the company's assets (real estate, equipment, customer list, etc.), and walk away.

### 2. Are you emotionally ready to let go of the business? (Transparency, Timeline)

- **A seller's inability to control emotions probably breaks up deals and/or cuts the seller's profits more than any other factor.**
- **"Emotional inflation" causes sellers to believe their companies are worth more than professional valuation numbers.** Many excellent potential buyers see this quickly and move on.
- **You'll probably have regrets about giving up control, especially if you or your family built this business. But be honest with yourself.** Are you truly concerned that new owners will treat employees, customers, etc., well? Or is it just your ego?
- **Selling a company is an exercise in perseverance. It's usually a long, detailed, physically and mentally exhausting process.** For example, it can take three to four years just to prepare to put your firm up for sale. Can you and other key people in your company handle this commitment while doing your regular jobs properly?

### 3. Do you have a succession plan in place? (Trust, Transparency, Timeline)

- **Experienced buyers look for strong, documented succession plans** that already have buy-in from the key people involved.
- **A comprehensive succession plan isn't simply a list of names to take over top positions.** It includes ongoing preparation, such as executive cross-training programs that are regularly reviewed and updated.

### 4. Are your company's books ready for inspection by smart buyers/investors? (Transparency)

- **Potential buyers will have experienced pros conducting due diligence,** and your firm's financials need to be properly documented and organized.
- **If you don't have a CFO experienced with M&A—or if you don't have one at all:** Consider hiring an experienced interim CFO to help you prepare for the sales process.
- **Transparency is a regulatory requirement.** If you're caught hiding information, it kills both the deal and—most of all—your reputation. Most buyers expect to find some warts and they'll respect full disclosure. They'll also look for an explanation for any blemishes shown in your records, including why the situation occurred and what you've done to fix the issue.

### 5. How will a potential buyer see your organization's and talent and potential? (Transparency)

- **Take a hard look at your management, operations, and overall talent, and get an outside opinion from an expert in your industry.**
- **Most successful buyers aren't looking for a fixer-upper.** They will pay more for an organization with assets and talent that are ready to grow now.
- **Before initiating your sell-side process, work on enhancements that are within your capabilities.** Show potential buyers that you have process improvements underway that are already producing results.

6. When will you communicate with your company's key stakeholders (family, executives, employees, suppliers, etc.) regarding a potential sale? (Transparency, Timeline, Trust)

    - **Managing the expectations of all involved parties before, during, and after a sale can make or break a deal's success.**
    - **Being blind-sided by news about a sale can lead to poor results and hard feelings.** This can affect your family relationships and change your legacy among former colleagues and peers. Sharing a solid, professional valuation of your company with all key parties, up front, is an important step in avoiding this type of misunderstanding.

7. Do you have experienced, competent pros to advise and represent you regarding a potential sale? (Timeline, Trust)

    - **Beware M&I brokers, usually from investment banks, who don't have specific expertise in your industry.** Request an advisor with M&A experience who understands your industry and can guide you in choosing a reliable pro if and when that's necessary.
    - **Qualified buyers have a sophisticated team of experts to assess your company's leadership and run their end of the transaction.** Depending on the size and nature of the deal, the buyer team may include operations/management, accounting, legal and real estate experts, etc. You need your own team, and they need to know the M&A process inside and out. In the section above on trust, I mentioned finding an industry-specific advisor to guide you. Work with that person to build your own team of experts.

## Learn more

Find more insights for business owners, sellers, buyers, and boards of directors at RockLaManna.com, where you can also get Rock's business memoir, "They Named You Right," about balancing business, family, and life.

# Meet Rock

After nearly five decades in the printing/graphics/packaging industry as an owner/founder, entrepreneur, consultant, and mergers and acquisitions (M&A) deal maker, Rock LaManna is an advisor to business owners, investors, and directors. Rock now focuses on corporate and non-profit boards of directors.

He advises boards on CEO selection/retention and accountability, M&A strategies, succession planning and strategic growth -- and on emerging, urgent issues such as sustainability, social responsibility, and governance.

Rock belongs to the National Association of Corporate Directors, the most trusted national organization for board directors. He is an alumnus of Metropolitan State University, St. Paul, MN and Harvard Business School's Owner/President Management program, Boston, MA.


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