5 Mistakes That'll Cost You When You Sell

By Donna DeFranco

Strategic planning and thoughtful action are pivotal to your successful exit.


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Paul Giannamore hates the term "exit planning." It implies that preparing to sell or transfer ownership of your business is something you do late in the game rather than as an integrated component of your long-term, decades-long strategy. "Exit planning is to the business owner what a quadruple bypass is to the 400-pound, 70-year-old smoker who never exercised a day in his life," he asserts. Giannamore's advice? Start early. If you're too late to start early, then start now.

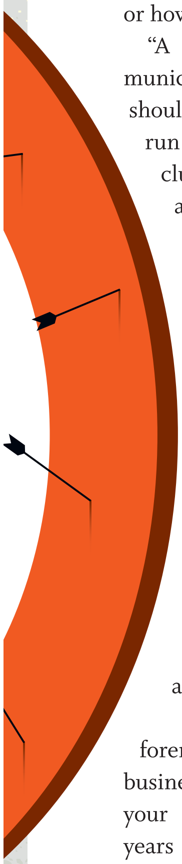
As managing director of mergers and acquisitions at The Potomac Company, an M&A advisory firm, Giannamore has seen just about every imaginable scenario when it comes to pest management companies' changing hands. Equipped with that experience and insight, he is certain of this: The most successful sales and internal transfers are those that have been carefully planned.

"Lack of planning is your worst enemy," he says emphatically. "You need to step away from the business and look at the big picture: Think about when you want to retire, whom you want to sell to, how much you want to make, how much value you need to build between now and then, and what actions you need to take to get there."

Giannamore shares five common mistakes pest management business owners can make on the way to a successful sale/transfer:

Mistake #1:
Having No Contingency Plan

Essentially a will for your business, a contingency plan spells out what your family or employees should do in the event you die or can no longer make decisions about managing the business. Leave your loved ones and colleagues without a contingency plan and you leave them in the lurch, not knowing whether to sell the business or keep it, whom to place in charge or how to move the business forward.



"A contingency plan is a roadmap that communicates your thoughts and wishes about what should take place in the event you can no longer run the business," says Giannamore. "It might include a recommendation to sell or, conversely, an organizational structure that identifies the individual(s) who should manage the business going forward. Generally, we advise our clients to give these individuals permission to do whatever they feel is in the best interest of the family and employees in terms of their financial security and well-being. We also recommend that the owner designate a counsel of advisors to aid in making these types of evaluations."

Mistake #2:
Not Defining "Success"

If you haven't defined what success means to you, then how will you know when you've achieved it?

For most business owners, success first and foremost includes a financial component: Your business should help you create wealth that ensures your comfortable lifestyle during your working years as well as in retirement. Your success definition should also include your preference in terms of whom you'd like to sell to — an internal or external party.

In setting parameters for the first half of this equation, Giannamore recommends you sit down as

"If you don't know where you're going, you'll end up someplace else." — YOGI BERRA

early as possible and write down figures for how much you'd like to amass 10, 15, even 20 years from now. Add to that what you are likely to need to fund your retirement. Enlist the help of a financial advisor to ensure your goals take all relevant factors into account.

If you get an early start on planning, you might not have a solid answer to the latter part of this equation — whether you intend to sell to an internal or external party. Still, even if you're unsure how the sale will go in the end, it's vital for you to set proximate goals so that you can begin preparing your business for its eventual sale or transfer.

"You are infinitely better off spending years planning to sell to your son but then ultimately selling to a third party than if you had no plan at all," says Giannamore. "Proximate objectives are useful in day-to-day planning because they keep you moving forward, growing and strengthening your business. Too many business owners become paralyzed in their planning efforts because they don't know how they will exit in 10 or 20 years. Often if you wait until you know for certain, you're too late to do an adequate job of planning."

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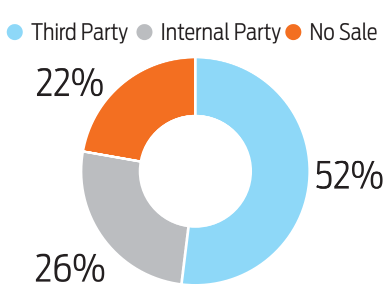

Source: Potomac Research, 2013

The more specifically you define your goals, the better, Giannamore continues. For example, you might state: "My business is currently valued at $4 million. I would like to sell it to my son or daughter in August 2029 and will need $10 million in liquid assets at the time of sale. I have 16 years to build the business to a minimum of $16 million in value."

Now you have something to work toward!

Mistake #3:
Waiting Too Long to Begin Planning

As noted above, planning should be part of your long-term strategy, built into your normal course of business. "Develop your plan and commit to taking action toward its implementation at least a decade before you intend to exit the business," advises Giannamore. "If you're in your 60s and are just now thinking about how you're going to pass the business on to your children, you have a lot of catching up to do."

Giannamore notes that you shouldn't panic if you are getting a late start. While an abbreviated planning period may not be the ideal situation, you can still maximize your potential success. "Regardless of where you might be in terms of time frame," he explains, "a good M&A advisor can show you shortcuts to help you prepare your business, define your goals and execute a successful deal."

Mistake #4:
One-Buyer Syndrome

If your intention is to sell your business rather than pass it on to the next generation, shopping for buyers is vital to getting the best deal. "Any seller who negotiates with only one buyer leaves money on the table," shares Giannamore. "Price discovery comes from the competitive bid."

In the worst cases of one-buyer syndrome, the business owner waits until retirement and then "takes the best offer from the first acquirer who shows up at the door," says Giannamore. Inevitably, the seller gets shortchanged. A carefully planned process, on the other hand, virtually always yields better results than a passive, privately negotiated sale.

Mistake #5:
Being Penny Wise and Pound Foolish

Selling a business is something you are likely to do only once in your life. It's not the time for a do-it-yourself approach, particularly if you'll be sitting across the table from a corporation adept at acquiring businesses. You want to get the best price you can and ensure that every "i" has been dotted and every "t" crossed.

Giannamore recommends putting a team of advisors on your side to provide expert counsel and services ranging from appropriately valuing your company to drafting the offering memo, identifying and screening potential buyers and handling negotiations. In addition to providing expertise, M&A advisors help minimize the wear and tear on your psyche during the sales process. Your business is your baby, after all, and emotions can run high during the selling process. It's much easier for objective third parties to address buyers' criticisms and demands, and to negotiate mutually beneficial terms. **PCT**

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