Time to Sell?

By Kenneth B. Collins

At some point, every owner finds himself thinking about selling the business and cashing out.

How do you know if the time is right? Is there a systematic approach? How important are instincts and gut-feelings? Should you wait until approached by a prospective buyer? Are there compelling or motivating reasons, and what needs to be considered when determining if this is the right time to sell?

Occasionally an owner has no choice and must sell whether the timing is right or not – for example, health problems, divorce, the dissolution of a partnership, or the untimely death of a major shareholder. In some cases, too, the owner is simply burned out.

Often, however, strategic business factors are the prime motivators – such as raising expansion capital, gaining access to technologies or distribution channels, and securing needed management expertise.

The right buyer may be able to provide more effective channels of distribution, improved operating margins through combined operations (economy of scale), expansion capital or credit enhancement, increased facility utilization, a fresh managerial perspective, and a stronger competitive position.

Whatever the owner's motivations, he should be reasonably confident that his objectives are achievable. How likely is it that the sale can be consummated? How reasonable are his objectives?

The probability of successfully completing the sale of a given company increases when: (i) the company is properly marketed, (ii) within realistic price expectations, and (iii) under favorable external and internal conditions.

- **Proper Marketing:** A sound marketing plan: (a) identifies and targets the ideal buyer, (b) effectively and credibly communicates the advantages of ownership to prospective buyers, (c) identifies and manages potential risks, and (d) minimizes barriers and obstacles to agreement.

- **Realistic Price:** If the owner's minimum acceptable price is considerably higher than what the market is likely to pay, the owner's chances of success are decreased accordingly. The company's market value should be estimated before deciding to sell. If that estimate is below the owner's objectives, he may want to defer the sale or reconsider his objectives.
- **Favorable Conditions:** Conditions that affect the likelihood of the owners achieving their objectives can be found within the business as well as within the environment in which the business competes and the broader economic cycle.

Warning: At some point in the process, the owner is going need to face the emotional reality of severing his or her ownership-bond with the business. I call this "seller's remorse" – and every seller experiences at least a twinge of it at some point in the process.

When you think about selling, you need to pause and take an inventory of the situation. Do you have a compelling reason or motivation to sell? Do circumstances within the company and the general business climate favor selling at this time? Are you emotionally prepared to sell? And are your expectations realistic?

If the answers are yes, then perhaps it's a good time to sell. If the answer is no, however, then turn your attention to building your business and increasing its value so that when the day comes that it is right to sell, you'll get the best price and the best terms.

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