

## THE 10 MOST COMMON MISTAKES YOU WILL MAKE AS A SELLER

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### **MISTAKE #1: Selecting the Wrong Buyers**

Forget the obvious. Sophisticated buyers who have strategic acquisition goals, and are willing to pay above market multiples, are some of the best yet unexpected buyers. Public, private, or international buyers, and private equity groups, often pay premium prices to acquire seemingly ordinary businesses that offer a synergistic advantage to their current operations.

Too many business owners waste valuable time and effort on potential buyers who, typically, will pay the least. Private individuals, vendors, employees, or competitors frequently lack the means and motivation to pay what a company is really worth.

### **MISTAKE #2: Dealing with Only One Buyer (AT A TIME)**

Multiple buyers create a competitive environment with a sense of urgency. This maximizes the sales proceeds from the business and facilitates the transaction - key benefits to you. Like any auction, the more buyers wanting an item, the higher a price will be bid up. Multiple buyers also tend to provide you the seller, with multiple options from a deal structure standpoint and perhaps more importantly multiple buyers allow sellers to choose their preferred successor.

A single buyer can gain control of a transaction and weaken the seller's negotiating position. Without other buyers, the seller has fewer options and limited leverage to obtain the most beneficial price and terms.

### **MISTAKE #3: Selling at the Wrong Time**

Timing is key to maximizing the value of a business. There are only three times when you will sell.... When you want to, when you have to, and when your heirs do it for you. Frankly, the last two are not ideal times. Believing there is a "perfect" time is a fallacy, however, there are generally several ideal times that may make sense. One of the costliest mistakes is to allow factors such as age, unplanned retirement and other similar considerations to dictate timing.

Taking control of the process means being ready to act, on your timeline not the buyers. This means being proactive, preparing documentation, timely follow up with inquiries, controlling the process, and constantly reassessing exit strategy objectives as they are affected by external and company performance factors.

FACT: Most business owners exit their business with less than six months of advanced planning, consequently receiving a mere 50 percent to 70 percent of the business's potential value.

## **SPEAKING OF PRICE!**

### **MISTAKE #4: Not Knowing or Understanding the Value of the Business**

Value is not obvious, nor is it constant or consistent. The value that an accountant places on a business can vary significantly from its ultimate value in an M&A transaction. One focuses on past performance and the other looks to the future. One relies on tangibles, while the other examines off balance sheet assets such as customer lists, proprietary technology, brand names, organizational strength and other intangibles or unique aspects.

Some business owners assume that value can be determined by a single accounting formula or a multiple of past revenue or profits. These informal valuations generally apply averages and disregard the vast differences among individual companies. Oversimplified formulas can result in missed opportunities when compared to values returned through a competitive and professional M&A process.

### **MISTAKE #5: Mentioning a Price**

An old adage in M&A states, 'whoever mentions price first, loses' or 'be careful of what you ask for; you might just get it'. Putting an asking price on a company can limit sale proceeds.

For sellers, it pays to focus on value - a company's optimum earnings potential, its dividend-paying capacity, and potential return on investment. This focus - in combination with a carefully structured M&A marketing plan that properly positions the business in the marketplace with accurate and compelling documentation, access to the right buyers and favorable timing - will serve to determine optimum market value that a buyer will pay.

### **MISTAKE #6: Not Clearly Understanding Buyer Motives**

Understanding the buyer's motives - and why your particular company may be important to them - can be of great benefit to you when the goal is to optimize value. For many corporate buyers, acquisitions are an integral part of a preferred strategy for achieving growth and expansion goals, improving operating efficiency and/or increasing profitability. Buyers typically will not share this information with you, but will share this with your advisors so that they will facilitate a transaction

between the parties. This knowledge when given brings power to you in the negotiations.

Many have found that it's easier and more cost and time effective to buy market share rather than build it internally or 'organically'. Business owners who can view the M&A sale process from the perspective of potential buyers tend to benefit the most when it comes to maximizing their exit options and sale proceeds.

WHEN the perfect buyer knocks on your door and you...

## **KNOCK KNOCK, WHO'S THERE?**

### **MISTAKE #7: Improper or Incomplete Documentation**

You don't get a second chance to make a first impression and the stakes are high for you!

Quality/proper documentation is essential to attracting the attention of premium buyers - and capturing their interest. Documentation prepared from the perspective of potential buyers can turn a company's past into a valuable, saleable asset. Complete and well-prepared documentation will present a realistic, defensible foundation for the company's value and substantiate buyer expectations of future earnings.

Without quality and professional documentation, premium buyers will not dedicate their valuable resources to pursue the potential acquisition of your company.

### **MISTAKE #8: Focusing on the Past**

All too often, companies that enter the market are not properly positioned and packaged and, therefore, fail to capture the interest of serious buyers. Owners of these companies focus on the past performance of the business and base its worth on valuation myths, multiples or averages that will generally result in an unrealistic estimate or perception of value.

In addition to considering their primary strategic or synergistic acquisition goals, buyers will base their decisions on the company's future earnings potential and its ability to produce the desired return on investment. Business owners seeking to maximize value should - explain the past and sell the future.

### **MISTAKE #9: Not Seeking Professional M&A Advice**

The sale of your business is frequently the largest and most important financial event of your life - for

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most, it is an opportunity that will be presented only once. The successful sale of a business requires a carefully planned and methodically structured process in which each step is done right - the first time - when seeking to maximize the financial reward.

While owners are experts at successfully running their companies, few are prepared to navigate the complex M&A process and, therefore, are at a distinct disadvantage. The right professional M&A representation will provide invaluable advice, support, and representation and maximize the sales price and terms. Most importantly, the benefit of years of experience can make the difference between a successful transaction and a missed opportunity.

FACT: AFTER 25 YEARS IN THE MERGER & ACQUISITION BUSINESS .... The best advice we could ever give to the you is ...

## READY... SET... WAIT!

### **MISTAKE #10: Not Preparing a Formal Exit Plan**

Every business owner will someday exit his or her company - failing to proactively choose the time and circumstances can be costly. The M&A market, timing and internal dynamics of the company may be opportune even though the owner is not ready.

If an owner does not proactively prepare for the time when he or she will leave the business, the event is not likely to yield the expected or desired monetary return. Proper planning places the business owner in control of why, when and how to exit. Done poorly, or not at all, there is a risk of being controlled by circumstances and minimizing the financial rewards.

We know we promised 10, but we had to tell you this one secret of what the really rich and smart sellers all ready know. AND, no it's not addressed by our competitors and we don't know why.

### **BONUS: MISTAKE #11: Not Addressing Tax & Estate Planning Complexities**

Frequently, the biggest cost in a transaction is taxes, and double taxation in certain cases, on the sale. The mitigation of income and estate taxes can have a significant financial impact on you and your heirs. These MUST be addressed prior to selling.

For example, on a small sale of \$2.2 million sale, you could be giving away more than \$528,000 to

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the IRS in taxes. In our Free Report: Eight Tax Secrets for Business Owners we reveal how you can structure succession, asset transfers, retirement income, to pay the absolute legal minimum in taxes. Call us for a free, confidential meeting and we will share this with you.

FACT: Selling a business is not a simple process. It is time consuming and labor intensive. To be successful in this process, you must assemble a competent team of professionals including your CPA, attorneys, wealth management advisors, estate planner, appraiser, and an experienced merger & acquisition firm to act on your behalf. Obviously, it is overwhelming to go it alone against experienced buyers with large resources. To achieve a premium value takes experience of a team. If you have been thinking of selling, it's time. We can answer those questions and address your issues. Call us at (503) 746-6736.

## About The Merger Expert

The Merger Expert is a merger & acquisition firm exclusively. Headquartered in Portland, Oregon, The Merger Expert represents owners of businesses with \$5-\$75 million in revenue range. Its founder, Michael Crawford has over 53,000 hours of merger & acquisition experience.

Expertise:

- Document Preparation
- Strategic Marketing
- Multiple Offers-Representing Owners
- Negotiation
- Due Diligence
- Closing Document-Exhibit Preparation
- Transaction Closure

The Merger Expert partners offer a no charge confidential session to inform business leaders about the process and pitfalls of selling their business. We believe you should be making an informed decision about what is usually your largest asset, Your Company. Get the information and advice you need to start from an industry trusted resource.

*"Michael's expertise allowed me to continue running and growing my business while he was finding and negotiating with potential buyers (note: plural). His deep understanding of business showed the buyers the value of the business."*

-- Marianne Cursetjee

For more information about The Merger Expert visit: **[www.TheMergerExpert.com](http://www.TheMergerExpert.com)**

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