



line of attack

BY FRANK SANDERS

▶ **one** of the most important business deals a storeowner may ever be involved in is not the day-to-day exchange with vendors, employees and customers, but the selling of the business. Certainly, how you plot the course of your business toward that end can affect how successful, and profitable, the sale will be for you down the line.

The fact is, though, not enough business owners think in advance about what they may or may not do as the years progress or if an offer comes along, let alone work on preparing themselves to exit gracefully and in a sound economic position.

After 21 years at the helm of The Fitness Store, in November 2006, my brother Bill and I sold our specialty retail business to G&G Fitness, another successful specialty retailer in our region. We were lucky, not only because I had an MBA in finance, but also because G&G Fitness was a superior partner to work with. Despite all that was in our favor, we still spent months reconstructing financial papers and digging out years of corporate papers that weren't in the shape they should have been. It's true, every business has its warts and, as I like to say, you can't hide and you can't run.

After a short transition period, I found myself increasingly smitten by the whole process of selling the small business that we had just gone through—a process I had mostly shepherded since I had the financial background.

Formulating and executing a strategic exit plan can't be truly summarized in a short article, but this outline of the basics can get the juices flowing.

BE INTROSPECTIVE: If you are contemplating the sale of your business, be forewarned that you are about to turn your life upside down, as well as that of your family and employees. With that in mind, there has never been a better time to reflect. Ask yourself: What's motivating me to sell? What will I do after the sale? Does

it make sense financially? Is this the optimum time given my company and industry life cycle? The questions go on and on.

Even if these questions elicit positive indicators, selling a business can be a brutal and emotional process. Are you the type of person who can stay focused, not reveal secrets even to the best of friends, and stay positive even when things don't look so good? A good dose of upfront introspection is critical since once the game starts, it's hard to go back.

BE HONEST: Recently, I was working with a business seller and he suggested that we tell a prospective buyer that he had a better offer. In actuality, there really was no other offer. It's a bad idea to go down the path of dishonesty. Honesty leads to trust, trust leads to deals.

I'm not saying that we shouldn't frame our positioning in a positive light, but it must always be rooted in truth. When I sold my company, there were times the temptation was simply to "sweep it under the carpet," so to speak. When one particular sales tax issue came up, we knew there was an error and that it would soon be rectified. Nonetheless, we disclosed it to G&G at a time when all the accountants and attorneys were getting

nervous (by nature) anyway. Unbeknownst to us, this issue had already surfaced to G&G's attorneys, and the fact that we disclosed it prior to a confrontation solidified the bond of trust we were earning.

All companies have warts. In fact, I'm not sure I would believe sellers who claimed they didn't have any. In the long run, the truth wins out—use that to your advantage.

RUN A GREAT (AND PROFITABLE) BUSINESS: Great businesses with weak cash flow do sell, but the price will get knocked around. Why? The emphasis by the buyer will be on the “weak cash flow” part of the

may be personal auto and insurance expenses. On the other hand, this can only go so far. Follow this rule of thumb: If you can't legitimately prove and disclose an add back, don't expect the buyer to consider it. Ultimately, the buyer is purchasing cash flow, and cash flow must be provable.

Also, if you are currently not using an outside CPA firm, hire one immediately—preferably a name brand. By nature, accountants are conservative. While that can drive an entrepreneur nuts, it does establish a level of credibility with the buyer, even more so with the buyer's accountants and attorneys. A good CPA should also help with

transactions and an experienced business broker, preferably someone who knows something about your industry. Most importantly, the broker must have the drive and business sense to get the deal done in the face of the obstacles that inevitably arise. The broker will help you package your product (i.e. your business), find and qualify potential buyers, assist with buyer financing if needed, and guide the buyer and seller through the due diligence process to the close. It's extremely important to note that all this must be done confidentially. Your employees, vendors, suppliers, landlords, etc., can't know until the time is right.

Thinking of selling your business? Don't make a move until you've checked out these tips to formulating an *effective exit strategy*.

equation, not on the “great business.” Alternately, poorly run companies with strong cash flow will be analyzed with suspicion. Potential buyers will either disbelieve the numbers or assume some mitigating factors are in play, such as too much reliance on the current owner (who most likely will be leaving after the transaction). At any rate, the work required to shore up the company could be daunting, and inevitably will be reflected in price.

Naturally, a strong combination of “great business” and “great cash flow” sells, and sells well. Fundamentally, these companies have proven track records, competent management and staffing in place, secure vendor relationships, appropriate accounting, management and operational controls, and have generally carved out that unique selling proposition that sets them apart from their competition. And you know what: These are the businesses that don't need to sell. Like dating in high school, nothing is more attractive in business than being hard to get!

KEEP THE NUMBERS STRAIGHT: The other day I had lunch with a bank president who lamented the quality and veracity of small business accounting. His point: If it's good enough for the IRS, it's good enough for his bank. Unfortunately, many small business owners want their cake and eat it too. That is, hide it from the IRS on the front end and expect to be paid for it on the back end.

We all know that there are some small business expenses that may be somewhat personal in nature and, as long as they are traceable and disclosed, can legitimately be added back when disclosing cash flow to a prospective buyer. Examples of this

internal bookkeeping, and ensure you are keeping up with industry standards.

BE RATIONAL: During this process, remember that you are selling a business, not running for office. The business buyer will be focused on the merits of the deal, and you must be too. This is where a business broker can really help by maintaining the focus on what's important and rationally leading the buyer.


In a recent meeting with a prospective young business seller, I asked how he had come up with the price he seemed insistent on. His answer, “That's how much I need to pay your fees and get out of debt.” Wrong answer! After a quick analysis, it was painfully clear his business had nowhere near the value he needed to make ends meet. My advice, GO BACK TO WORK and build value. And that's exactly what he is now doing. Remember, it is not the buyer's job to make your dreams come true. Quite the opposite. It's your job to help fulfill the buyer's dream.

CONTINUE TO RUN A GREAT BUSINESS: No early retirement! There's never a cut off in the valuation of a business. If the numbers get soft during the process, the price comes down. Make all decisions as if you are going to own the business for the next 10 years.

ASSEMBLE YOUR DREAM TEAM: Selling a business is a big deal, and you only get one shot. It's wise to be surrounded by the best professionals you can reasonably afford. Team members must include a CPA, an attorney with background in business

YOU'RE THE BOSS: Now that you have all this high-priced talent on your team, more times than not two of the three will most likely attempt to kill the deal. Or, at least, consistently remind you of what can go wrong. Generally, the broker will be the only one really motivated to keep the deal moving along. No matter what, always keep in mind that they all work for you.

Ultimately, the seller and buyer must move the deal along. Again, this will only be achieved if a level of trust is reached. This is a business deal, and only you can decide if it is a fair one. Let the attorneys and accountants pound through the details—that's their job and it's a critical one. But do not let them drive the deal. If you do, it most likely will never get done.

SEAL THE DEAL! Keep your eye on the prize and bring the deal to a close. It's an old adage in the business brokerage world that all deals die at least three deaths. Believe it. If you and the buyer do not have personal resolve and trust, the deal most likely will not happen. Remember, a well-run business sale, with complete diligence, will limit these so-called deal killers. However, too many surprises at the 11th hour are hard to overcome. Seal the deal and start life No. 2, No. 3 or...? 

Before spending 21 years at the helm of The Fitness Store in Ohio, Frank Sanders worked in banking regulation and corporate finance for seven years. In early 2007, he became an advisor with Sunbelt Advisors of Miami Valley (www.sunbeltofmiamivalley.com). For a free initial consultation, contact Sanders at fsanders@sunbeltofmiamivalley.com or 937-313-6835.