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How to Get the Top Dollar for Your Business

By Mike Dugan

At some point, every owner leaves his or her business voluntarily or otherwise. At that time, every owner wants to receive the maximum amount of money in order to accomplish personal, financial and estate planning goals.

What is a good way for you to get top dollar for your business?

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First, consider selling to an outside third party, not to an insider such as a child, key employee or co-owner. Outside third parties typically have the cash and the ability to pay a higher earnings multiple for your business.

Secondly, proceed through planning steps prior to putting your company on the market. These steps are:

- Setting your exit objectives;
- Determining the value of your business;
- And, most importantly, taking action to implement and enhance the value drivers in your business.

What are common value drivers?

- Focus on increasing cash flow
- Develop operating systems that improve sustainability of cash flows
- Document sustainability of earnings
- Improve facility's appearance
- Pay down debt
- Solidify and diversify customer base
- Implement growth strategies
- Build a solid management team

Third, once you have maximized the value of your business, undertake the proper sale process which, if properly conducted, can potentially put more money in your pocket.

Let's look at how the sale process itself can make you money.

Basically, there are two ways to sell your company to a third party:

- A negotiated sale; or
- A controlled auction.

Maximizing the amount of cash you receive upon the sale of your company is the business owner's equivalent of hitting the game-winning home run. To hit this one out of the park, you must know what to do before you approach the batter's box. So, too, with a sale to a third party.

Gary Smith, owner of Smith Diamond Importers, had been approached by a national competitor. Preliminary negotiations led to an offer of $7 million for the company. Before he accepted this offer, he called me with the good news. I urged him to contact a business intermediary to orchestrate a controlled auction—a strategy Gary thought would scare off his suitor. The strategy scared the suitor alright—it offered another million dollars to avoid the auction. Gary subsequently hired the business intermediary and sold his company (to another suitor) for $13 million cash. How?

First, Gary was clear about his objectives. He told his business intermediary exactly what he needed financially, when he wanted to exit, how long he was willing to stay and in what capacity, and which companies he absolutely would not sell to. Using those criteria, Gary's business intermediary developed a buyer profile and began to market the company.

Next, the business intermediary developed a deal book, which told the story of Smith Diamond Importers. Qualified suitors signed confidentiality agreements and were sent the deal books. After studying the books, three suitors entered the controlled auction in which they bid against each other for Gary's company. The auction concluded when Gary selected the suitor that met his financial objectives and other exit objectives and signed a non-binding letter of intent outlining the terms of the purchase.

The buyer's attorneys and accountants completed the due diligence process (learning everything about Smith Diamond Importers as they drafted) and negotiated the definitive purchase agreement. The closing was held and Gary left the table with $13 million in cash.

If, as in Gary's case, a sale is properly organized and orchestrated, the process can help to increase the amount of cash an owner receives. In other words, "Working On—Not In—Your Business" can help to increase your sale proceeds by making your company inherently more valuable. In addition, properly managing the sale process can help increase the cash you take from the closing table.

Contrast the sale method used to sell Gary's business (a controlled auction) with the negotiated sale. In a negotiated sale, a buyer has identified your company for acquisition and you have decided to sell to that buyer. The buyer controls the timing, the cash and generally has more leverage in negotiations.

A controlled auction introduces your company to a pre-selected list of qualified buyers. The key to a controlled auction is to have multiple buyers, bidding for your company at the same time, each having identical information and each being financially qualified to acquire your company. As a seller, you can get top dollar when these buyers compete against each other for the opportunity to purchase your company.

Controlled auctions are not a one-size-fits all proposition. They work best when:

1. The value of the company is at least several million dollars and large enough to attract the interest of multiple buyers.
2. An owner's transaction advisors are skilled and experienced in conducting controlled auctions.

Exiting your business takes planning and a good team of advisors. These advisors include:

- Business Attorney
- Estate Attorney
- Certified Public Accountant
- Business Intermediary
- Financial Advisor
- Insurance Agent

Working with these advisors before you need to sell will make all the difference between getting top dollar for your business and leaving money on the table.

Getting top dollar for your business requires more than having the best possible business to sell. It also requires selling your business using the method best suited to extract top dollar from the buyer's checkbook.

Quick Facts

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