WHEN HAVE I FOUND THE RIGHT BUYER FOR MY COMPANY

For every owner the selling decision process is different based on the multiple objectives that the owner may have for selling. Price may be the overwhelming objective because the net proceeds from the sale may be critical to funding their post-sale life objectives. Also important may be the desire to reward employees or to keep the company legacy intact.

There are several strategies to help an owner determine if a potential buyer is the right buyer for the company.

The Envelope Test

John Warrillow in his Built-To-Sell methodology defines one of the 12 important steps in value building as "The Envelope Test." John suggests writing down your target sales price, put it in an envelope and placing the envelope in your desk. Once you have received an offer to buy your company, open the envelope and see if the offer meets your objective. If the offer is at or above your Envelope Price, take this offer seriously.

Evaluation Matrix

There a many factors that determine whether a buyer is the right buyer. In order to take many factors into consideration, one approach is to quantify the buyer evaluation process. This approach attempts to take the emotional aspect of selling out of the equation. One such matrix is shown below:

	Best Possible Score		Median Score		Worst Possible Score	
Type of Buyer	Strategic Buyer	**10**	Financial Buyer	8	Individual Buyer	5
Offer Price	Over $10 Million	10	$8 - 10 Million	**8**	Under $8 Million	5
Deal Terms	Excellent	10	Good	**8**	Fair	5
Type of Purchase	Stock Sale	10	Asset Sale	**8**	Asset Sale	8
% of Owner Financing	No Owner Financing	**10**	Less than 15% Financing	8	More than 15% Financing	5
Investment Period	More than 10 years	10	Between 5 - 10 Years	8	5 Years or less	**5**
Aggregation Strategy	Part of Public Roll-Up Strategy	10	Single Company Transaction	**8**	Company to Be Rolled Into Another Company	5
Owner Continuation	2 Year Commitment	10	1 Year Commitment	**8**	No Commitment	5
Company Legacy	Will Likely Continue the Company Legacy	10	May Continue the Company Legacy	**8**	Will Likely Not Continue the Company Legacy	5
Employee Continuation	Includes Employee Continuation Contracts	10	Indicates Keeping Most Employees	8	No Commitment to Keeping Employees	**5**
Total Ideal Score		100		80		53

An Owner Gut Evaluation

Regardless of how much an owner might quantify the selling decision, every person will still have their gut reaction on whether they should sell their company to a prospective buyer. We can't help but take into account how we feel about someone, some company or some offer.

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Many decisions in business are made based on our previous experiences that help develop our gut reaction. But since most business owners have little experience with selling their company, they have not built up a history of previous circumstances on which to have some type of track record on the decision making process to sell their company.

Professional M&A Advisors are trained in getting sellers to sell. Unfortunately, that is how they get paid and some M&A Advisors prioritize collecting their success fees over finding the best possible buyer for their sale client. Sophisticated buyers are trained in the skills to be perceived as honest, reliable, and likeable.

As part of the process, an owner should try to understand why their gut reaction is positive or negative regarding a potential buyer. It might be as simple as they have a different personality than the buyer, but the price and deal structure is ideal. Since many buyers or buyer team members are focused on the analytical aspect of the sale, this personality mis-match is often viewed as a problem by potential sellers.

Things Of Which To Be Wary

There are several factors that one needs to be aware of in determining if a prospective buyer is the right buyer:

1. <u>If this company will pay me X$$, then there is someone out there that will pay me more.</u>
   There is an adage in the real estate market that the first offer is often your best offer. An owner should be wary of always looking for a higher price – it may not come.
2. <u>I am not really ready to sell yet</u>. An owner should be honest about whether or not they are really ready to leave the company and move onto "What's Next." If they are not, then no offer will be good enough.
3. <u>My target price is too high</u>. An owner should be regarding the company's valuation. Using a third-party appraiser can help determine the proper price.
4. <u>It is too early to sell</u>. Since proper exit planning can take time, one issue is what happens if an owner gets an offer before executing exit preparation activities. An owner should not rule out an offer received early in the exit planning process, if the offer meets their criteria. There's, of course, a trade-off to consider what offers might be available after the exit planning preparation process has been completed.

How Large Is the List of Potential Buyers

Finally, the owner must consider how large the pool of likely buyers is, including strategic, financial and individual buyers. The smaller this population, the more seriously any reasonable offer should be considered. The larger this population, the more the owner should consider establishing an auction process for selling the company, which prepares and presents the company for sale to a number of potential buyers at the same time.