

FINANCIAL POST

Monday, February 04, 2008

A seller's motto: 'Do as I say, not as I do'

Rick Spence, Financial Post

Published: Monday, February 04, 2008



Financial Post

By now you've probably heard the apocalyptic warnings that Canada's small business sector is heading for a succession crisis of Super Bowl proportions. In the next 10 years, hundreds of thousands of Baby Boomer business owners are expected to try to sell their companies -- and the worry is they'll bobble the handoff.

If they don't properly plan for succession, the worry goes, they may not find a buyer when they need one. And their failure to plan could mean the continued health and even survival of their businesses may be at risk.

Now it gets worse: A new survey of entrepreneurs confirms most business sales are mismanaged by the owners from the start. Newport Partners, a Toronto-based firm specializing in personal and business-financing services for entrepreneurs, today is releasing the survey of 100 Canadians who have sold businesses in the past five years. The poll reveals some disturbing trends: Business owners are waiting till they get an offer before they address key issues in selling a business, which means they're not negotiating from strength, and are leaving money on the table.

The survey even shows a surprising amount of sellers' remorse, as the former owners regret their failure to get the best deal not just for themselves, but for their management, staff and customers.

While most entrepreneurs were pleased overall with the results of their sale, "the process was often lonely, emotional and conducted without proper planning," Newport founding partner David Lloyd noted in a release. "By definition, entrepreneurs are often self-made, self-reliant and independent thinkers, and the results show they took a similar isolated approach to the sale of their businesses." Here are the key findings: - For 26% of respondents, the most common reason for selling was, "I received an attractive offer." Coming in second at 14% was, "I needed more capital or strategic support," and at 13%, "the sale was motivated by partners or shareholders," was a close third. - 81% of respondents turned to lawyers for advice on selling and 68% to an accountant. Only 40% used an additional advisor experienced in selling businesses. - These entrepreneurs did not approach the sale of their businesses with the same rigour they bring to other business dealings. Only 23% said they had "methodically planned" the sale two or three years in advance. Only 33% obtained a professional valuation of their business, which might have given them more negotiating power. And only 32% hired an agent or broker to help them make the best deal.

But these entrepreneurs learned from their mistakes and hope you do, too. While only 42% said they had "evaluated all types of potential buyers," 74% of them recommend that effort to others. Similarly, 71% suggest you select an advisor experienced in business sales (although only 40% of them did), and 74% recommend a professional valuation (only 33% got one themselves).

"Their key message is, 'Do as I say, not as I do,' " Mr. Lloyd said in an interview. He notes, for instance, that while only 17% had access to a trusted friend or personal advisor during the sale, 53% recommend it. "They would have liked to have someone in their corner helping them with this roller-coaster process."

For years, entrepreneurs have ignored warnings from bankers, accountants and journalists to better prepare for selling their businesses -- by having stronger systems in place, for example, or management-succession plans. Will they listen to their peers? About 62% of respondents suggest they methodically prepare for a business sale, which is almost three times as many as actually did so.

Lloyd says the most important thing is to get professional help; not just advice. An investment banker or business broker, for instance, can help you assess the value of your business, including the worth of pending orders or potential synergies with the buying company. They can also help with negotiations, and let you focus on running the business instead of letting things lapse while you deal with the issues around the sale.

But what happens after the sale? The surveyed entrepreneurs reported feeling at loose ends after selling their business. Some had nothing to do, while others felt bad for not doing more to secure agreements with the purchasers that would preserve people's jobs, or discourage the entire operation from being moved to Mexico.

Nearly half (48%) of sellers signed a management contract to continue working for or advising the company for a period of time. In hindsight, only 6% "strongly advise" other entrepreneurs to do so. Hanging around what used to be your baby -- and over which you now have only limited control--isn't fun.

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