

## Choosing a Buyer for your Business by John F. Dini

### How Baby Boomers Changed the Face of Small Business in America (Part 9)

You may be questioning this title. After talking in depth about the shortage of buyers over the next 10 years, the differences in values and work habits of Generation X, and the competition for ambitious people from better financed and better positioned Corporate America, you might consider yourself to be lucky to find any buyer at all.

Certainly luck has something to do with it. Surveyed on a choice between a hypothetical business partner who was skilled, and one who was consistently lucky, the vast majority of experienced business people chose lucky.



But Seneca, the first century Roman philosopher, said “*Luck is what happens when preparation meets opportunity.*” If you prepare your business for the right seller, the odds of getting lucky will increase exponentially.

Remember, your competition is any other small business owner trying to sell his or her company. Most of them, unfortunately, believe that preparation for a sale consists of calling a broker and waiting for someone to fall in love with their business. We’ve already discussed why that is unlikely to be the case.

For most owners, selling the business will be the biggest single financial transaction of their lives. What if I called you with an opportunity to present your product or service for the biggest sale of your life? You will have an exclusive interview with the CEO of a Fortune 100 company, who is interested in buying as much of what you sell as you can supply. Would you just walk in cold, and hope for the best?

I doubt it. You would research the customer, and determine why he is interested in your product. You would try to find out what he has bought before, and why. You would review his likes and dislikes, and prepare your presentation to appeal to his preferences.

You may not be able to choose your buyer on an individual basis, but you can choose the general characteristics of your buyer, and start tailoring your business now to fit both his and your objectives.

#### **External Sales**

The majority of “main street” businesses, those that earn less than \$1 million before taxes, expect to sell to a third party. Owners often ask me “*What can I do to make my company more saleable?*” Than answer is simple. You should do the same things that you should always be doing to make your company successful.

Ask yourself what you would want to see if you were buying your company. If you are a Boomer, especially one who was born before 1960, would you want a business that required long hours, no vacations and little income? Of course not.

Approach your business from a buyer's perspective. Are employees in place who are dependable, appropriately compensated and happy in their jobs? Do they have clear duties, and documented procedures? Are your management systems well defined? Is your technology current? These things may sound obvious, but we all slide a bit when everyone just "knows" how to do their job. As entrepreneurs, we become too accustomed to being the font of wisdom. Most of us have little realization of how many things we decide in a day.

I recommend having this tattooed somewhere not too obvious on your body. Perhaps you should do it backwards, so you can read it in the mirror.

*"The more I work in my business, the less it is worth."*



It isn't rocket science, nor is it new advice. In the coming competition for buyers, however, it is more important than ever. As Boomers had to [compete in school](#), competed in work, and competed as parents, so they will be forced by their numbers to compete for buyers in selling almost 6,000,000 small businesses.

#### **Internal Sales**

Even if you position your business for sale, there will still be a shortage of buyers. Remember, we are only 5 years from when the ratio of retiring-age owners versus buying-age prospects enters the five year dark ages, the [worst ratio](#) between the two in history. If

you are prepared, you are more likely to get lucky. A better solution, however, might be to eliminate luck as a factor entirely.

Most small companies can be sold to employees, if they have been trained and qualified to run them. (For our purposes, we will assume "employees" to include qualified family members where appropriate.) It usually takes between five and seven years, but there are substantial payoffs.

First, you can dictate your price, within reason. You avoid the adversarial process of an arms-length buyer who low-balls your value, nit-picks over minor faults, or presses you to take onerous terms. Second, you get to drive the process. With an internal sale, you can be more flexible about when and how you choose to move on. You can even sell and remain in a part time or advisory capacity. After all, you know that the new owner and you will get along.

Perhaps most importantly, you avoid the distraction of the marketing and sale process. The pace of transfer is more relaxed. Both you and your buyer are working side by side to make the company more successful, because you have a common interest in its success.

Most owners raise one of three objections to an employee sale. The most common is *“My employees don’t have the money.”*

Given time, most businesses with decent (at least \$500K) cash flow can be transferred using stock compensation incentives to give the buyer(s) sufficient stake in the company to allow a financed, or leveraged, buyout. While the employees are working to earn their equity, the seller is taking the increased profits as part of his ownership value.


The second objection is *“I don’t want partners. I’m accustomed to making the decisions.”*

While it is clearly advisable to help the new owners learn to make good ownership decisions, you don’t have to surrender one bit of control. There are common and easily implemented legal structures that allow you to drive the bus right up until your last day of work.


The third objection is *“I don’t have any employees capable of taking over my business.”*

Only you can fix that one.

Well, what are you waiting for?



[“Beating the Boomer Bust,”](#) is a collection of articles focused on the unique challenges facing the business community due to the large population of retiring Baby Boomer business owners. It is the product of a year of research, and of fifteen years helping business owners prepare to leave their companies. Small business owners in America are ignoring a tidal wave of change that will leave a few small businesses untouched while wiping many others from the face of the planet.

 **BUY THE BOOK**