

Selling Your Business? The Basic Formula a Buyer Uses

The Buyer's Formula

$$P + P + M = D$$

People + Product + Market = a Deal

When Selling a Business – Understand What a Buyer is Really Looking For – Do you Have It? P + P + M ?

If you have accomplished **people** helping operate your company, produce a best in class **product or service**, enjoy a well constructed position within your **market** – then you have a deal to sell your business waiting to happen. Usually on your terms and on your conditions. This is the formula of a great company, a valuable company and a company that many people will consider buying.

Experienced buyers will always covet cash flow. That's the attention grabber, but in the end, after seeing how much the business makes, they consider these three elements for a successful deal. Yes, there are other important items, strategic fit, location, financing capability etc., but if you have these three things – **People + Product + Market** – a **Deal** is 90% of the way done. For everyone involved.

The Three Principal Elements Needed For Successfully Selling A Company

People: The Infrastructure Managing and Operating Your Company

The most important asset of a company, a quality company, are the people that make it happen. To a buyer they instill confidence for sustainability and comfort in the ideas of future expansion. Operations, Sales, IT and Front Line Staff – this is the essence of a company. The why and how the doors open each day. Cherish great employees, they will reward your company 10 times over by their work and the value they create for an enterprise. You will find that out when the time comes to sell.

Racine, Wisconsin's S. C. Johnson & Son utilized what people called "the golden handcuffs". Once they had you, and they wanted to keep you, the "golden handcuffs" came on and you wouldn't want to leave. Great compensation, wonderful benefits, work life, the entire atmosphere of being a part of a unique family business environment made employees want to stay. *And they did!* – Find a way to keep yours.

Product: The Quality Compared to the Competition and Possible Future Market Disrupters

"Best in class" is always discussed, but it needs to become part of your company's ethos. A point of pride for everyone within the organization. Valuable companies have developed this culture.

Every day needs to become a new opportunity to pursue producing the best possible product or service.

A company that produces a great product or offers and executes a wonderful service will always be in demand. They are the gems buyers will look for and pay more to acquire. Why? These companies lead. They understand what separates them from the competition and they execute their model.

The larger the breadth and depth of your company's separation from a possible competitor – the bigger a moat around your castle (the business) – the more value it brings to a suitor.

Some elements that help construct a formidable moat, that differentiates a quality product or service and distinguishes a business might be:

- Patents
- Trademarks
- Copyrights (and their maintenance)
- Proprietary Designs, Know-how, Databases
- Brand and/or Trade Names
- Customized or Proprietary Software Programs
- Hard to acquire licenses, zoning, regulatory approvals
- Contracts with customer bases in difficult-to-penetrate businesses and entities (governments – Federal, State, Local)
- A great product/service your competition wishes *they* had

Having as many of these elements as possible – only builds the value of your business.

Market: How You Are Positioned

Where and how is the company positioned in the market and how does it compete for business? Will there be a *there* – tomorrow? Is the company sustainable and the cash flow scalable after it is acquired?

When acquiring a business, buyers will apply a go-forward strategic plan that, if implemented and successfully executed, will lead to a business's higher *future* value. Buyers will look at and evaluate the following areas of the opportunity and if there, if executable – you got a deal!

- Is the business in a growth industry?
- Are there new markets that management could pursue?
- Are there new products or services that existing customers may need?
- Will new distribution channels spur growth opportunities?
- What is the possibility of developing new products and reaching new customer bases?
- Can growth come from expanding reach to new territories or countries?

The more positively a buyer translates these questions into the acquisition, the more valuable the business, the higher the price, and the easier to sell.

The above three elements, when together, sell a business 90% of the time. The experience of selling now becomes not whether the business sells, but at how much and under what terms and conditions you – the owner – would like!

When nearing the horizon of selling your business keep these three elements in mind, and if successful in developing each – the more valuable, the more marketable and the better the chance of obtaining your dreams in *successfully selling your business*.