The Most Common Mistakes Sellers Often Make

Through the years, it always seems to be the same mistakes owners make in going through the process of selling their business. Below are the most common, and often times the most damaging mistakes to obtaining the goal and success of completing a deal. Take them to heart and always be mindful and the process and transaction will be successful.

Mistake #1: Over Valuing Your Business and Unrealistic Expectations

The owner should understand that the buyer is buying a business that he can make money with, not what you (the owner) think you should be making. Look at your business dispassionately. What would you pay for it and why? You and your Intermediary should analyze the business, its cash generating capabilities and derive an understanding of what the value range should be, before it is even listed. The buyer will pay a fair market value – not a sellers dream price. Understand fair market value, who the candidates might be to acquire the business and the Intermediary should attempt to bring, if and when possible, multiple buyers to the conversation and create a competitive bidding tension.

Mistake #2: Neglecting the Day-to-Day Operations of the Business

Run the race/process until the echo of the whistle, money is exchanged and hands are shaken. Never, ever let up on the day-to-day operating of your business. The Intermediary should handle the noise of the M&A process, your job is to run the business. Performance must be maintained or problems emerge from every direction, buyer, attorneys, banks, and employees. Play this hard until the very end of the game.

Mistake #3: Over Estimating the Forecast of Your Business

The lifecycle of selling a business can take nine to eighteen months or sometimes longer depending on the complexity of the deal. Be prepared and understand that at certain points along the cycle you will be asked if you are maintaining financial forecasts. If not or if there is a discernable negative change, it could be a deal killer or lead to a re-negotiation of pricing and terms. This is particularly true if financial institutions are involved.

Mistake #4: Managing Deal Fatigue: Not Giving Up Too Soon

This is something that both the seller needs to understand and the Intermediary must always be cognizant of. The seller needs to appreciate that the transaction process is a marathon, not a sprint. This takes time and there are always moments of frustration and discouragement. Mind set by the seller from the beginning is extremely important. Be prepared – it may take nine to eighteen months, sometimes more, to move this to a conclusion. It is also important that the Intermediary be aware of a client’s fatigue and carefully screen potential buyers.

Mistake #5: Not Maintaining a Transaction Cadence

One critical aspect to moving through Due Diligence, and often neglected, is establishing a transaction cadence, maintaining it and seeing to it that all participants follow. Make sure, before you even start, that the attorneys, accountants and business advisors are aware of a timeline and that all need to work as best they can to committing to and following through each step of the way. Time can kill many deals. Keep everyone involved and moving forward.

Mistake #6: Not Qualifying a Buyer

This happens more often than is necessary. The buyer must be thoroughly vetted and he must understand what is required of him as everyone moves through the process. In particular, how will he fund the transaction? Specificity is import. Show us the money.

Mistake #7: Your Team and Staff Hear and Feel Rumors

Confidentiality is critical. Be aware of the destructive force of the rumor mill. This can really hurt the performance of the company and/or cause key people to begin looking at alternative employment situations. I have seen this before, key people hear about a pending sale, and the day before closing confront the owner with demands for higher salaries, benefits and working conditions. The result is, through no fault of the business performance or structure, the deal collapses.

Mistake #8: Managing a Must Sell Situation

It happens too often, when a seller reveals through conversation with the buyer, that they are moving, or growing tired of operating the business, or they are overwhelmed at how fast the business environment is changing. The seller conveys urgency to conclude a sale. It opens the window to receive underpriced offers, stringent terms and conditions counter to the interests of the seller. Owners must always be careful to not reveal any frustrations and impatience with the process.

Mistake #9: Organizing Key Employees to Remain After Transaction

All buyers will be very concerned that key members of the management team and organization will remain post transaction. Have in place contracts and incentive programs that help bind key people to the business. Key employees are extremely important assets of the business. They are critical to the operational success of the organization. Treat them as such.

Mistake #10: Open Ended Letter of Intent

Have your representative’s review and insist on a LOI that satisfies the buyer’s needs, but is clear

and complete in the areas of documentation. When you agree and sign a LOI, it is at that moment you relinquish control and power of the process to the buyer. Negotiating leverage has now rotated. So clarity, a mutually agreed time line and transaction commitment must be spelled out. It just saves everyone legal and advisor expenses. Make sure the lawyers, both sides, get the memo! You want to sell a business, they want to sell time.

Mistake #11: Can You Work with New Ownership through Transition

Remember, post transaction, there will be a "transition period". It could be 2 months up to 12 months and in some instances consulting agreements beyond. Make sure you can have a comfortable working relationship with the new owners. This is especially critical when an "earn out" is involved.

Mistake #12: No Fall Back Plan

It is more common than you think, that a transaction goes up to the closing table and the deal falls apart or during the long and exhaustive due diligence process, the principals grow weary, and at times angry, and say enough. Is there a backup plan? Are you prepared to continue operation? Are additional buyers available to be contacted? The deal is never done until the deal is really done, that is, you have the money in the bank.

These are some of the most common mistakes and areas that sellers fail to consider and prepare for. A professional Intermediary's responsibility is to guide you through this exhaustive process. Be prepared for what is to come and keep in mind all of the above and in the end, yes it will work out well.