Business by design:
Exit with confidence Part II

COLUMN BY BOB WARD



When this series began in the April issue, I affirmed to you that without exception your business will be sold, either as a planned sale or chaotic unplanned sale. The first priority was completion of your will. Now we get to talk about creating a plan to sell your business — by design!

In order to sell your business, it first must be operated as a business, not simply a place you show up each day to go to work. If your business is really just a job to you, where you toil each day to make ends meet, you will have a lot of work to do to make it marketable.

Potential buyers are not looking for a job, they want a proven enterprise: positive cash flow, strong customer base, tenured employees, systems, procedures, and growth potential. They want to see a clean, neat, organized, well run machine that, when run at least to your standards, will provide a reasonable salary, plus a decent return on their investment until they wish to exit.

While it may seem sophomoric to mention some of these considerations, the fact is, a majority of small businesses do not even publish monthly financial statements. A successful business should be obvious within minutes of a "walk through" and conversation with its owner. Like the need to have a will in place before continuing this series, I think you must have accurate monthly (at least quarterly) financial statements to prove the health and trends of your company. Furthermore, they are essential for a valuation appraisal and for bank financing consideration in the sale.

The indelible point here is that in order to realize meaningful value for your company, it must be ready for sale, every day. As I'll repeatedly say throughout this series, you're either planning for success or you're not. If your business is not ready for sale today, get working on it. Otherwise, you can choose the really easy option when you want to retire—commission a sign maker for a big "Owner Retiring—Liquidation in Process—Everything Must Go" sign.

The previous paragraphs were somewhat blunt by design. This is important, so important in fact, that I'm recommending a book I want you all to read before Part III appears in the June issue. "The E-Myth Revisited—Why Most Small Businesses Don't Work and What to Do About It" by Michael E. Gerber is, in my opinion, one of the very best practical guides for business owners. The list price is $18.99 in paperback. It is a quick, easy to read discourse that you will relate to on many levels. (I've read my copy three times over the years.)

If your business is ready for sale today, you are in a terrific place to design an exit plan that will have a high probability of success. Your choices now are twofold: sell to an outside buyer or sell to an inside buyer (employee).

Outside buyers are hard to come by. There is a massive scarcity of potential buyers possessing several hundreds of thousands of dollars to buy someone else's business where they have no connection to the existing employees and clientele. If you wish to pursue the outside buyer path, you can try to market it yourself or pay an agent to represent you. Besides having a low success rate, the timing of the sale can be quite problematic. It will sell when it sells, maybe tomorrow, maybe never.

Look online sometime at businesses posted for sale in your area. Check with business brokers about their experiences, or inquire through your trade group about the success rates of posting your business for sale. Become informed and prepare well in advance for this "win or lose" proposition.

Conversely, a sale to an employee offers a higher likelihood of favorable outcomes, while you maintain control of your company and the timeline to your eventual exit. It is in this course that greater realization of value is more often found.

Watch for the continuation of this journey, selling to an "insider" in the June issue.

Editor's note: Electrical Rebuilder's Association members can check out a review of "The E-Myth Revisited" archived from the August 2005 issue of the *Exchange* ("Off the shelf" by Traci Matt). Go to electricalrebuilders.org and click on "archives."

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