Four Things to Consider About a Deal Before Price

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What matters most when selling a business? Although money probably comes to mind immediately, for many sellers, the most suitable buyer isn't always the one who can cut the largest check. More than a set dollar amount, business sellers want somebody who aligns with their vision and understands the future potential of their company.

As pivotal life decisions go, selling one's business is right up there. So it's important to give some serious thought to the qualities you want in a buyer before you get deep into the sales process. Neglecting to do this vital legwork in advance can further complicate what's already a complex process under the best of conditions.

If you're considering a business sale, here's a checklist to help you evaluate potential buyers and make the best decision for you and your business.

01

Know your alternatives.

Before you start negotiating with potential buyers, ask yourself this question: Are you better off not selling at all? Every seller should know where their line is between a reasonable offer and one where no deal is a better alternative.

Consider the long-term impact on your business, your employees and your personal goals if you accept a deal that's a bad fit. If walking away from the table is better than accepting an offer, be prepared for that possibility. You'll be a stronger negotiator if you know what makes a deal suitable for you.

02

Understand your underlying strategy.

Another reason not to leap into the sales process prematurely is that it's important to first consider the strategy behind a sale. Yes, it's great to make a lot of money, but a deal should ideally also provide a unique future benefit for your customers, employees and key vendors.

Think about what you're seeking to accomplish, then focus your attention on prospective buyers who share your vision of a post-deal future. That means being aligned on:

- **What** the business looks like after the deal
- **Who** the combined business will serve (which might be different than who you've served in the past)
- **How** you'll implement a successful business plan

03

Assess the deal's effect on all stakeholders.

Combining two businesses doesn't just affect you as the business owner; as noted above, it affects numerous other stakeholders both inside your business (employees) and outside (vendors and customers).

As you evaluate an offer from a prospective buyer, consider how it will affect those stakeholders:

- Will they be better or worse off as the result of the deal?
- Will it result in improved organizational capabilities?
- Are the cultures of the two businesses compatible enough that they'll combine successfully?
- Will the business's internal cohesion be reflected in its dealings with vendors and customers?

04

Ensure risk is being shared appropriately.

By its very nature, a deal opens up one or both parties to a certain level of risk. Exactly how that risk is shared is one issue that the buyer and seller need to agree on before proceeding with a deal.

If you're the seller and your goal is to depart cleanly from your business, you'll want to make sure the buyer will accept 100% of the risk. Maybe you and the other party are interested in combining your operations to build on joint momentum. In that case, a logical proportion of risk sharing might be 60% for the buyer and 40% for you as the seller. The specific percentages will vary depending on other factors, but the key is that the risk-sharing has to feel right to both parties.

05

Finally (and only finally), consider the price.

Once your prospective buyers satisfy all the conditions above, it's time to turn your attention to price.

Every business sale is unique, so we can't offer any advice on what's typical. The selling price of a business is simply what a willing buyer and seller agree to at a specific moment in time. As seller, you should look for the best available price in the current market or, alternatively, a number that's satisfactory for you. One way to put an offer in perspective is to measure it against what your business would normally earn in the short-term future.

Keep in mind that although price is important, it isn't everything — it's not even the first thing. In fact, we'd argue that in most cases, it's the fifth thing.

Oaklyn Consulting's role in the sales process

When making a major decision, particularly one that will affect many people besides yourself, it's crucial to have a sounding board. At Oaklyn Consulting, that's an essential part of what we do.

Because we're truly objective, providing investment banking advice on an hourly basis instead of collecting a success fee, we can draw upon our decades of deal experience to help you find the best deal partner available. And, if a suitable deal can't be found, we'll work with you to identify the best path forward for your business that doesn't involve a sale.

Finding the right buyer for your business is tough work. We're here to lighten the load, positioning you to not only meet your financial goals, but to carry your business forward in a way that you can be proud of.

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