Avoiding Common Seller Mistakes in Mergers & Acquisitions

sales solution

by Brooke Hollis

At some point almost every owner will seek to sell or otherwise exit their staffing business.

Many sellers leave significant amounts of cash "on the table" when selling their companies. How do I know? I have lived through the process with my own firm having done it the wrong way. Since then, I have seen many situations, as an intermediary, where a deal that an owner was ready to accept was increased by 25, 50, or even 100 percent, using the right process.

Most business owners also risk having a large percentage of their personal wealth tied up in a relatively illiquid business. How can owners mitigate some of this risk and improve the odds of an optimal transaction?

This series will address a number of common pitfalls and make suggestions for how to avoid, or minimize, potential problems. Some of the more common mistakes include:

- Failing to Sell When the Market and Company Are Ready for Each Other
- Not Assembling the Proper Advisory Team
- Failure to Properly Position the Company for An Optimal Transaction
- Inadequate Documentation and Premature Disclosure
- Not Understanding Valuation
- Inadequate Approaches to Finding Buyers
- Failing to Understand Proper Structuring Of A Deal

In this issue, some ideas will be shared about understanding your firm and when the right time to sell might be.

When Is The Right Time To Sell?

There is no one time that is right for everyone. Owners sell for a variety of reasons — some of them are strategic, but many are not — including age, health issues, divorce, partner issues, burnout, etc. Some owners seek a partner they can grow with, or that their people can grow with. Some primarily want to "cash out" and completely exit. Others want to convert a significant portion of their value to cash, but still stay involved. This involvement often takes the form of business development, client relations, or as a kind of ambassador for the business they founded or ran.

It is important to assess your unique personal situation and objectives, including: how long you'll have to stay post-acquisition, taxes, estate and succession planning, etc. However, a key ingredient to an optimal exit is to match the readiness of your company with the marketplace. If your firm is attractive and the marketplace is receptive, it is often important to begin to consider your options. Why? Because it's usually better to sell when the buyer demand is increasing than to take the risk of waiting for the market to peak.

Over the years we've seen too many owners regret not having made their move when buyer interest was strong and when things were trending well for their firms — doubtless you know some. We are now seeing a more energized period of acquisition activity compared to the last few years, when there were limited staffing exit opportunities.

After a number of difficult years, overall staffing industry revenue is only now beginning to get back to where it was in 2000. However, most niches are doing better this year than last year. This is one of the reasons buyers are showing increased interest in acquisitions. Many unpredictable factors might impact their interest, including new competition, negative changes in the economy or stock market, unexpected terrorist or other events, continued increases in financing costs etc., but for the now, staffing acquisitions are increasing.

Take Stock of Where You Are and What Could Be Changed Now

If your volume is trending upward, your margins are holding or improving, your customer base is reasonably diversified, etc., you could be potentially attractive to acquirers. Assess your personal and financial needs if you did sell. Ask yourself if you would be content if there were another downturn in the acquisition market and you had to wait for an extended period before an exit transaction. If this is not appealing, or it is too risky, preparing now would be a prudent decision. It usually takes longer to prepare for a potential sale than people anticipate.

An Alternative to Selling

Clearly after evaluating these and other factors the best thing may still be to continue to grow and operate your company. A variation on this approach that works for some people is a sale of a part of their company, a "recapitalization" or similar transaction. For an owner who believes there is upside potential, who might wish to stay involved with the new ownership team on some level, but who also wants to take some cash "off the table" while minimizing the risk of having most of his/her assets in "one basket"— this type of transaction might be a good option. When done properly, some owners have seen substantial increases in the total value of their firms while having already banked a significant amount of cash.

So when is the right time to sell? Only you can answer that for your own particular situation, but considering some of these questions and consulting with an experienced advisor are a couple important first steps in evaluating your decision.

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