TobinLeff
Building & Monetizing Business Value℠
WHITE PAPER

10 Questions Buyers Will Ask (or be Thinking) When You Sell Your Business

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You have learned from successes and experiences that to help assure a sale gets closed, you need to put yourself in the shoes of the buyers and be prepared for the questions they may ask. Knowing the sale of your business will be the most important sale of your current venture, let's prepare for questions buyers and investors typically ask. From our experience helping more than 100 agency owners buy or sell companies or craft exit plans, here are 10 questions that you should prep for:

1. "Why do you want to sell?"

Buyers wants to know your motives, your intentions, your vision for selling, so put the reasons on the table. If you are tired or burned out, buyers will sense it. If you are undercapitalized, buyers will see it on your balance sheet. If you are energized to be part of a larger enterprise, buyers will feel it. As you know, honesty and humility serve people well, so be transparent about your reasons for selling.

2. "How involved do you want to be with the acquiring company?"

Buyers know that most marketing services agencies depend on the founders or stakeholders to generate new business and retain major clients; that's why most offers include some form of an earn-out provision that ties a portion of the selling price to future performance. The earn-out portion contingent on hitting certain benchmarks is typically 25% to 50% of the total target selling price, with 50% to 75% being guaranteed. The average earn-out period is 36-months.

If you have a target date by which you want to be completely divested from your company, you should start the selling process three to four years before that date because it typically takes six to 12-months to get a company sold, and the buyer will most likely want you to stay involves for 18 to 36-months or more. Many buyers will be okay if you choose to work part-time during the period—they just want assurance that you are on-board to help assure a smooth and profitable transition.

3. “What’s special about your business that I can’t get elsewhere or build in-house?”

Go to the sites of any 10 advertising, integrated marketing, or digital marketing agencies and try to distinguish what makes them special. Most will say they are a different type of company, obsessed with client service, have cutting edge capabilities, and a “family-like” culture. But what’s truly unique or special about them?

There are endless reasons buyers pay top dollar for businesses—to get yours, you need to show them what is extraordinary about your company. For example: Do you have deep domain expertise in a growth sector? Is your process for generating new business tried and true? Have you developed a business formula that consistently generates profit margins above 25%? Are you a recognized market leader for specific capabilities?

What’s exceptional about your company? Stake your claim—and put your cause out there.

4. “How dependent is the business on you?”

If your business is overly dependent on you personally, there will be more strings attached to the deal and you will be required to stay involved longer to help assure that the business transfers and sustains.

Most business owners know the importance of delegation and developing processes to run the company, but this is an area that often needs additional attention when it comes to implementation. Involve others whenever and wherever you can. Quantify and document when others generate leads, help win new business, and lead accounts. Get out of the day to day stuff. Take more vacations. Demonstrate that the company can thrive without you.

5. “How good are your people?”

This question, of course, goes hand in-hand with the dependency question above. Buyers know you can’t do great work without great people. They will be paying special attention to the caliber of your senior staff when assessing your company. They may be looking for future leaders who can become part of their management team.

So how good are your senior people and management team? Are they recognized thought leaders in the markets you serve? Do major clients rely on them? Can they make rain?

Incentive plans with “golden handcuff” type provisions to help retain talented people will serve you well when going to the market to sell your company. If you are going to institute some form of a phantom stock plan, be sure the participants don’t get their payouts until you get paid. If you must stay for an earn-out period, your key people need to know that they will have to run hard with you.

6. "Are our cultures and values compatible?"

There are two aspects of your company culture that buyers will scrutinize during preliminary discussions: (1) the nature of your internal culture, and (2) whether your culture and values are compatible with theirs.

Culture is a means to an end–which is to make a profit–and, like any other aspect of the business, can and should be measured. Is your turnover rate lower than industry average? How are your reviews and ratings on Glassdoor? What are the results of employee surveys?

When you walk into an office for the first-time, you consciously or unconsciously try to assess the vibes and energy levels of the staff. What does a visitor feel when they walk into your office? What is the energy flow?

7. "Is there client concentration risk?"

Every agency owner that has the 800-pound gorilla account tries desperately to minimize the percentage of business from that account; but, it's easier said than done. No one turns away business from their largest account, so if that train keeps rolling, the only way to reduce the percentage is to increase business from other accounts. If you are serving multiple business units with different decision makers within the gorilla company, the risk will be reduced, and your M&A advisor will undoubtedly promote that fact.

We have sold multiple companies that had client concentration risk, but the percentage paid at closing is predictably less than for those where no one client accounts for more than 20% of the revenue.

8. "How do you generate new business?"

Most experienced buyers dig deep on this question. Are you treating your company as your most important account to promote and grow the business, or are you the "shoemaker's kid?" (Unfortunately, we see a lot of barefoot children.)

If you have built a business that is truly ready for sale, you should be able to demonstrate to buyers that you have a proven process for keeping your pipeline full. Document your techniques and the results achieved from your marketing efforts. Use this as another opportunity to validate that new business happens without you and show why you are different from the typical firm.

9. "How can we grow the company?"

Would you buy a company for more than 5X EBITDA if you did not see paths to grow the bottom-line? Never. If there is no growth in EBITDA, it could take eight plus years just to get your money back when buying a company with after-tax dollars. The reason why sophisticated buyers pay high multiples is because they see how the acquired company can grow and enhance the value of their enterprise. That enhanced value can be achieved many ways: growth of your block of business with the help of their expertise, resources, and capital; synergistic savings; complementing or supplementing their current service offerings for cross-selling opportunities; and/or the arbitrage realized by paying, for example, 6X for your company because they believe when they sell they will command 8X as a result of their size and value proposition.

Help prospective buyers and investors see the growth opportunities—both top-line and bottom-line. Ask them the needed questions to learn about their growth and strategic plans to identify areas where your company and assets can support their visions.

10. "How can I be sure the company is sustainable and will continue to thrive under new management?"

This is the overarching question that encompasses most of the previously mentioned subject matter. Look for every opportunity to demonstrate and promote sustainability. Business sustainability begins with sustainable leadership so speak with conviction if you want to stay involved and boost how good your people are. The strength of client relationships, recurring revenue sources, and systems to generate new business should be reiterated.

Businesses built to sell are businesses with proven, sustainable business models. Businesses that are sustainable with growth potential sell for top dollar.

Have great answers to these 10 questions and you will be on the road to receiving top dollar for your business and enhancing your family wealth.

About TobinLeff, LLC

TobinLeff is an M&A advisory and exit planning consulting firm that helps owners of marketing, advertising, PR, digital, IT, and related companies build and monetize business value. On the build side, we:

- craft Value Enhancement Plans,
- deliver strategic consulting and implementation services, and
- provide M&A services to source, structure, negotiate, and help close acquisitions and acqui-hires.

To help clients convert business value into personal wealth, we:

- craft Exit Plans,
- design and implement Management Buy-Out Plans, and
- provide M&A services to source, structure, negotiate, and help close sales of client companies to outside buyers and private equity groups.

Now in our 10th year of service, we have assisted more than 125 owners with exit planning solutions and M&A transactions to buy and sell companies. All of our partners have owned marketing agencies. We are based in Pittsburgh with partners in New York, Orange County, and North Carolina.

Please visit our site at www.tobinleff.com for additional information and case studies.

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