

What You Need to Know About Selling Your Company: Buyers Look to the Future, Supported by the Past

By Bruce Bishop and Holt Vaughn

As a man of history-making accomplishments, the English philosopher, statesman, scientist, lawyer and author Francis Bacon knew it...

And he said it: Knowledge is power.

In this white paper business owners will:

- Gain knowledge to put you in a position of strength when selling your company
- Find out about a crucial foundational principle for selling a business
- Learn to *significantly increase the value of your business* for its future sale
- Come away with *new ways to apply this knowledge now*

THE CHALLENGE:

Let's quickly look at the challenge, then we'll dive into applied solutions.

We all know this: Our world today is barraged with a pervasive perception-shaping diet of narratives designed to expertly shape how we perceive everything around us. At base level, this messaging relies on feeding us the sweet and savory stuff that we want to believe. Whether about products, news, the arts, lifestyle, or worldviews, the target is our imagination, emotion, and desire, as opposed to appealing to more sobering, not-so-tasty realities. (There's a reason why our social media, marketing, and e-commerce channels are called "feeds"!)

There is a non-stop feast of fantasy we essentially invite into every area of our lives—within our phone screens, ever-larger vehicle-based screens, giant screen TVs at home, and in every retail outlet, business office, and government area, not to mention all the devices in our kitchens, bedrooms, and bathrooms (Alexa, Google Home, etc.); all standing at the ready to act as feeding tubes into our personal system.

The point is, in considering all that, it's understandable—and not uncommon at all—for any of us to confuse the facts of life and business with uninformed and unrealistic desires or expectations we may deeply hold.

So, here's the truth that we'd like to share delicately. Any serious professional in the business of helping business owners buy and sell companies sees this phenomena frequently: Simply put, **it is a very real challenge for business owners to come to grips with *how their company will actually be valued in the real-world marketplace, versus what that owner (often erroneously) believes their company's value to be.*** We're talking fantasy versus reality, uncertainty versus knowledge.

This white paper can help you with these questions in a meaningful way, right now.

This challenge is particularly interesting, because the M&A world—when it comes to valuing and selling your company—is largely about both the empirical (observable, mathematical realities, i.e., “the numbers don't lie”) as well as the almost mystical, mythical side (including the “brand,” “company culture,” and so on).

To answer your questions, you will want to think seriously about this reality: How does the market value what you have? We might argue all day about how *you* see the value of your brand and other intangibles in the equation, but the question will be settled by what *the market* will bear. *Buyers will tell you what your business is really worth.* As some M&A professionals often say (let's brace ourselves for this one): “Your business is only worth what people will pay for it.”

Ouch. So, what then?

- Ultimately, the key, of course, is to properly *prepare your company for what buyers value highly.*
- *Then, you will have your company's best foot forward in front of lots of qualified buyers.*

Buyers are largely buying the future. And it is often hard for owners to grasp that yes, indeed, you need to show:

- *Your company has done well in the past*
- *AND it is doing well in the present*
- *BUT if it cannot be shown that it will do well in the future...*
- *Then you may not have much, if any, of a deal.*

Frustrating as it may seem when you get into the weeds of selling, you will find that in order to get the big payout you dream of, you generally have to prove it all: past success, present success, and the demonstrable viability of future success.

SOLUTIONS: PRACTICAL WAYS TO APPLY THIS AND SEE BIG RESULTS

No one said it would be easy to live that dream, but as an entrepreneur, you already know that. You just need to keep buckling down with tracking the right KPIs and remind yourself and your team to stay focused.

Knowledge = Power. Power to sell high and reap the rewards! So, Remember the Basic Principle:

Well before entering the market to sell your business, a key element of any transaction that you must realize is that the buyer is *buying the future of your business* and looks to past and present performance as credibility in the market. As a result, it is imperative that you:

1. Have developed and can show consistent performance over the past several years
2. Demonstrate continued success; documented with metrics, numbers, etc—not just intangibles, so you are able to prove: Is your business healthy now?
3. Illustrate how you have operated in down economies
4. Define *a clear vision* and plan for future growth and expansion. And you must prove this also, clarifying your position, including the numbers, etc.
5. Demonstrate that your company is sustainable, transferable, and scalable.

Past performance and future plans can support *the projections* you will inevitably be asked for to justify the purchase price or even to simply generate interest in the business.

The Importance of Historical Performance

Historical performance provides a solid foundation for potential buyers to assess the viability and profitability of your business. It reflects how well the business has navigated various economic climates and offers insights into its resilience and adaptability. Demonstrating a track record of growth, to even include solid records that answer to past downturns, *can instill confidence in buyers about the business's potential to thrive in the future.*

Be ready and able, with your M&A professionals' help, to provide plenty of reports—the numbers that prove past performance.

Building a Strong Track Record

To build a strong track record, focus on maintaining consistent growth and profitability. Implement strategies to improve efficiency, reduce costs, and increase revenue. Invest in areas that can drive long-term growth, such as new services, technology, sales and marketing, investment hires, and employee development. Documenting current efforts and their outcomes will create a compelling narrative for prospective buyers.

Financial Reporting Transparency

Accurate, transparent financial reporting is crucial. Ensure that your financial statements are up to date, detailed, and reviewed or audited if possible. Understand that buyers are savvy, detail oriented, and very picky. They WILL scrutinize these documents to verify the financial health of your business. Get ahead of any and all questions and issues. Having clean and transparent records not only greatly assists in the all-important aspect of attracting buyers and getting them to the table, it will also expedite the due diligence process and foster trust between you and the buyer—once you have decided on who is the best buyer—and the transaction moves forward.

In addition, this will lend credibility to the forecasts that are prepared and reviewed by the buyer. Remember, they are buying the future of the company and need to rely on your past and current performance and ability to illustrate your command of the business. They will dig deep and wide looking for validation that your business is worth their millions of investment dollars.

Highlighting Market Position and Competitive Advantage

Emphasize your business's market position and competitive advantages. Showcase unique selling points, such as proprietary methodologies, strong customer relationships, or a loyal client base with no one client exceeding 10% of total revenues (client concentration can be the proverbial kiss of death). Highlighting these aspects can make your business more attractive and distinguish it from competitors. You will need to clearly illustrate what differentiates you from your competitors.

Preparing for Future Growth

We can't stress this enough. *You might call this the "secret" to getting top dollar when you sell your business:*

- ***Buyers "buy the vision", the future. As important or amazing as you feel the past and present of your company are, buyers rarely buy based on those alone.***
- ***Buyers buy the future based on a skillful analysis of the empirical data shown from the past, present, and the demonstrable viability of the future growth plan.***
- ***Your vision must provide a roadmap for future success that is so clear, buyers can understand and visualize the potential returns on their investment!***

And yes, buyers will account for your intangibles, as they see them; yet to rely on a buyer "seeing the full potential" without the necessary documentation, is to go to market with a hope and a fantasy, not with a solid plan.

To place your company ahead of the rest, know that you will need to prepare and present your detailed business plans, including future pipelines, business development, new service offerings, market expansion strategies, strong data and analytics capabilities, and effective use of technology.

Managing Risks and Challenges

As mentioned above, acknowledge and address potential risks and challenges. Buyers appreciate honesty and proactive problem-solving. Outline strategies to mitigate these potential risks and demonstrate how your business is prepared to handle unexpected events. This transparency can enhance your credibility and reassure buyers that you have a keen understanding of your market.

Have a Productive New Business Engine

Develop, refine, quantify, and document your new business process and results. Show where your new business opportunities come from. Strive to make sure multiple people produce business development results. Treat your company as its most important client to define our market position and generate consistent new business opportunities.

The End Game

Selling a business requires careful preparation and a thorough understanding of what buyers seek. By showcasing a strong performance history, transparent financial reporting, and a clear plan for future growth, you can make your business an attractive proposition. Remember, buyers are not just purchasing based on your business's past achievements; they are investing in its future potential.



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