



A Sale To A Third Party: Step Four of The Seven Step Exit Planning Process™

Cash Out and Move On

According to a 2009 Deloitte survey (*Entrepreneurship UK: 2009/10 On your marks*, Page 21), 24 percent of owners said they had not planned their business exits. Another 18 percent indicated that their exits would be “opportunistic” meaning that their plan was to wait for a third party offer.

If you think *planning* for the biggest financial event of your life is a good idea, and prefer an approach other than “wait and see,” what can you do to make sure your company is ready to sell when you decide the time is right?

In the last several issues of this newsletter, we have described the first three steps of The Exit Planning Process:

Step One: Define your exit objectives:

- a. how much cash you need to fund a financially-secure post-business life;
- b. when you want to leave; and
- c. what kind of buyer you prefer (third party or insider). ([See issue 198](#))

Step Two: Convert your impression of what your company is worth into an objective valuation. ([See issue 199](#))

Step Three: Build needed value in your company by making yourself inconsequential. ([See issue 200](#))

Step Four: Sale to a Third Party

Generally, owners are attracted to a third party sale (rather than a sale to insiders—family members, co-owners or employees) for one or more of the following reasons:

1. When the market is favorable and strategic buyers are active in the marketplace, a sale to a third party can yield **more cash**.
2. A sale to a third party usually is **less risky** than one to insiders.



This issue brought to you by:

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John F. Dini is recognized as one of the foremost authorities on business ownership in America. He coaches hundreds of CEOs, speaks to national groups of business owners, and writes a weekly column for business owners "[Awake at 2 o'clock in the Morning.](#)"

With over 10,000 hours of face-to-face coaching with entrepreneurs, John specializes in defining an owner's financial and life objectives, and the steps that make them come true. He approaches exit planning in cooperation with legal, risk and tax professionals, focusing on the strategic and operational aspects of a business exit.

For 25 years, John and his staff have worked tirelessly to live their mission. "We are passionate about working with business owners who compete aggressively, play fair, and work to improve their community and the lives of their employees."

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3. Sellers get their **money faster** than in a transfer to insiders.
4. **Insiders** (children, co-owners and employees) **don't have what it takes** (usually cash and sometimes desire) to buy the company.

If these statements apply to your situation, your next step is to ask:

- Am I personally, and financially, ready to exit?
- Is my business fully prepared for my exit?
- Is the Merger and Acquisition (M&A) marketplace favorable for sellers?

To optimize the likelihood of a successful sale, it is best to embark upon the sale process only if you can answer each of these questions with a confident “Yes!”

If you have any doubts, now is the time to seek answers and resolution. Don't wait until you are burned out, the M&A market is declining again, or an unexpected event forces your hand.

1. Begin *today* your own process to make sure that you take your business to market only when you, the business, and the market are ready. Seek out the advice of experts and read more about the entire sale preparation and process.

2. Start to assemble your Deal Team by interviewing prospective advisors. Depending on the size of your company, your transaction intermediary may be an investment banker or a business broker. You will need to find an attorney skilled in transaction work, but if your current CPA is skilled in tax minimization techniques, she may be able to play on your Deal Team. Remember, while these advisors will cost you money, they should make you money as well. Ask them all how they plan to do that.

3. Use the expertise of this Team to help you create a plan that:

- Minimizes the tax consequence of the deal;
- Takes into account your willingness (or unwillingness) to remain active in the company once the deal closes;
- Determines whether the transaction will best be conducted as a controlled auction or negotiation;
- Specifies what kind of payment you will accept; and
- Last, but not least, includes a strategy that allows you to focus on your company's profitability while the transaction occurs.

Your Deal Team should also help you to avoid the all-too-common traps that await selling owners including: not minding the store, information leaks, rushing prematurely to market, and running off with the first buyer. We'll talk about these and other pitfalls in future issues of this newsletter.

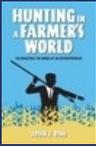
4. Learn more about the Sale Process. To owners considering a sale to a third party, we recommend, *Cash Out Move On: Get Top Dollar—And More—Selling Your Business* by John Brown (Brown, John and Short, Kevin, *Cash Out Move On: Get Top Dollar—And More—Selling Your Business*. Business Enterprise Press, 2008). This book covers in detail the continuum from setting the stage for the transaction to stories from owners who have completed third party sales about their lives before, during, and after sale.

Brown gives owners an important piece of advice: “Whether your company is small or large, selling it to a third party is the biggest challenge—and opportunity—of your business life. I urge you to grab hold of this opportunity. Refuse the role of bystander or bit player. Instead take center stage as an active and full participant in the sale process and you will add value and minimize uncertainty and risk.” (Pg. 241.)

We have a limited number of copies of *Cash Out Move On* available to subscribers to this newsletter. Please contact me immediately if you would like one.

Subsequent issues of The Exit Planning Review™ provide unbiased and advertising-free information about all aspects of Exit Planning. We have newsletter articles and detailed White Papers related to this and other Exit

Planning topics. If you have any questions or want additional Exit Planning information, please contact us.



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