Seven Ways to Maximize Value — and Price — When Selling Your Business

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

Eventually, most Los Angeles and Southern California business owners reach the point where it is time to sell their company. Often, they are ready to retire and want to realize the financial benefits of a lifetime spent building the business. In this scenario, owners typically want to sell their business for the highest price possible.

The best way to maximize the sale price of a business is to focus on increasing the company's value to potential buyers. Not surprisingly, business buyers are looking to maximize their return on investment, and the best way to do this is to buy a business with inherent built-in value. Owners can maximize their company's potential sale price by focusing on a handful of "value drivers" during the months (and years) leading up to the business' sale.

Different Viewpoints of Buyers and Sellers

Business buyers and sellers often see the value of a company quite differently. Having worked for many years building the business, sellers tend to err on the high side of what their company is worth. This is understandable — after all, the seller's perspective isn't the most objective. But sellers need to realize that buyers are looking at value through a very different lens.

Most buyers look at two main criteria in determining the potential value (and selling price) of a business: future earnings and cash flow, along with their timing and relative certainty. The best way to maximize future earnings and cash flow is to pursue profitable, high-return business opportunities. And the best way to reduce uncertainty is to diversify — for instance, among types of customers (e.g., B2B and B2C), types of products/services (e.g., new and mature, high-tech and low-tech) and geographic areas (e.g., local, national and international).

Value Drivers to Focus On

Experts in business valuation have pinpointed a number of specific value drivers that often affect business sale prices, both positively and negatively. By focusing on building value in these seven areas of your business, you may be able to maximize your company's sale price when it's time to sell:

1. Financial performance — This is the first area of your business most buyers will examine, and it's where they will likely perform the bulk of their due diligence. They're primarily looking for three things: consistent sales and revenue, high margins and profitability, and strong cash flow. Make sure that you have put in place and are monitoring financial key performance indicators (KPIs) that will help you gauge these areas and set goals for consistent improvement in each of them over time.

2. Growth — Buyers aren't looking for companies that are going to flatline after they take over — they want to buy companies with strong growth potential. So prepare a strategic plan that spells out in detail how the business can be grown, whether this is by tapping into new customer segments and niches, taking advantage of hot industry trends and technologies, or expanding into new geographic territories.

3. Management team — Do you have deep "bench strength" on your management and executive team? Can they keep things running efficiently after you are gone and avoid any major disruptions with customers or suppliers during the ownership transition? And have they been given financial incentives to remain with the company over the long term — possibly including equity in the company?

4. Workforce — Most buyers are looking for companies with well-trained and skilled workforces and relatively low employee turnover. It's virtually impossible to achieve 100% employee retention, but you should try to keep your workforce as stable as possible during the months leading up to the sale. And don't skimp on employee training or compensation — your wages should meet, if not slightly exceed, industry averages if you expect to hire and retain the best and the brightest employees.

5. Customer concentrations — High customer concentrations are a major red flag for many buyers, since the loss of one large customer can seriously threaten a company's ongoing viability. So try to broaden your customer base beyond just a few large customers, if possible, and instead diversify among many different kinds of customers, of various types and sizes.

6. Processes and systems — Standardized processes and systems are often viewed as a value driver, since they enable businesses to replicate success on an ongoing basis (think franchises). Such systems should be documented so buyers can assume management of operations seamlessly, as well as scalable to support the company's future growth.

7. Vendor and supplier relationships — Do you have long-term contracts (e.g., one year or longer) with your vendors ensuring delivery of raw materials and supplies at agreed-upon prices? Have you lined up secondary vendors you can turn to if your main supplier can't meet your needs for some reason or goes bankrupt? These relationships are especially important for manufacturers, wholesalers and distributors.

Concluding Thoughts

When they are ready to sell their companies and reap the financial rewards of a lifetime of labor, Los Angeles and Southern California business owners usually want to obtain the highest price possible for their business. The best way to do this is to focus on increasing the company's value to potential buyers. By focusing on a number of specific value drivers that often affect sale prices, you may be able to maximize your company's sale price when it's time to sell. An outsourced CFO services provider with formerly-seated CFO experience on both the buy and sell sides can help you identify and focus on the most important value drivers for your business and industry.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 ext 101.