How to Sell Your Business

Two stories outline some do's and don'ts for succession plans.

By Rock LaManna

Gary Nelson passionately loved his Midwestern-based, screenprinting business. Having built it from the ground up, Gary's company had become well established over some 17 years, with many loyal employees and nearly $20 million in sales.

Gary always wanted it to remain a family-operated business. As he approached retirement, Gary began transferring most of the daily responsibilities to his son, Scott, a highly skilled screenprinter who had worked at the company for more than a decade. Gloria, Gary's second wife, served as the company's finance manager.

Business ran smoothly with Scott at the helm and Gary getting a taste of retirement. The company continued to profit and remained poised for further growth. The Nelsons then hired a professional succession strategist to help prepare them. Together, they developed a strategy that included organizing the company's finances and beginning a search for another screenprinting business they could potentially acquire.

And then, tragedy.

Gary unexpectedly was diagnosed with the advanced stages of leukemia. Despite treatment, he passed away only six weeks later, never having been able to fully enjoy his retirement.

The Nelsons were beyond devastation. Along with grieving the loss of their father and husband, they still had a business to run. But there was no estate plan, no will or a documented succession plan.

By law, Gloria inherited the company. Having full control, she sold the business two years later, without having discussed her plans with Scott, her stepson. Gary's legacy was gone. Although Gary had promised Scott he would inherit the company, nothing in writing documented this. Scott subsequently left the company he'd been promised.

Selling a business requires a very strategic process, with care and consideration for all parties involved.

Much of the Nelsons' stress could have been avoided. Unfortunate turns of events can leave companies and families in dismal condition. Every company, large or small, should have an established succession plan. An estate plan (which includes a will) would have averted tension between Gloria and Scott, and Gary's company would likely have carried on according to his wishes.

Vomela Specialty Co. (St. Paul) handled a similar situation the right way. Like Gary Nelson's business, the 50+-year-old company was highly established, very profitable and family operated. Also like the Nelson business, Vomela was managed by the son of husband-and-wife owners who were involved in the company, but also eager to retire. The couple's other 10 children all owned company stock. Some worked at Vomela, but only one held management responsibilities.

At retirement, the father gave the one son in management the option of purchasing the company, but the son didn't have the capital for 100% ownership. So, the father thought it best to sell the company, rather than to pass it on to all 11 children. Plans were discussed openly with the family, and they agreed to sell the business, along with the building and real estate, to a cash buyer. They worked with an attorney, and the company sold in less than two years for a good profit. All family members were happy with the sale. The company remains in operation today, with many of its original employees.

And that's nearly as close to a fairy-tale ending as you can expect in today's business world.

I must confess. I was personally involved in the two stories you've just read. Having been in the signage and screenprinting business for more than 30 years, I began working for my father's company in the 1970s, and I now offer professional, business-consulting services for sign and screenprinting companies of all sizes. I advise them how to successfully buy/sell or grow their businesses.

In the first story, I was the succession strategist retained by the Nelsons (whose names have been changed for this article) to negotiate a business acquisition. All business owners should be prepared for such events, which

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were true. No one can fully predict events such as sickness or death, but preparing for them is a must.

The second story is based on my father's business. I eventually became its president and bought the company from the family – along with another investor – and sold it again years later for profit.

So, here we have stories of companies with similar situations, but very different endings. As I would tell any company that retains our services, every business owner needs to perform five key steps when considering selling a company.

Organize finances

I often refer to this first step as "getting your house in order." You must assemble all necessary paperwork before you can market your business. This paperwork includes: profit-and-loss statements, balance sheets and tax returns going back at least three to four years; and the current year's statements. This may seem obvious, but many sellers don't have these items organized. Here, an independent sales representative can provide a neutral perspective and an honest assessment of your company's market value. Organizing your finances will also help you with the second step.

Define your circumstances

Selling a business can be very personal and an emotional time for many people. Thus, clear vision becomes especially important. Define your circumstances and determine why you want to sell. Divorce, failing health, a slowdown in business, burnout, death and bad partnerships are just some reasons why many business owners want to sell. Only you will know your personal circumstances. Once you make a commitment to sell, move forward.

Select a team

Next, assemble a team to market and sell the business. Business brokers, commercial bankers, accountants, attorneys, and mergers and acquisitions specialists are all good resources. The key is choosing a team independent from the company. These people can help align you with a community of strategic and qualified buyers who are in a position to acquire your business.

Market the business

At this fourth step, everything converges. All the background work you've performed for this moment pays off. Let your team work for you and enjoy the process.

Follow through

If you've completed the first four steps successfully, and have found a willing buyer, follow through on the transaction and stay committed to your plan. This is the most crucial step, one that ultimately determines the success of your sale. Conduct yourself with integrity; honor your partnerships, and do whatever you can to make sure the new owner has everything he or she needs during the transition process.

A last piece of advice if you're considering putting your business up for sale: Give yourself enough time to make the transaction a success. Plan at least one year to organize finances and market the business, and an additional year for the transition process. Remember, you want to make the sale a success, not only for you, but also for the buyer.

Only you can determine the best interests for you and your company. Consider family dynamics, your employees and business partners. How will your decisions affect them? Sometimes, the best business decisions aren't the easiest ones. Many times, those decisions foster years of restructuring, loss of employment and other situations deemed less desirable. But, if you're a business owner, you probably already know that. Most important is to plan and conduct yourself with integrity. Your legacy depends on it. ■

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