

4 Reasons why every Company should be Sold.....

We've had a couple of interesting conversations result from last month's article. It warned against letting fear caused by the short term economic outlook drive you into making decisions which will damage the value of your business in the long term. The reason for building long term value is so that the owner can get a good price for the business when he/she is ready to do something else. You can find the article at

<http://www.profitpath.ca/sites/S1/File/pdf/6%20Tips%20for%20protecting%20your%20long%20term%20future.pdf>

One conversation started when a colleague suggested that not all business owners expect or intend to sell their companies. (When I say "sell," I'm including the transfer of ownership from one generation to the next.) I've always believed that, on a day-to-day basis, most owners are more concerned with making the year's profits goals than the value of the business as an asset. But it had never really occurred to me that anyone would not consider selling either for the right offer or when they're ready to retire.

I can think of at least 2 things that would affect your expectation of being able to sell. One is thinking that your company couldn't be worth much and the other is believing that it wouldn't be interesting or attractive to anyone else. I have met owners who believed one or both of those things. It happens if they have never talked to anyone about how a business is valued, or they are too close to (and overwhelmed by) the day-to-day challenges of their situation. But, provided there is enough time, it should be possible to position any business for sale.

But to have no intention of selling your business! That jolted every Scottish cell in my body – and then some! My friend argued that some people start businesses simply to keep themselves – and possibly family members – busy and to provide them an income. I couldn't argue with that, particularly if it was a small business in a very specialized field, although I couldn't think of anyone who thought that way.

It just all seemed so illogical to me. Whether they own a small business or a larger one, all entrepreneurs take the same risks. It's only the extent of the risk that varies. But surely the perception of risk varies with the person taking it. What may seem to be very little risk to one person can still keep another awake at night. In that case the same 4 reasons for selling apply to everyone.

The first 2 reasons are all about rewards – one for taking risks and the other for investing time. Why would anyone take the financial risks - personal guarantees to Banks, liability for statutory deductions and civil lawsuits, working without healthcare and pension benefits and the missed opportunity of a steady income working for someone else (and that's only a partial list) - for only a salary and bonuses? In the early years the salary (if there is one) will be lower than an employer would have paid, so the bonuses (when they come) may only be a way to catch up.



Best case is that the salary and annual bonuses pay for the dream car, boat or cottage, provide a nice home for the owners' families and give their children access to healthy hobbies and a great education. But what about the money to take great vacations with their spouse or partner when the owner's ready to move on, the kids have gone or when the owner's ready to retire? That's the sort of thing that the funds from the sale of the company are required for.

The second reward is for the long, long hours – the evenings, the weekends, the missed vacations – which business owners pour into their companies. The annual compensation may seem good in absolute terms – but try calculating an owner's hourly rate. And the countless frustrations they deal with during those hours – demanding customers, unreliable suppliers, unsympathetic financial backers, difficult employees, to name but a few.

Reason #3 - No one lives forever – but a company can easily outlast a person. Think about Wal-Mart, The Body Shop and any company that continues to thrive after the founder has moved on. A business owner spends a significant portion of their life building something which generates profits and cash – and jobs – on an ongoing basis and which gives them enormous satisfaction. So, why would they not want to see it continue (as a legacy if nothing else)? Perhaps it's a characteristic of entrepreneurs that they believe they're indestructible, even in the face of overwhelming evidence of aging.

The final reason (at least for now) is that we want our kids to have more than we did. Ideally the business owners' children would want to spend their lives doing the same thing they have done, running the business. If that is the case, fine. But if it isn't, the child could grow into the Doctor who discovers the cure for cancer, or a successful businesswoman in a completely different field. Either selling to them, or selling for them to do something else, is a great way to give them a start.

This is why we remind every business owner who will listen that there are 2 reasons for growing a company. It's why I remind people that every recession I've lived through has come to an end. And when that happens some companies take off more quickly than others. They're the ones whose owners refused to be panicked into doing things they would later regret. They kept long term value and the selling price in mind – when making short term decisions.

As usual, to take issue with anything I've said or to share your experiences, send me an email at jimstewart@profitpath.ca or call me at 416-258-9610.

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