

Four Traps to Avoid When Selling Your Company

Business owners have been known to refer to due diligence as "the entrepreneur's proctology exam." It's a crude analogy but a good representation of what it feels like when a stranger pokes, prods, and looks inside every inch of your business.

Most professional acquirers will have a checklist of questions they need answered if they're considering buying your company. They'll want answers to questions like:

- When does your lease expire and what are the terms?
- Do you have consistent, signed, up-to-date contracts with your customers and employees?
- Are your ideas, products and processes protected by patent or trademark?
- What kind of technology do you use, and are your software licenses up to date?
- What are the loan covenants on your credit agreements?
- How are your receivables? Do you have any late payers or deadbeat customers?
- Does your business require a license to operate, and if so, is your paperwork in order?
- Do you have any litigation pending?

In addition to these *objective* questions, they'll also try to get a *subjective* sense of your business. In particular, they will try to determine just how integral you are personally to the success of your business.

Subjectively assessing how dependent the business is on you requires the buyer to do some investigative work. It's more art than science and often requires a potential buyer to use a number of tricks of the trade, such as:

Trick #1: Juggling calendars

By asking to make a last-minute change to your meeting time, an acquirer gets clues as to how involved you are personally in serving customers.

If you can't accommodate the change request, the acquirer may probe to find out why and try to determine what part of the business is so dependent on you that you have to be there.

Trick #2: Checking to see if your business is vision impaired

An acquirer may ask you to explain your vision for the business, which is a question you should be well prepared to answer. However, he or she may ask the same question of your employees and key managers. If your staff members offer inconsistent answers, the acquirer may take it as a sign that the future of the business is in your head.

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Four Traps to Avoid When Selling Your Company Page 2

Trick #3: Asking your customers why they do business with you

A potential acquirer may ask to talk to some of your customers. He or she will expect you to select your most passionate and loyal customers and, therefore, will expect to hear good things. However, the customers may be asked a question like 'Why do you do business with these guys?' The acquirer is trying to figure out where your customers' loyalties lie. If your customers answer by describing the benefits of your product, service or company in general, that's good. If they respond by explaining how much they like you personally, that's bad.

Trick #4: Mystery shopping

Acquirers often conduct their first bit of research behind your back before you even know they are interested in buying your business. They may pose as a customer, visit your website, or come into your company to understand what it feels like to be one of your customers.

Make sure the experience your company offers a stranger is tight and consistent, and try to avoid personally being involved in finding or serving brand-new customers. If any potential acquirers see you personally as the key to wooing new customers, they'll be concerned business will dry up when you leave.