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Business seller pitfalls

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GRAND RAPIDS — West Michigan business owners considering selling their business need to plan ahead and avoid being in a distressed situation, among other pitfalls.

Kevin Hirdes, president of **NuVescor Group** said it's important for business owners to not wait until they must sell.

Hirdes

"If you are forced to sell, it's more difficult to yield the highest value. It's much better to take a planned approach," Hirdes told *MiBiz*.

NuVescor, a mergers and acquisitions advisory firm, typically works with buyers from companies with about $10 million to $15 billion in revenues and sellers with revenues from $5 million to about $500 million.

Although pressures have been intense for many business owners, recently more owners of companies with extremely positive earnings and cash flow have sought out the services of NuVescor when looking to make the transition into retirement.

Hirdes said there are a number of ways business owners can stumble into trouble especially when dealing with savvy buyers. If it is known that a business is for sale, customers, vendors and employees become nervous. Seller confidentiality is critical.

"Our firm knows how to solicit buyers on a confidential basis with an approved process in place," Hirdes said. The seller is made aware of who the buyer is prior to the buyer knowing the seller. NuVescor will produce a blind summary to keep the name of the seller confidential until a potential buyer is fully vetted, which helps to meet the seller's objective."

Sometimes business owners think they can go it alone and consummate a transaction with a competitor because it's easy, but that may not be in their best interest. Hirdes said a competitor's interest may only be curiosity and that opens up the news to customers that a company may be for sale. He cited an example of a business owner who didn't have an accurate picture of what his business was worth.

"The proposal he was ready to accept was 30 percent of the true value of what his ownership or his stake in that company was worth," Hirdes said. "The buyer and seller had already met and worked out a preliminary buyout for a 70 percent discount for what the company should have sold for."

Another pitfall of selling a business is a Web site and marketing materials that don't reflect the changes a business had made, such as diversifying away from automotive into aerospace, medical or defense industries, for example. Businesses can also be too dependent on one or two key executives

"We like to see skill sets well covered throughout a number of individuals on the management team in order to ensure the success and viability of a business under new ownership," Hirdes said.

Hirdes describes selling a business to an owner's children as a "whole new interesting arena." Oftentimes, children have been ill prepared to carry on the business as the current management is doing. Astute business owners like to see their children work at other companies before becoming a part of the family business.

Hirdes said many times the father or mother has not begun the transfer of knowledge soon enough, so it becomes more of an abrupt transfer rather than a smooth transition.

Seldom are buyers' and sellers' objectives identically matched. Hirdes said another pitfall of going it alone with a transaction is the savvy buyer who is wired to negotiate at the very first point of contact.

The good news is that there are thousands of private equity groups on the prowl to buy businesses. There may be synergistic buyers or buyers with a few million to spare looking to acquire a business.

"We have way, way, way more buyers than we do sellers. We are looking for good, qualified sellers interested in making a business transition," Hirdes said. "The ratio is so out of whack with the number of buyers and sellers, very much unlike the real estate market."

Nick Adamy, managing director of **Adamy Valuation Advisors Inc.** in Grand Rapids disagrees that it is a sellers' market and said buyers of businesses are still very scarce and active buyers are inclined to look for fire sale kind of deals.

"Historically, this has been a bit more of a tight-knit market. Sellers are more inclined to keep ownership local," Adamy told *MiBiz*.

He said many West Michigan family-owned businesses have a lot of concern about the well being of their employees and tend not to sell to the highest bidder, but to a buyer who is going to continue to take care of employees the way that they did.

"It's a higher priority than you might see in other parts of the country. That's part of the reason we haven't seen as many outside buyers," Adamy said. There are also many Employee Stock Option Programs in West Michigan to help maintain the company culture.

Adamy said there is more interest from private equity groups outside the region because the Grand Rapids area is less of an over-shopped market compared to metropolitan areas like Chicago.

Adamy Valuation Advisors help business owners understand the realistic value of their business and give them tools to negotiate. Adamy said valuation multiples for stable businesses such as food processing have remained relatively high even after last year's market crash. More deals are starting to get done and Adamy believes the M&A markets will get back to normal in 2010 for West Michigan private and family-owned businesses.

"But back to normal does not mean the kind of frenzied activity we saw in 2007 and early 2008," Adamy said. Markets were overheated and buyers were overpaying based on overly optimistic outlooks and easy and cheap financing.