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Ten Signs That it is Time to Sell the Family Business



Ten Signs That It is Time to Sell the Family Business

A Business Owners Toughest Decision is deciding to sell. In many cases he ignores some market dynamics that foretell difficult times ahead. Those difficult times often result in a significant drop in the value of the business. This post will help you identify some of those signs.

For the past 20 years you have built your business. Your company has become part of your identity. Even when you are not at work, you are working, thinking, planning. You never stop. If you sell you are leaving behind much more than a job. In this article we will discuss some signs that might indicate that it is time to exit your business.

1. Late in your working life you are faced with a major capital requirement in order for your company to maintain its competitive position.
2. A large competitor is taking market share away from you at an accelerating pace.
3. Your legacy systems, production capabilities, or competitive advantage has been "leap frogged" by a smaller, nimble, entrepreneurial firm.
4. A major company in a related industry just acquired a direct competitor.
5. Your fire to compete at your top level is not burning as brightly as it once did.
6. Your kids are not interested or are not capable of running the business.
7. You have had a health scare and have decided to smell the flowers.
8. You have lost a major client or a key employee.
9. The market is hot and you decide to take some chips off the table for asset diversification.
10. You exit in an orderly fashion and from a position of strength as you intended.

Lets look at these in a little more detail.

Major Capital Investment Required - You are supposed to be diversifying your assets, not concentrating them even further. Think about a simple payback analysis. Does that extend beyond your retirement date? You want to be able to defend that investment with the energy and intensity you devoted when you were originally growing your business. Maybe it is time to bring in an equity partner with smart money, an industry buyer with the management depth, infrastructure, or distribution network to protect that investment. You might consider selling not with a three-year employment contract. Let the new owner defend the required capital investment.

A Large Competitor is Taking Market Share Away from You - Believe me, the news is not going to get better. As an investor you would probably sell the stock in a company you owned if Microsoft or GE decided to assume a presence in that market. Business owners often struggle with objectivity when a similar event takes place in their own company's industry.

Your Legacy Systems have been "Leap Frogged" by a Nimble Entrepreneurial Firm - This happens all the time and can cause an erosion of your customer base. Your inertia will sustain you for a while, but eventually you will begin to experience customer defections. You can either rewrite, acquire or sell. If you decide to sell, do so before losing too many clients.

A giant company in a related industry just acquired one of your major competitors. Watch out, they did not make this acquisition to maintain status quo. They want to grow their market share. They will be coming after your clients. The good news is that as a defensive measure, one or more of their competitors will be compelled to make a similar acquisition. It is best to be aggressively ahead of the curve and get acquired while the market is hot and prices are being bid upwards.

Your interest and competitive fire is eroding. Let's face it, if you are not growing, you most likely are contracting. Your competition was tough when you were on your game. Your family's net worth is under attack if you are no longer fully committed.

Your original plan was to turn your business over to your children. They may not be interested or capable of competing at this level. Perhaps the greatest legacy you can leave to your kids is to convert your company into a diversified portfolio of financial assets that are far less risky than turning the company over to inexperienced managers.

You have a health scare and all of a sudden you start thinking of all the sacrifices you made and all the things you want to do before it is too late. Your list of goals is immediately changed from financial in nature to family, friends, travel, experiences, philanthropy, etc. You might want to listen to your heart this time.

You have lost a major client or a key employee. That can be a real blow to a business. The owner, by nature, is optimistic and believes that the lost business will soon be replaced and does not ratchet down the expense level to match this new sales level. If he does cut, inevitably, it is not fast enough and not deep enough. Maybe it is time to seek a buyer that could replace that business before your company's value is severely impaired as your profits erode.

The market is hot and you decide to take some chips off the table for diversification. You may be thinking of retiring in four years, but a consolidation is occurring in your industry and valuations are up 20%. Sell at the top and sign a four-year employment or consulting contract. The odds are that if you exit on your original schedule, valuations will have settled back down to the norm.

You ring the bell and exit on your own terms, from a position of strength, exactly like you planned. You are well aware of the competitive forces in the market and the relative strength or weakness in valuation multiples. You have prepared your business to be attractive to a strategic buyer. Everything is going your way. You hire a good M&A advisory firm to present you confidentially to the most likely buyers. Several recognize your value and show interest. You are able to get a little competitive bidding going. Your transaction value rises and your terms improve. You pull the trigger and complete the sale. Mission Accomplished.

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