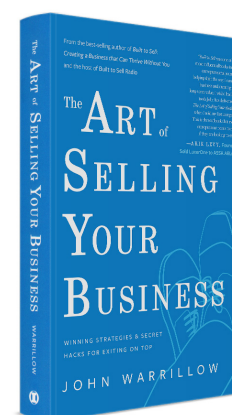


# The Art of Selling Your Business

Winning Strategies & Secret Hacks for Exiting on Top

by **John Warrillow**



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## THE SUMMARY IN BRIEF

There is an art to selling a business well. It comes down to how you package it, the story an owner tells about it, and the feeling it gives potential buyers. *The Art of Selling Your Business* is designed to be a playbook for navigating both the hard rules and the softer edges of selling businesses that are worth between \$1 million and \$50 million. The art of selling is not only about the nuances but develops a set of instructions to follow at each step of the process and describes the professionals you'll need to lean on to get a deal done.

Author John Warrillow began as an entrepreneur, starting and selling a few businesses, and created a book, Web site, and podcast about building a business to sell it. As he took questions from listeners, there was great interest in all of the details of negotiating the sale of a business. *The Art of Selling Your Business* is the result of that interest, John's experience, and what he has learned from Built to Sell Radio, where he interviews a different founder every week and asks them about how they sold their businesses.

## IN THIS SUMMARY, YOU WILL LEARN:

- How to identify clearly why you are selling your business and the best time to do so.
- Ways to position your company to be ready for buyers.
- Who you need on your side as part of the negotiation process.
- When to tell your employees that you are selling your business.

## Introduction

There is an art to selling a business well. It comes down to how you package it, the story you tell about it, and the feeling it gives potential buyers when they imagine owning it.

*The Art of Selling Your Business* is designed to be your playbook for navigating both the hard rules and the softer edges of selling well. It features a set of instructions to follow at each step of the process and describes the professionals you'll need to lean on to get a deal done.

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## The Secret to a Happy Exit: The Most Important Question Most Founders Never Answer

One of the most important things you can do to ensure you sell your business well has everything to do with your reasons for wanting to sell in the first place.

Pull factors are the things that you're excited to go do next. What are you enthusiastic about diving into after you sell your business? That's the most important question that most founders never ask it.

By contrast, "push factors" are the things that are pushing you out of your business. Push factors can be fine motivators, but the secret to avoiding a feeling of loss when you sell is to get clear about your pull factors too.

Take action: Create a vision board that illustrates where you want to be after you sell. Hang your vision board prominently so you can be reminded as you go through the process of selling your company.

## The Danger of Timing Your Exit: How to Decide When to Sell

Some sell early when there might have been more revenue growth. Others wait too late. Many founders try to time the sale of their business when it peaks and coincides with the top of an economic cycle. The problem is, when you sell your business, you have to do something with the money you receive, which usually means buying into another asset class that is being affected by the same economy. Timing your exit based on economic factors is a zero-sum game.

Wait until your company is on a winning streak and you have the data to ensure you can create something called "deal momentum."

Pull together a package of information—a process known as "pre-diligence"—detailing the essential elements of your business even before you start the process of selling it.

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## Building Your Negotiating Leverage

This slow trickle of material is designed to protect you and to maximize the desire among a group of bidders so they all begin fighting over you at the same time. Giving away vital information too early in the process can end in disaster.

Proprietary dealmakers recognize that they do not have competition, and they tend to make weaker offers because they know nobody else is bidding.

Be careful about revealing revenue, gross margin, and profitability—your private numbers. Instead, ask open-ended what questions to get the other side talking and keeping your from revealing too much.

## Fish Where They Are Biting: How to Position Your Company to Be Acquired

You've spent years marketing your products and services, and now it is time to apply everything you know about marketing and selling to your most important product of all: your company.

Every great marketing campaign begins with positioning what you have to offer in the mind of the consumer. Acquirers are just like consumers. They already have preexisting ideas of the kinds of companies they want to buy. Your job is to position your business as something unique in a category they're already interested in.

The trick is to understand the kind of company that is selling in your industry and to make sure you look like one of those to a buyer. Review your website, and ensure that it clearly positions you as a leader in the industry where companies are looking to make acquisitions.

## Building Your List: How to Identify a Potential Acquirer

Like positioning, deciding whom to approach about buying your business is more art than science. Your ultimate goal is to attract a handful of offers so that you can play one off the other to ensure you're getting the best price going for a business like yours.

Focus on strategic buyers who usually have the capacity to pay more for your business. A strategic acquirer is evaluat-

ing your business based on what it is worth in their hands. They will try to estimate how much more of their product or service they can sell if they add you into the mix.

As you contemplate your long list, remember that strategic acquirers are usually already in your industry—and your most natural acquirer may even be an existing partner or investor.

### **The Tease: How to Attract Acquirers without Looking Desperate**

A tease is a one-page document describing your business in sufficient detail to tease his short list of potential acquirers into learning more about his company. Your teaser's job is to intrigue an acquirer on your short list to the point where they are willing to sign an NDA to learn more. Your teaser is a written summary of your business that positions it in the mind of an acquirer.

You have to thread the needle between telling the truth about why you are selling and not sabotaging your sale. In addition, most acquirers will want to keep you involved in your business after a transaction, so you have to explain that you are willing to help them monetize what they have acquired.

### **Keeping Your Secret: How (and When) to Tell Your Employees**

Randomly telling your employees you're considering selling is almost always a catastrophic mistake:

- Some deals fall apart.
- Employees get rattled when they know you're selling.
- Panicky employees often leak the news to industry people.
- If your results slide, expect your price to go along with it.
- Deals morph as they progress.
- You'll need everyone on board to hit your earnout.
- You may decide not to sell.

You will need to tell employees who are senior leaders whom you must tell in order to get the deal done. Your acquirer will want to talk to your management team at some point, and these are the people who need to know what's going on. Have them agree to keep the possible sale confidential and give them some financial incentive for helping you close the deal.

Everyone else in category is made up of your rank-and-file employees who should be told once your bank has received the acquirer's wire transfer.

### **What's Your Number? How to Calculate Your Bottom Line**

What's your number? Determine it and write it down. To calculate your number, you have to answer two questions:

1. What's your business worth?
2. What's your business worth to you?

You have to weigh intangible benefits and costs and do your best to calculate what your business is worth to you. When the value of your business to an outsider exceeds what it's worth to you personally at this point in your life, then it may be time to sell. Likewise, if your company is worth more to you than it would be worth to a buyer, putting it on the market now will be an exercise in frustration.

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### **Punching Above Your Weight In a Negotiation**

Instead of investing time trying to figure out how you will reach your short list of potential acquirers, figure out who would be the very best person to do this on your behalf.

- Business broker: Sells companies worth up to \$10 million
- M&A professional: Sells companies worth \$10 million–\$100 million
- Investment banker: Sells companies worth \$100 million-plus

A sell-side intermediary is an individual who has been hired by a seller to find an acquirer for their company. A buy-side broker has been hired by a company (or an individual) to find them a business to buy.

To ensure a prospective intermediary would be working for you exclusively, simply ask if they are working on any buy-side mandates right now.

There are 6 reasons not to go it alone:

1. Create competition.
2. Keep acquirers interested.
3. Provide a buffer.

4. Be the good cop.
5. Time the reveal.
6. Receive services (mostly) for free.

### **You Set the Price, I'll Set the Terms: How to Drive a Great Deal**

Broadly speaking, an acquisition offer has two major components: the price and the terms by which you will get your money. You are going to need an experienced M&A attorney (i.e., a lawyer) to represent you throughout the process of selling your business. A lawyer and an intermediary with mutual respect for one another will act as natural counterbalancing forces. One will push for a deal; the other will pump the brakes.

Leverage is significantly reduced when you sign the LOI, because almost all offers will include a no-shop clause, forcing you to terminate discussions with other potential buyers while your newfound “fiancé” does due diligence before consummating a deal.

### **The Art of the Nudge: How to (Gently) Squeeze an Acquirer for More**

To get an acquirer to increase their offer, you have to find the middle ground between expressing gratitude for a firm bid and nudging them gently to do better. Try these useful tactics:

- Clarify your best alternative to a negotiated agreement (BATNA)—in other words, your plan B.
- Apply the magic of adjustments, aka as “normalizing,” “recasting,” or “adjusting” your P&L.

- Quantify the acquirer’s upside; show your knowledge as owner.
- Demonstrate how your company will sell more of their stuff.
- Quantify your value in the business.
- Kill them with kindness: no matter how low an offer is, try to work with it.

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### **The Freedom Paradox: How to Get Comfortable with Your Decision to Sell**

One of the most common things founders say on the Built to Sell podcast is: “I wish I’d done it sooner.” Often, they start a business for the sense of freedom they hope it will give them.

As the lyrics in Bob Dylan’s song “Like a Rolling Stone” reference, when you’ve got nothing, then you don’t have anything to lose.

Selling your business is the natural culmination of a job well done. It means you have conceived of an idea, built it to be independent of you, and then set it free to thrive on its own. Your kids need to leave the house in order to reach their potential—and the same is true of your business.

When you started your business, you were free. The goal of this book is to give you a pathway to be free again—through selling your business!



John Warrillow is the founder of The Value Builder System, a simple software for improving the value of a company, offered via a global community of advisors who have earned their Certified Value Builder qualification. His best-selling book *Built to Sell: Creating a Business That Can Thrive Without You* was recognized by both Fortune and Inc. as one of the best business books of 2011 and has been translated into 12 languages. John is the host of Built to Sell Radio, ranked by Forbes as one of the world’s 10 best podcasts for business owners.

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