

YOU'RE BUILDING A BUSINESS – BUT CAN YOU SELL IT?

By: Jack Garson, Esq.

You've read the headlines. Buffet's Berkshire Hathaway to acquire Heinz in multi-billion dollar sale. Hot Topic, the teen chain store, sold to Sycamore Partners for \$600 million.

Comcast recently completed its \$16.7 billion acquisition of NBC Universal. Somebody's getting rich.

But nobody would ever want to buy my company, you think. Sure, after years of struggle and plenty of doubts, your business is finally taking off. Customers are reaching out to you. Recruiting employees is easier. You've moved out of your basement/the free incubator/that cheap warehouse space and into real business space. To top it all off, you're finally paying yourself. So you have a business, a real business. Even your parents admitted it.



But despite this success, you're not building a business that someone wants to buy. You're not even trying. Why?

Because most entrepreneurs struggle through hard times working to keep their customers happy and then struggle through good times working to keep their employees happy. They deal with vendors and lenders that may or may not care about their business—depending on the day of the week — and face constant battles from competition, regulation and plain old bad luck. No wonder most business owners just grind it out for years making a decent — sometimes generous — living. Then, exhausted, they retire and shut their doors.

But they're leaving money on the table. A lot.

You can build a business that people will clamor to buy. It takes know-how and discipline. Here's the info — you supply the willpower.

First and foremost, you need to build a business that can live — actually thrive — without you. This may bash your ego a bit, but a buyer almost always wants to get rid of you. Sooner or later, usually sooner, most purchasers want to run your EX-company their way. After a brief transition phase (usually

lasting somewhere between the mourning period for a pet fish and a few months), the buyer wants you gone. That's gone, as in "Nice knowing you, but stay away." It's the buyer's show now.

This means you need to avoid the typical "hub-and-spokes" business model that is all too dependent on the owner. The owner is the hub and performs most of the critical tasks.

The employees aid the owner in performing these tasks, expanding the owner's ability to do more. Employees are mere "helpers" and the owner is a never-take-a-real-vacation Superman or Superwoman that must perform most key functions, such as sales, product design, management — you name it. There's no meaningful delegation. Heck, if the owner goes on a long vacation without a phone and computer, everything falls apart.

Instead, hire the most talented people you can afford and put them in critical executive roles. Then let them take on larger roles as your business grows. Now a buyer can purchase your company, keep the executive team and plug in their own new leader. The purchaser will have a viable and likely improved, business. Yes, it's nice to be wanted, even needed. And, yes, it stings a bit to think that your business can go on without you. I suggest you fantasize about your bank account. That will usually get you through the hurt.

Second, you need to make money. There are two parts. You need to be profitable each year. Then that profit must grow every year. We're talking real profit — not page views or click-throughs or similar customer flirtations. Money, money, money. Why is it so important? Two reasons. Buyers purchase businesses to make money. Equally important, buyers never want to lose money.

The typical purchaser's formula is "buy, build, sell." Buyers start with good companies. If your business is profitable, it tells a purchaser that your company has hit upon a formula for making money. And if your profits are growing every year, it means that there's a good chance those profits will continue

to grow. In fact, experienced buyers count on growing these reliable money-makers. They typically expand the business with a cash infusion, fix what's wrong and add new leaders who have taken over and grown a few other companies. Then they flip these businesses for a sizable profit.

But these buyers will scrutinize dozens of companies to find the right one — because they really hate losing money. Almost all of them have lost their entire investment on some bad purchase in the past. It was painful. Aside from losing their own money, they lost their families' money. They lost their friends' money. They lost their investors' money. Everybody was mad. Some of those family, friends, and investors still aren't talking to that idiot who lost their money. So now — lonelier and wiser — they won't even consider buying your business without proof that they are starting off with a good purchase. And a key threshold test is steadily increasing profits. It says your business will make a lot of money — not lose it.

Third, you need a competitive edge. As a small company, you're flying under the radar. You're not a national sensation and you haven't attracted too much attention. That's perfectly fine for now. You win customers and make money just by

being good at what you do.

But a buyer needs to grow your company to resell it for a big profit. That growth will produce a lot of visibility. Your business will come out of the "small company" closet. Vultures will be circling overhead, waiting to pounce on your ideas. These copycats will try to duplicate and even improve on your business. Think about what the iPhone did to, um (what's their name?), oh yeah, Blackberry.

So you need an edge that prevents others from copying your business. For some companies, it's software or a patent or a secret ingredient in the sauce. For others, it is incredible responsiveness or unbeatably low prices. Figure out how to make your business so special that no one else can replace it. Without this competitive edge, your ability to sell your business plunges. A buyer won't risk an investment on a company that can be wiped out by competitors.

If all of this sounds hard, it is. But with these ideas and the determination to implement them, people will compete to buy your business. Sure, the sale of your company may never make the headlines or billions of dollars. But it can make you rich.

ABOUT JACK GARSON



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Jack Garson's practice focuses on Real Estate, Construction and Business law. He serves as a legal advisor for numerous local, regional and national companies. In his role as legal counsel, Jack also serves as a strategic advisor and lead negotiator. Further, Jack provides guidance on the structure of complex transactions, the resolution of business disputes, the growth and sale of companies, and the management of issues such as liability and risk reduction, employment practices, and enhancing profitability.

ABOUT OFFIT KURMAN

Offit Kurman is one of the fastest-growing full-service law firms in the United States. With offices in six states and the District of Columbia, Offit Kurman is well-positioned to meet the legal needs of dynamic businesses and the individuals who own and operate them. For over 30 years, we've represented privately held companies and families of wealth throughout their business life cycles.

In the past two years, we've grown by 50% through expansions in New York City and, most recently, Charlotte, North Carolina. This growth has provided immense value to our clients and attorneys.

Wherever your industry, Offit Kurman is the better way to protect your business, preserve your family's wealth and resolve your most challenging legal conflicts. At Offit Kurman, we distinguish ourselves by our quality and breadth of legal services—as well as our unique operational structure, which encourages a culture of collaboration and entrepreneurialism. The same approach that makes our firm attractive to legal practitioners also gives clients access to experienced counsel in every area of the law.

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