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Meghan Daniels, Axial, Interviews The DAK Group's Stephen Raymond

Why Your Business Shouldn’t Need You

Many founders and business owners spend decades building their companies from the ground up. They devote every spare minute to perfecting business processes, building customer relationships, developing culture, recruiting and training employees, and otherwise finding ways to increase revenue.

These efforts are laudable, and in most cases likely one of the main drivers of the company’s success.

But when it comes time to sell, a founder’s dedication can actually be a detriment to valuation. The more dependent a business is on its owner, the more risk a buyer perceives. Buyers look for transferable value, says Chris Schumann, Managing Director at BKD Corporate Finance. “The transferable value of your company is what someone is willing to pay you for your company *without you*. If you haven’t worked on making your business transferrable — meaning it works without you — you’re going to get less when you sell your company. Period.”

In addition to impacting price, high owner dependence will also impact the number and quality of the buyers who are interested in the company. Buyers who aren’t scared away may propose deal terms that are less advantageous for the seller during negotiation, in order to account for the perceived risk of the business (for example, incorporating an earnout instead of an all-cash payout).

“Our advice to potential sellers is to run your business like you’re going to own it forever, but be prepared to sell it tomorrow,” says **Steve Raymond, Managing Director** at The DAK Group.

> **“We’re very much focused on helping businesses reduce their dependence on the owner, because it makes for a more marketable business when they’re ready to sell.”**

Here are a few key questions for owners to consider before a sale.

1) Have you built out a management team?

“Make sure you are fully leveraging your management team and that the team is ready to run the business without your participation as the owner. Almost every business needs a director of operations, a marketing director, and a VP of sales so that lead generation, the conversion of leads to sales, and product and service fulfillment can happen day in, day out, without the need for the owner to be involved. That will considerably and positively impact your business' valuation and your ability to negotiate a better deal with a potential buyer," says Carl Gould, President of 7 Stage Advisors.

Getting the right people in the right seats before a sale can mean making hard decisions. Raymond recalls a recent experience working with a company which manufactured building products and was owned by a father-son team. "As the company grew, the father and son realized that two of their four key employees weren't capable of helping the company grow beyond where it was currently." They decided they needed to bring in new executives who could shepherd the company through the next phase of growth. "It wasn't easy to do — these were people who were performing and with whom the founders had built strong relationships." But by replacing these individuals with more experienced individuals prepared to bring the business to the next level, the father-son team illustrated to potential buyers that the company was ready to scale.

2) Are you delegating authority appropriately?

Even if you have a fully built-out management team, it's important to ensure that you aren't micromanaging or continuing to take primary responsibility for issues which should be under the purview of your senior management team. "You need to make sure you have the right people in place to take on both the authority and responsibility of various aspects of the business — be it sales, financials, marketing, or design. In order for the business to continue to thrive and grow, you need to remove those pieces from one individual to the greater group," says Raymond.

Businesses that have seen impressive growth may still be overly reliant on their owners in certain areas. Sellers should ask themselves the following questions (before buyers do it for them during due diligence):

- Is your involvement crucial when selling or managing large accounts?
- Do you require daily check-ins with senior management or other teams?
- Are your business processes well documented for all team members, or do they exist inside the minds of you (and/or a key other key employees)?
- Do your ideas and priorities drive product development?
- Do senior managers have the authority and autonomy to make key decisions on their own, or does everything go through you?

3) Are your finances cleaned up?

While a total business audit and valuation may not be necessary for every transaction, it's very important for business to have a clear picture of the financial health of the business.

"Your QuickBooks statements done by your brother-in-law generally are not something that somebody is willing to write a big check on," says Raymond.

Overall, "financial foresight and proper reporting and metrics are key," says Schumann. "Are you running the business with the reporting necessary to demonstrate performance to a buyer?" Every company thinking about sale should have a dedicated person (or team) running the finance function and responsible for ensuring metrics are consistent and useful.

Conclusion

The earlier you begin thinking about readying your business for sale, the better. According to Schumann, the ideal timeline is around two to three years. "This gives you time to recruit a team, begin to transfer relationships, and go for the gold in terms of growing value." Regardless of your timeline, working with an investment banker can help you address persistent issues and present your historical performance and future plans in the best possible light.

About the Author

Stephen Raymond

is a Managing Director of The DAK Group, an investment bank specializing in middle-market, privately-held companies, advising business owners on sell-side and buyside transactions, financial restructuring, capital advisory and valuations & fairness opinions. Email Steve at **sraymond@dakgroup.com**