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How to ensure you get the best deal when you sell

Mary Teresa Bitti | November 10, 2014 9:59 AM ET

Fotolia Understand that exit planning is a process.

How do you prepare to exit your business in order to gain maximum value as an owner? It's a hot topic and has been for a while thanks to the demographic shift taking hold as boomers prepare to retire.

"There has been an oncoming wave of sellers that should have happened already," says Brad Cherniak, partner at Sapient Capital Partners, a business advisory firm in Toronto. "Demographic shifts are like slow motion car crashes in that they don't happen fast. As a result there is a backlog of owners who waited too long and now their businesses are unsaleable or not salable at the value they had hoped for. For many owners as long as they survive and are earning an income they don't really pay the bigger picture much mind."

When those owners head family businesses, the challenges of exiting are compounded by family dynamics, unspoken expectations and the fact that for many, the business is the biggest source of funding for retirement. "I work with owner founders who built the business on sweat equity and drive. This is often the key source of family wealth, so whatever they do–transition to second generation, sell to employees, non-family management or outside parties–the focus has to be on always building your business in order to sell it at the highest possible value," says Andrew Pigott, founder of Oakville-based The Succession Bridge. "The only way to do that is to create sustainable value going forward. Look at the business as a store of wealth to fulfill your dreams as a family, not as your identity as a family."

Here are six best practices to do just that:

Begin planning for exit as you build the business. This includes separating out your role as owner founder from the value, says Mr. Pigott. "Keep your eye on that ultimate exit point and be purposeful in terms of developing your options. In order to do that, you need to create a business that is valuable whether you're in it or not. That's one of the most important aspects of exit planning: ensuring that there is no reliance on the owner founder. The business should have all the systems and people in place to run effectively without you."

Pick your exit point. "Give yourself five to 10 years to prepare ahead of the actual sale date in order to help you drive the value you want to achieve," says Mr. Cherniak, whose firm has partnered with Clearwater Communications in a new initiative, Exit Planning Partners, to help companies exit at the value they want or need it to be. "Once you have your exit point, you can engineer everything around that time. You want to be as far ahead as possible because while you can always extend the timeline, you can't turn the clock back."

Hire an independent third-party to value the business. "My experience is that most business owners tend to overvalue the business," says Mr. Pigott. "Get someone to come in and take an objective look. A valuation can highlight gaps, opportunities and areas you need to address before you sell in order to obtain optimal value."

Create an executable timeline. "Once you've decided to sell, there is a natural reaction to stop investing, stop being aggressive and wait out the clock, but if the value isn't what you hope it is you won't have that luxury," says Mr. Cherniak. "You may have a year or two of growth before you get into the transactional aspect of the sale in order to ensure you have as exciting a story to tell as possible without putting too much at risk. For example, you may need to build your sales funnel, increase the customer base. If you're just going to market to sell, it's hit or miss, depending on the nature of the company and market conditions. If you only leave yourself a two-year window and that window mimics 2008, 2009, you may be out of luck. A lot of exit plans in that time did not happen; many companies failed."

Communicate your plans: "The commonly quoted statistic is that one in three business transitions to the next generations fail. This is due not to failure in the business but to a lack of trust and communication," says Mr. Pigott. "This applies in owner-operated businesses, too. The communication piece is often missing and it's critical."

Understand that exit planning is a process. "While there are certain one-time things that need to happen to prepare for the actual sales transaction, such as organizing financial records, creating the story you can convey to buyers that will make them interested is part of an ongoing strategy," says Mr. Cherniak. "It's what will allow you to grow into the value you want."