



# 100

## Tips, Traps and Tactics For a Successful Sale

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**WE PREPARE IT BUSINESSES TO SELL AT THEIR PEAK**

Identify Buyers | Maximize Value | Minimize Risks

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## Disclaimer

**RoseBiz** is an M&A Coaching firm that provides business owners with the best possible information, advice and experience to help them make decisions about the growth and potential sale of their company. Since nothing financial can be written without disclaimers these days, here is ours....

We now have to let you know that if you act on the advice contained in this publication, RoseBiz cannot be held liable for the results of any decisions you make.

The tips included in the e-book have been formed using our own experiences, experiences of others who have sold their companies and of good practices in the industry. They are here for you to use as you deem fit in the context of your own business.

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Now that's over with, we hope you these tips valuable!



# Introduction

This list of **100 tips** is a compilation of responses from interviews with multiple channel partners. In these tips you will find out what they learned and what they would have done differently in the sale of their company. This list works for every partner type and is timeless.

The list is divided into four sections:

<b>General Tips</b>	Tips 1 - 23
<b>The Value Driver Tips</b>	Tips 24 - 71
<b>Tips Regarding Advisors</b>	Tips 72 - 87
<b>Tips for Due-Diligence</b>	Tips 88-100

They are a combination of do's and don'ts, but certainly weighing heavily on the don'ts. Sometimes the best lessons are learned from the challenges or mistakes others have faced..



## General Tips

**Tip – 1** Run your company today as if you were to sell it tomorrow. Always be ready for a buyer as you will never know when one will show up (i.e. the 50%+ unsolicited offers that come from other partners, vendors, and customers).

**Tip – 2** Stop working “in” the business and start working “on” the business – Buyers want to know that you are not the one doing all the sales, marketing or lead development work.

**Tip – 3** Delay opening a new office in a foreign country (even if you are right next door) until you have at least \$10M in sales in your home country. Establishing a new office and marketing to a new territory is a resource drain.

**Tip – 4** Don’t let preconceived notions about prospective buyers ruin your deal process. Really get to know all potential buyers, regardless of their reputation. You never know.

**Tip – 5** If you’re going to share that you’re going through a transaction with your employees, keep people informed. Of course, it depends how open your organization is. However, if you try to keep a secret, it adds another layer of complexity and even when people sign NDAs, it always leaks. That’s why, if you are keeping secrets, you need a contingency plan because it will leak. “Think about whether you want to be on the front-end telling people, or the back-end reacting.” -Kirk Dando, Dando Advisors

**Tip – 6** “Earn-outs for sellers who are going to exit are too often a disaster,” says Scott Hakala, Principal at ValueScope Inc. “The best earn-outs incentivize the people who run the business. Earn-outs for CEOs who are just standing back and collecting a paycheck often aren’t good. Sellers always believe they’re going to make the earn out, then are mad if they don’t.”



## General Tips

**Tip – 7** As the seller, never use your company email address, even if you feel your email is secure. Don't tie your personal email (forward) to your office email account. Nothing worse than having a confidential email pop up at the bottom of your screen while you have others viewing your screen.

**Tip – 8** Don't compare yourself with other companies that have sold recently. In other words, don't take a valuation for a considerably larger company (over \$25M or more than 5x your revenue) and assume you should be worth the same. Larger companies fetch larger multiples.

**Tip – 9** Always understand and have included in writing in the LOI (in broad, but not too broad terms) your non-compete terms; i.e. length, and type of prohibited activity.

**Tip – 10** If you are compensating non-shareholders as part of the sale, investigate a termination/severance agreement. Also, be aware of the amount of days (can vary by state) in terms of how long you need to give your employees time to review and sign such an agreement.

**Tip – 11** Do “take a pass” on buyers who are not at least 50% larger than you. Anything less may be insufficient for the acquiring company to successfully digest and integrate your organization

**Tip – 12** Do consider making an initial price suggestion if you are approached by an unsolicited buyer. Even though the normal process is to get the buyer to make an offer, and for them to explain to you how it was calculated, this sometimes anchors the offer at a much lower starting point. If you have a chance to “name your price,” you should.

**Tip – 13** If approached by an interested party, determine if they are a strategic or a financial buyer and then present data that will be most compelling to them. While each group looks at financials, other data



## General Tips

can be just as relevant such as specific savings on cost, or the potential to upsell/cross-sell products.

**Tip – 14** The moment you sign an LOI a deal becomes exclusive for a period of time, typically 60 days. Understand the deal structure completely before you sign. Otherwise, you may be locked in for a period of time and lose momentum with other prospective buyers.

**Tip – 15** As the seller, you have more leverage in the negotiation prior to the LOI being signed. Once signed, the power shifts to the buyer. Know that now. You will immediately feel the shift.

**Tip – 16** Do understand your emotional involvement as well as the buyer's. Whoever becomes emotionally involved in the deal loses power. Try to limit your emotional involvement. On the other hand, if the buyer becomes emotionally involved, it will be easier for you, the seller.

**Tip – 17** Never say “no” immediately to the prospective buyer, even if the ask is unreasonable. Instead replace “no” with “let me see what I can do,” then speak to your broker, accountant, attorney, or coach before generating a more nuanced response. This also gives your team time to strategize on a better solution than just a “no”. And it makes the other side feel like they are being heard.

**Tip – 18** Be sure to fully understand what selling 5 years from today really means. Once you include a typical 24-month earn-out period, this could really mean 7 or more years.

**Tip – 19** Don't allow a buyer to start down the path of extensive due-diligence before offering up a LOI with the promise of a quick close at the end 'because all the work will already have been done.' This option limits your ability to negotiate because you won't have a starting number before the due-diligence phase starts.



## General Tips

**Tip – 20** All businesses face risks. A common problem with many sellers is a tendency to avoid discussing risks in their business with the hopes that no one will find out about them until the deal is done. However, that’s unrealistic and, furthermore, you will likely be required to represent in the purchase agreement that you have disclosed all material business issues. Disclose problems early, so they can be addressed rather than facing “deal killers” after you and the seller have invested your time.

**Tip – 21** Don’t plan a vacation the week after the expected close date. Chances are your close may slip, and even if you do take the vacation, you will be working the entire time. Furthermore, the second you close, you will be needed to help with the transition plans.

**Tip – 22** Read the book *Finish Big: How Great Entrepreneurs Exit Their Companies on Top* by Bo Burlingham. If you are unsure about what you will do next (after the sale), this book will help you gain clarity.

**Tip – 23** TKAD – Time Kills All Deals. Need we say more? Bear this in mind and do what you can to keep things moving forward smoothly.



## The Value Driver Tips

### *Financial Finesse*

**Tip – 24** Minimize intercompany expenses. It can hang-up a deal or kill it entirely if you don't have the accounting straight.

**Tip – 25** If you don't have an ESOP now, don't start one. The complexity is simply not helpful. If you choose, you can compensate your key people or your entire organization at your own discretion once the deal is done. You don't need an ESOP to make it equitable for everyone.

**Tip – 26** Do not ever include personal non-business expenses in your business accounting, no matter how creative (or legitimate) the reasons. Boats, racecars, family vacations, second homes and the expense associated with them should be kept off the balance sheet and P&L. Likewise, nannies as well as any other help not clearly related to the business should be removed from payroll.

**Tip – 27** Now is not the time to minimize your profits to “save” on taxes. As much as you don't like to pay Uncle Sam your hard-earned profits, you also need to show as much going to the bottom line as possible if you plan on selling in the next three years.

**Tip – 28** Understand the difference between a stock sale and an asset sale early on. Both may result in taxable capital gains, but the long-term implications between the two can be very different.

**Tip – 29** Going overboard on EBITDA adjustments creates suspicion from buyers. Your adjustments must be concrete and auditable (i.e. don't remove your entire salary unless you have completely delegated all your responsibilities to others; then by all means, remove it).



## The Value Driver Tips

**Tip – 30** Never focus just on the price, the terms are equally important. Earn-outs, stock prices, employee retention, disclosures and guarantees, are all important to the final payout.

**Tip – 31** Understand how working capital will be calculated early in the process, so you are not surprised at the end. Most buyers use the cash free/debt free method. Know in advance what items this will affect that may be hidden in your financials.

**Tip – 32** Be sure to understand how earn-outs are calculated. This can be an entire negotiation process on its own because many times they are not referenced in detail in the LOI.

**Tip – 33** Don't be surprised in the end. Know early what amount is needed (if any) in an escrow account.

**Tip – 34** If a note receivable is part of the transaction, understand how your broker will be paid on the note (in advance with a discounted value or paid as you receive payments).

**Tip – 35** While it may sound obvious, accounts receivable (A/R) greater than 120 days is suspect and will be discounted heavily in the working capital calculation. Collect all old A/R, even if you need to offer discounts or more favorable payment terms. A/R should be as clean as possible (including writing off small amounts).

**Tip – 36** Sell or distribute non-revenue producing assets or fully depreciated assets. It is just clutter or a reason to question items on the balance sheet. Fully depreciated hardware (desktops, laptops, monitors) sit on fixed asset schedules long past their actual use or may have walked out the door when employees were terminated.



## The Value Driver Tips

**Tip – 37** If possible, try to time a close on the last day of a payroll. It makes the accounting much easier and the accruals much simpler.

**Tip – 38** Be sure to review your accrued vacation and sick time balances. In most cases, these will need to be paid out at the close, which is can be an unexpected drain on cash as these balances often grow large over time.

**Tip – 39** Always have a strong understanding of your current monthly working capital before selling your company. Be proactive with this part of the negotiation and don't let the buyer decide on their own what it should be going forward.

**Tip – 40** Not all deferred income should be treated equally. Look closely to see if there are aspects of that number that can be removed from the working capital calculation.

**Tip – 41** Be realistic about the buyer's working capital requirements (unless you are eliminating a lot of payroll due to redundancy). Those needs will most likely be greater going forward than your historical numbers. Rarely can you make a case for it to be less, especially if you are in a growth mode.

**Tip – 42** Try to have the last three years of capital expenditures and current year capital expense projections handy. Capital expenditures don't show up in any EBITDA calculations, but the buyer's due-diligence team will look for it.

**Tip – 43** Review your lease terms. How soon is your lease up? Is the lease assignable? If not, how will this affect the deal? Are you personally guaranteeing the lease? Knowing the answers on these issues and presenting that in advance to a prospective buyer strengthens your presentation and helps eliminate a 'gotcha' that could hurt your negotiations.



## The Value Driver Tips

**Tip – 44** Avoid hanging on to your company past its peak. This is very common. Obviously, the best time to sell your company is when your revenue is increasing, but if you cannot wait for a particular reason, work on increasing your gross profit margins and bottom line by reining in expenses. Top line decline can be better tolerated with a bottom line increase.

### *Revenue Readiness*

**Tip – 45** Measure revenue (and COGS) by type. Some revenue (i.e recurring revenue from subscriptions) is more valuable than others.

**Tip – 46** Understand your most profitable Line of Business (LOB) and focus completely on that. The more you focus the faster you will grow.

**Tip – 47** Don't assume software/hardware annual enhancement or support renewals are recurring revenue, they are not. Unless you have a customer locked in for 3 years of payments, they can leave at any time and take their enhancement with them.

**Tip – 48** Identify key, large customer contract renewals as much in advance as possible and work to accomplish those renewals at the earliest possible date. Don't let a deal close hang up on a large renewal.

### *Management Muscle*

**Tip – 49** Shine. Make sure you or your organization are seen as thought leader in your field of specialty and get it out there; on your website, at conferences, at trade association events. You just never know who is in the audience that might be a prospective buyer.



## The Value Driver Tips

**Tip – 50** Create an Advisory Board – recruit people who have sold companies in the past so you can leverage their experience.

**Tip – 51** If you work more than 45 – 50 hours per week it could be viewed as a negative by buyers. If you exit as part of the sale, they may see that you need to be back filled by more than one person.

**Tip – 52** Make yourself redundant. Especially if you want to exit shortly after a sales transaction is completed. A year before contemplating a sale, start to turn over key tasks to your management team.

**Tip – 53** If you have a strong management team, engage them in the due-diligence process. This will give buyers a comfort level that management is on board with the sale.

**Tip – 54** Honestly evaluate your management team. Window dressing is only good for a while. If you know that there are members of your team that are underperforming, make those changes now before you go out to the market.

**Tip – 55** While changing out a couple managers may be needed, stability is also key. Buyers look at employee turnover as much as they do customer turnover. If you need to make some significant changes, wait a couple of years before you go to market if you can.

**Tip - 56** If you are looking to sell your company, don't go it alone unless you have a management team committed to helping the process. Even then, an advisor/coach should be sought to help identify viable buyers, keep them on pace and smooth out the bumps along the way. The cost of a good advisor will more than pay for their fees in an increased offer price and multiple buyers.



## The Value Driver Tips

### *Value Proposition/Vertical*

**Tip – 57** Got a value proposition? Can you recite it? If you cannot, then probably no one else in your company can, except for maybe the marketing person that created it. Everyone should know the value proposition and be able to articulate it.

**Tip – 58** Did you give your vertical solution a name? Your packaged solution should be all over your website – hero image, inside pages, all your downloadable marketing materials.

### *Customer Satisfaction/Retention*

**Tip – 59** Calculate monthly and annual churn (subscription-based services) on a regular basis. If more than 25% of your revenue is “as a service,” the buyer will want to know what the churn rate is.

**Tip – 60** Review all your customer contracts well in advance of contemplating a sale. Is the contract assignable? If not, now would be a good time to create an addendum that will allow for this, as the probability of an asset sale is greater than a stock sale. This could be a deterrent in the end if not addressed well in advance.

**Tip – 61** Measure and promote customer satisfaction. When was the last time you calculated customer satisfaction? This is a key value driver. If you can boast of a number greater than 90%, be sure to issue a press release and put it on your website. Buyers will focus on this as an indicator of customer retention. Even if it isn't until August when you calculate this (for the prior year), still put it on your website somewhere.



## The Value Driver Tips

### *Sustainable Success*

**Tip – 62** How would a 5 or 10% decrease in margin from your largest supplier affect your bottom line? If the impact would be substantial, consider expanding your supplier base.

**Tip – 63** When was the last time you performed a "test" restore of critical systems? (i.e. CRM/ERP/ticketing systems). Buyers are now finally paying attention to the prevention malware attacks as well as the ability to recover from malware attacks or a host of other potential data catastrophes.

**Tip – 64** Avoid waiting until you are in due-diligence with a buyer to get NDA's and confidentiality agreements signed by employees and external independent contractors. Don't let this be used as a leverage point by someone to get something.

### *Sales and Marketing*

**Tip – 65** Shop your competition annually and assess your price, strengths and weaknesses, and update your value proposition accordingly if needed.

**Tip – 66** Know your Customer Acquisition Cost (CAC). Exactly. A savvy buyer will want to know and your answer should be clear and credible.

**Tip – 67** If you plan on selling in the next 12 – 18 months, don't burden your payroll with additional marketing staff. Unless you have a gaping hole that cannot be filled by outsourcing to a marketing firm, don't hire someone now. Marketing teams are usually the first to go, therefore the time and cost to acquire additional employees is not worthwhile.

**Tip – 68** Limit investments. Need new tools and resources to launch projects? Use SaaS solutions that can be terminated with minimum notice.



## The Value Driver Tips

### *Intellectual Property*

**Tip – 69** Protect IP. If you are not authenticating through your active directory you should regularly change passwords on protected sites that house your IP.

**Tip – 70** Clarify IP ownership. Review all agreements with outside contractors for development work. Make sure all IP is assigned to the company. Amend any agreements as needed in advance of the sale.

**Tip – 71** Avoid waiting until you are in the due-diligence phase to gather your IP; i.e. copyrights, trademarks, trade secrets, and patents. It will be part of the due-diligence process so have this organized in advance.



## Advisor Tips

### Advisors

**Tip - 72** The attorney you have worked with to create your company and handle your day to day legal questions may not be great at critically reviewing your IOI, LOI, non-compete and other deal documents. Find a transaction attorney who has experience in M&A deals.

**Tip – 73** Don't assume your tax accountant is the best person to go to for tax advice. He/she may not be versed in the nuances of an asset or stock sale. Find someone who has done large stock/asset sales and not just individual tax returns.

**Tip – 74** Avoid elephants and sharks when picking brokers. Elephants are companies that specialize in much larger transactions than your sale. Elephants will take on the business if there are a lack of deals in their pipeline. They may have a misguided notion of the valuation of your company (which they will realize sooner or later and lose interest). Avoid the elephants as they will overcharge and underservice, and you will be trampled in their rush out the door. Sharks are harder to spot, but have no technology industry specialization, and they are motivated by the monthly retainer and valuation work they can sell you. Typically, they won't bring you more than one buyer. They may impress you with their deck and numerous tombstones of deals past, but typically, those are not relevant to your size or industry.

**Tip – 75** Don't choose your broker based solely upon who gives you the highest valuation price for your company. While each broker will give you the best assessment based on what they "see" in the market today, they may give you an optimistic number or mirror the one you are looking for, but once the ink dries on the engagement contract, any valuation number they gave you becomes irrelevant. Check references!



## Advisor Tips

**Tip – 76** Beware of brokers that use the “spray and pray” approach. Meaning, your broker should be very selective in who they send out your Confidential Information Memorandum or Blind Profile to. Just because your broker has a list of thousands of buyers, doesn’t mean they should be sending your profile to each one.

**Tip – 77** Have your CPA “pro-forma” a sale either as an asset or stock sale in advance using your actual income and deductions to know what the tax consequences are in advance. If your CPA is struggling with this, find another.

**Tip – 78** If you decide not to use a broker, use an M&A coach. A good one is well worth the money and can have the difficult conversations that you frankly don’t want to have directly with the buyers. After all, you may be working together post sale, and you don’t want a heated comment during the negotiations to ruin a good future working relationship.

**Tip – 79** Brokers will allow carve-outs (excluded potential buyers) for people who you are already in discussions with or agreed to discuss a sale with in advance of signing an engagement letter. Be specific, open and honest as to who might be interested in your company in advance and name them individually.

**Tip – 80** Understand how the minimum success fee is earned. Know if there is still a fee that has to be paid even if you identified the buyer in advance and is listed in your carve-out list.

**Tip – 81** Not all brokers charge fees the same way. Don’t assume 4% of a deal is less than 5%. The step-downs or step-ups in the percentages of the success fees can make a difference depending on how they are structured. Run through a sample deal first and understand how the fees work. Better yet, ask them to give you an example with a couple of term scenarios.



## Advisor Tips

**Tip – 82** Know in advance how earn-outs will be handled with your broker. Are they paid up front or if and when you earn them? This can be negotiated. Again, best to walk through a sample transaction.

**Tip – 83** Understand if the commitment fee is applied against the final success fee or not. Don't assume; many contracts are silent. This is also negotiable.

**Tip – 84** Many brokers charge monthly retainers. Will the monthly fee increase as your revenue increases, or are you locked into a fee? If you are using a broker as part of preparing for a sale, this can be a different number from when you first engaged. Is the monthly retainer applied against the final success fee?

**Tip – 85** How a LOI is negotiated can have significant consequences to the seller. Get your attorney involved before you sign the LOI, not afterwards.

**Tip – 86** Make sure your legal counsel also is not on vacation during the planned week of close.

**Tip – 87** Projections, if unrealistic, will create problems. It is better to dial them down or make them achievable, rather than unrealistic. It will hold up the deal if you don't achieve them. It can make your earn-out unachievable. It can make a buyer question your financials in general.



## Due-Diligence Tips

**Tip 88** – Make sure all permits and licenses are up to date, even the out of the ordinary ones. (i.e. filings with the Secretary of State which include all the current officers and directors.)

**Tip – 89** Never overlook chemistry/culture. While the deal numbers are important, chemistry between the founder/seller and potential financial or strategic buyer may be the most crucial driver of a successful partnership. If you overlook this, the likelihood to achieve your full earn-out may be at risk.

**Tip – 90** Get a draft of the purchase agreement as soon as possible while in due diligence so you can see the level of detail in the agreement and what the disclosure schedules will be so that you can begin working on them.

**Tip – 91** If you see an error, miscalculation or other misstatement of fact after the signing of an IOI or LOI, acknowledge the mistake and present new documents as soon as it is discovered. While the mistake may cost you some dollars in the end, it may compound any difficulties in due-diligence process if discovered by the buyer.

**Tip – 92** Make sure all past shareholders have returned all stock certificates and have signed terminated agreements with the company (regardless of a stock or asset sale).

**Tip – 93** NDAs and signed employment agreements should be accounted for in advance of a sale.

**Tip – 94** Always, always, no matter how large the buyer, ask for proof of funds for the sale transaction. Don't be shy about asking for financial statements either (balance sheet or profit and loss). If they are unwilling to supply financials, this is a red-flag.



## Due-Diligence Tips

**Tip – 95** Eager sellers tend to disclose too much information too soon. If sending a customer list (especially to a strategic buyer), conceal customer names and contacts. Be selective in what is sent.

**Tip – 96** Don't necessarily assume that all buyers are looking for the same data. Just because one buyer asked for your churn rate, doesn't mean the next one will. Approach this like an audit, don't volunteer information unless requested.

**Tip – 97** Due diligence is usually the most stressful phase of selling. Get as much help in preparing documents as you can. The more stressed you become, the more emotional you usually become. Organize the documents you know will be requested for due diligence in advance of when needed. Start now with making sure you have e-copies of all these documents and update your e-files as new documents are created or older ones amended.

**Tip – 98** Disclosure schedules can be time consuming and are a key aspect of the definitive agreement. Make sure you list all oral agreements with employees, etc. For example, if someone can work from home certain days a week, etc. While this might sound trivial, you want to let the buyer know everything. All non-written "side-deals" should be disclosed.

**Tip – 99** All buyers eventually want an "office visit". Suggest they come after hours or take a tour on the weekend of the facilities when no one else is around. Strolling a buyer through an office, puts everyone on alert (and you may not want that) that a potential change is about to happen.

**Tip – 100** Once an LOI has been signed, have a weekly call with the buyer to determine the progress that needs to be made each week. This will help keep the deal from slipping.



## About RoseBiz, Inc.

**RoseBiz** is an M&A Coaching firm that provides business owners with the best possible information, advice and experience to help them make decisions about the growth and potential sale of their company. Our firm specializes in IT businesses who wish to grow and sell their company for its highest value.

### Next Steps:

#### 1. Have you taken the **Value Driver Maximizer Assessment**?

[The Value Maximizer Assessment](#) is a **free and 100% confidential** report that will give you an estimate of your current company value, how you can increase your value and who might be your best buyer. This unique report is specifically designed for channel partners; ISV's, VAR's CSP's, MSP's, etc.

Whether you want to sell your business for a premium today or learn how you can increase your company value for a future sale, the Value Maximizer Assessment will help you determine how. Valuation estimates are based upon current sales in the industry over the last 24 months. It's free and 100% confidential and your score will arrive in your in-box upon completion.

These scores are derived from feedback by active strategic and financial buyers who have purchased partner organizations in the last 24 months.

#### 2. Have you read our book: **Get Acquired for Millions**?

Whether you are trying to sell your company now, or in the near-future, [Get Acquired for Millions](#) is a must-read for the technology entrepreneur!

Inside the pages of this book you will uncover the answers to these questions:

- When is the right time to sell?
- What is my company worth?
- How long does it take to sell?
- Should I use a broker?
- What can I do now to increase my company value?

3. Contact us for additional services: Email: [Engage@rosebizinc.com](mailto:Engage@rosebizinc.com)  
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