Seller Beware! Top 12 Mistakes to Avoid When Selling a Business

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Takeaway: *Don't assume that because you have built and operated a successful company, you can also undertake the sale of your company. Here are 12 potential mistakes that can make the difference between a home run or a strike out.*

I have illustrated from time to time why sellers make certain choices as to when and how they pursue the sale of their businesses. In this article, I will group the common mistakes that a seller must avoid in order to land the highest price and best terms on the sale of his/her business.

Mistake # 1: A Must-Sell Situation

Selling on strength should be your goal, but be mindful that the selling window can close at any time. If you are in a must-sell situation, it is critical not to convey this urgency and to leave potential buyers with the impression that time and options are on your side.

Mistake # 2: Not Managing the Process in a Timely Manner

If a buyer feels that the business has been for sale for a long time, he/she may conclude that there are no other interested buyers and the auction aspect (/definition/728/controlled-auction) will be lost, resulting in a low bid.

Mistake # 3: Critical Reliance on the Seller

Before a sale, the responsibilities and relationships of an owner/entrepreneur should be migrated to a management team that will stay with the business. Otherwise, the owner will have to remain for an extended transition period and result in transitional risk (/definition/950/transitional-risk) to the buyer.

Mistake # 4: Restricting the Buyer Universe

An owner/entrepreneur may not want to approach a key competitor. However, it is a critical mistake to restrict the entire buyer universe to only two or three possible buyers.

Mistake # 5: Unrealistic Price Expectations

The seller and M&A (https://www.divestopedia.com/definition/981/mergers-and-acquisitions-ma) advisor should understand and agree on the fair market value (/definition/989/fair-market-value) before the sales process (/definition/843/sales-process) begins. Once the process begins, it becomes about soliciting strategic buyers (/definition/800/strategic-buyer), creating that competitive bidding tension (/definition/977/competitive-bid-process) and realizing the highest price possible.

Mistake # 6: Lack of Specificity in the Letter of Intent

Signing the LOI (/definition/894/letter-of-intent-loi) is a turning point in the process, where the negotiating power switches from the seller to the buyer. It is the point where you grant exclusivity (/definition/987/exclusivity) to the buyer and proceed to full legal documentation. Therefore, a clear and complete LOI can save expensive legal negotiations.

Mistake # 7: Proceeding With an Unfunded Buyer; No Counter Due Diligence

You are taking a substantial risk when you rely on a buyer that assures you he/she can get financing, or that the funding will come from the sale of another asset that is imminent. Due diligence (/definition/847/due-diligence) and legal documentation are time consuming and expensive processes that should not be pursued in a contingent environment.

Mistake # 8: Ignoring the Soft Factors; Can You Work With These Folks?
When an earnout (/definition/724/earnout) is in play that will see the buyer and seller working together for a substantial period

of time, the seller needs to examine if the prospective working relationship will support the ability to achieve the earnout.

Mistake # 9: Neglecting Day-to-Day Operations

The sales process can be extremely time consuming for the seller, and a transaction is not done until all of the documents are signed and the cash is in the bank. If the seller is also responsible for business development, the M&A process can be distracting to the point of affecting the company's operating performance.

Mistake # 10: No Plan B

One of the M&A advisor's responsibilities is to provide options and to keep options at-hand until closing (https://www.divestopedia.com/definition/926/closing). Without a workable plan B, a process can die simply from exhaustion.

Mistake # 11: Overly Aggressive Seller Forecasts

The sales process is one that takes seven to 10 months to complete; therefore, you will always be asked the following questions: "Are you on track?" and "Can we have a look at the latest quarterly numbers?" The financial forecast has to be believable (//www.divestopedia.com/2/1001/maximize-value/forecasting/an-unbelievable-financial-forecast-is-just-that-unbelievable) since under-performing to the financial forecast (/definition/984/financial-forecast) at this stage can easily be a transaction killer.

Mistake # 12: Engaging the First Unsolicited Offer

Don’t feel that you have to engage a major supplier or customer when they make an unsolicited offer. If potential buyers use pressure tactics to force a transaction, it may be best to bring in a third party intermediary to manage the relationship and introduce other potential buyers.

So There You Have It...

...the top 12 mistakes to avoid when selling a business. While you may be experienced at your own business, the process of selling a business is one mired with potential pitfalls that may result in you not realizing the maximum price and best terms for the sale of your company. You may be better off engaging an experienced M&A advisor who can manage the process in a diligent and timely manner to avoid these pitfalls and realize optimal value.