

Hello, this is Wayne Rivers at The Family Business Institute. Thanks for tuning in. Click on our social media icons and follow us, please. And as always, let's have the benefit of your comments below.

I want to talk this week about five mandatory things you have to have if you're going to attempt to sell the family business. And this is important because all of us dream one day of exiting the business, and we'd like to do it with a few nickels in our pocket and we'd like to do it while we still have enough health to travel and enjoy life a bit. And we know there's only four ways to dispose of a family business. You can close the doors and walk away from it, well we're not going to do that. You can give it to your kids, that's a whole lot less common than it once was. Or you can sell it, and you could sell it in two ways. You could sell it to insiders, you could sell it outsiders. We all dream of selling the business for big dollars to some outsider.

So, if you're thinking along those lines, here are the five conditions that have to be in place if you're going to try to sell the family business. The first thing is a buyer wants to buy a business, not just the owner. We had a consultant here named Julian, and he was super talented. And his father-in-law sold his family business for a huge amount of money, and they decided that Julian, the son-in-law, super talented young man, would take about 18 to 24 months and he would go around the Carolinas and Virginia and he would look for other family businesses they could buy and they would form a family business portfolio of their own and keep their hand in business in that way.

Well, for about two years, Julian went around and talked to people, and I think he did serious due diligence on 20 or 21 different companies. Guess how many offers they actually made to buy a family business? Zero. Zero. And the number one reason, this is pretty much across the board, universal reason, is because every one of those businesses was dependent on one or two or a tiny handful of people for everything. If they were going to buy those businesses, they were actually buying the individuals that ran them, and that's not what they wanted. A buyer wants to buy a business with all the things in place it needs to run, whether the head guy shows up or not. So that's the fatal flaw that kills most family business transactions right there. Number one.

Number two. And this is corollary to number one. A buyer wants to see that you have people in place that can run your company in your absence. One of my peer group members, Arlin Sorenson, has a wonderful appellation that he uses, two, the number two, the numeral, 2IC. Second in charge. 2IC. And I have a 2IC here that's probably, certainly much more talented than I am that could easily run the company if I didn't show up, and you should have one too. And you should always be thinking about the backups to your backups. How are you going to create a succession plan if you don't have a 2IC? And that 2IC doesn't have a plan? Et cetera, et cetera, et cetera. So, a buyer wants to make sure that there are people that could run the company besides the old man, okay?

The third thing. They want to see that you have a unique niche in the market. If you're just doing ... if you're in the commodity business, providing a commodity service, and let's face it, most of us are, then there's really nothing to distinguish you for a buyer. So, if you're a construction company out there doing hard dollar bid work the way you've been doing it since the '60s or '70s, why would I want to buy your company? With a little bit of capital, which I have as a buyer, I could just come into town, open an office of my own, and guess what? I can do hard dollar bids just as easily as you can. So, if you're, same thing with a manufacturer or wholesaler, if you're just in a commodity business and you don't have a unique niche somehow in the marketplace that you can easily identify, then that makes you a lot less valuable to a potential purchaser

The fourth thing. A predictable, recurring stream of revenue. This is so key because so many of us in small businesses are job shops. We sit there, and we wait for the phone to ring. And as long as the phone rings and we have a steady stream of new business inquiries, we can be relatively assured of putting together a top line and hopefully a decent bottom line. Well, that's not good enough anymore. People want to see an annuity stream of predictable, recurring business. They want to see that you're able to generate business in a predictable way, you're able to call your shots, so to speak, and you're able to hit your targets.

And that brings us to the fifth thing, and this is probably the overarching thing that you need if you want to sell your business, you've got to have the plan. You've got to be able to show a documented proven process for generating sales, for generating growth, and for generating profitability. A proven process for attracting the right people, for getting those people in the right seats on the bus. This is a big distinguisher. If you've got a plan, if you've got your Family Business Bible, if you've got your strategic plan mapped out for the next five years and you can demonstrate the previous five years that you've actually been good at executing your plan and hitting your targets, holy moly, that just makes things so much more attractive for a potential buyer. They don't want to have to trust you. They want to see documented proven processes for doing business development, for engineering growth in the company, for engineering profits and margins in the company. They just don't want to take your word for it.

So those are the five components. Don't buy the owner, have a 2IC, have a unique niche in the market, have a recurring, predictable annuity stream of revenue, and number five, have the overarching plan. Those are the things you need. In the absence of any one of those, if you don't have any one of those, that puts a severe dent in the value you could expect to be paid for your family business. And to the degree you're missing two or more, boy, that really makes life tough. Where's the market for most of you to sell your family businesses? Is it to a Fortune 500 company on Wall Street? The market for most of you in our listening audience is an internal market, selling to your key people, or maybe a combination of your key people and a few family employees. That was not the trend 30 years ago when I started, it most decidedly is the trend right now.

We'd love to have your comments. This is Wayne Rivers at The Family Business Institute. Thank you.