Tips For Selling Your Business

Manage Company Risk

When placing a valuation on your company one day, the acquirer will assess what risk they see in owning your company. Taking steps today to mitigate any potential risk factors could pay big dividends when your time comes to exit.

Ask yourself this question – if I take off my glasses and put on those of a potential acquirer, where might they see risk in owning my company?

Business owners often ask what the purpose of due diligence is during the sale process of a business to a third party. Some would say it's an opportunity for the acquirer to find reasons to lower the initial price they offered you. Although this certainly occurs, a key reason an acquirer conducts due diligence is so that they can identify what risk they might have if tomorrow they were the owners of your entire company or selected assets.

A common reason that many sellers aren't able to sell their company to a third party is the disparity in what they believe it's worth versus what an acquirer thinks it's worth. There can be a variety of reasons for this disparity with one of the top reasons being the acquirer perceives there to be a degree of risk that either you have not seen or you're aware of but have not done an effective job of being able to explain why the risk is lower or more manageable than it's perceived to be.

A solution is to put on the glasses of an acquirer today and assess your business looking at it from an objective perspective. Provided here is an effective template for facilitating your thinking:

Managing Our Business Risk

Potential Risk To Our Business?	Description	Degree of Risk? (0 None, 1 Low, 5 High)	Priority to Address? (0 None, 1 Low, 5 High)
Customer concentration	Revenues from a single customer greater than 15%		
Loss of customer or contract	Greater than 50% probability of meaningful loss		
New competition	Low barrier to market entry expanding number of competitors		
Alternative solution	Customers seeing the emergence of a suitable alternative to your product/service		
Single point of failure	Reliance on equipment or supplier in which their failure could impede your profits		
Pending legal matters	Negative impact from an employee, customer, vendor or government lawsuit		
Shared Intellectual Property	Inability to show you control/own 100% of your IP as others could lay some claim		
Facility at capacity	Growth could be impeded by constraints and expansion costly		
Reliance on key personnel	Owner or key employee knowledge or experience critical to company results		
Product Liability	Recall or warranty claims related to products or services		
Lease transferrability	Facility or equipment leases not assignable to an acquirer if company were to sell		
Business designation	Revenue benefit from being designated as a minority owned or small business		
Technology threat	Evolving technology that has a probability of future disruption to your business		
Legislation changes	Potential for changes in laws in your industry that could impede your growth		
Loss of certification/license	Loss of revenues/margin as a result of non-renewal		
Environmental	Current or prior facility use of chemicals/waste products affecting ground/water		

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Sit with key members of your team and/or leverage your business lawyer, CPA or trusted advisor(s) to talk through these risk factors. Discuss each risk factor thinking in terms of today and tomorrow. You want to identify both those that you are facing now and those that you know have a high likelihood of becoming a risk factor in the foreseeable future. Go line by line and for each risk factor determine whether it's applicable for your business and if not, place a "0" in the Degree of Risk column. If there is a risk today or potentially in the future, assign a 1 to 5 scoring with 1 being very low risk up to the highest risk level of 5.

Next consider for each factor, where you identified a 1 through 5 score, what level of priority you would assign for addressing each. Addressing it in terms of priority of your team's time, energy and resources that may be required to eliminate or at least reduce the level of perceived risk. Once you've completed this last column, you will see how many risk factors your company faces and which ones warrant your attention and in what priority.

This exercise will certainly identify minor and potentially major risk factors facing your business today and/or potentially in the future. Use time as a friend to wear the glasses of a future acquirer (or even an investor) and get out in front of identifying the risk in your business and developing your risk mitigation plan. The more risk factors you can reduce or eliminate, the greater the potential to drive up your company valuation in the eyes of a potential acquirer.

About the Author
*Larry O'Toole has over 20 years as an experienced CEO of manufacturing and service businesses. He founded Yosemite Associates, LLC introducing the **Bank your moment®** and **Yosemite Business Diagnostics™** campaigns to help owners extract the uncertainty associated with building their company worth. Larry serves on corporate Boards and provides advisory services to a diversified group of owners. Larry can be reached at 949.874.0787 or Larry.OToole@YosemiteAssociates.com.*

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