

Selling a Business – The First Time Entrepreneur

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One of the most difficult issues for a first time entrepreneur is when is the right time to sell your business?

Sure the management books tell us to plan 12-24 months in advance develop relationships with the companies that could become potential predators. Raise your profile in the eyes of the predator; establish relationships, joint ventures, partnership agreements - where your offerings are complimentary to the target predator, target the predator’s key customers or staff where you are competitive. Run your business to maximise growth or profitability, whatever you think will be most attractive to your predator.

The truth is very few companies are able to plan like this. Few first time entrepreneurs are bold enough to engage a banker to sell their business for them.

A large number of transactions come out of the blue. Our stressed and stretched first time entrepreneur is dealing with the latest major business challenge when an offer comes from a trade buyer with warning at all.

One of our clients was recently faced with such an issue. Our entrepreneur will only sell his or her business once – one transaction that will have a profound effect on their life. The business is likely to have gone through a number of cycles - one day all could be lost, the next the company could be the best thing since sliced bread. It may have taken many years of blood sweat and tears before this business became viable.

So here comes the first credible offer for the business. What should our entrepreneur do? It is so tempting to cash in while the going is good. A few million or several hundred thousand pounds would

pay off the mortgage, pay the school fees, buy a new car or that place in Spain. This represents a chance to take a breath of fresh air, take away the stress, start sleeping at night and do all the things your partner or children have been nagging you to do. Perhaps the amount isn’t enough to never work again, but it beats losing everything in the next down turn – doesn’t it?



Perhaps an offer resulting in our entrepreneur making £2M is the one tempting enough to make that sale. However in my experience of entrepreneurs who sell at this stage, what sounds like a large sum of money quickly depreciates. For a start the agreed £2M isn’t all cash up front, the deal starts to spread it over 2-3 years. Part of the proceeds are dependent on the performance of the business, part is put away in escrow. Lawyer and accounting fees come along - wow 5% is wiped off very quickly. Then there is some tax to pay.

Before long our £2M becomes worth £1.5M net, still sounds a lot. However, once the

mortgage has been repaid or more likely a larger house purchased and that new car you promised yourself as a bonus for working so hard. You may have done a little something for charity or other family members - perhaps there is £750K left in the bank. This is still a large sum isn't it? Invested properly you can make something like 5-10% a year. However your lifestyle became more expensive also, you joined the golf club, you go on those more exclusive holidays - skiing and a summer holiday. You buy from the more expensive boutiques, after all you've earned it.

Before very long you realise you need a job, you start on the treadmill again. At this point I should apologise, it is surely immoral to make an argument in a world still full of poverty that £2M is a small amount of money. For anyone earning the national average salary please take consolation from the research that shows happiness does not increase once one earns about £10K more than the average wage - anyone can be as happy as our first time entrepreneur by working just a little bit harder or getting a little bit luckier. However in the context of an entrepreneur who has potentially risked everything for the success of their business, the dream must be to one day sell the company and make enough to have to never work again or at least to work by choice rather than necessity.

The truth is that if £2M results in a net amount saved of say £750K, a £3M sale results in an increase in amount saved of something like £1.6M more than double. Holding on just a little bit longer can have a much more dramatic effect on wealth.

The other issue of course is that once the sale is concluded it isn't the case that the entrepreneur sails off into the sunset. The new acquirer will be squeezing the entrepreneur for the full value of their acquisition.

Our first time entrepreneur needs to take significant comfort from the fact that a potential acquirer has found them, that a credible offer has been made. If it can happen once by accident it can surely happen again if planned for properly. Selling a business is no different to selling your best product or service - it is best done through a considered campaign. An entrepreneur who sells too early or too readily has plenty of time after to rue their decision. Frustration may eventually drive our first time entrepreneur to do it all again - breaking all those promises made to partners and family - this too can have a dramatic effect on lives.

A second time entrepreneur now there's a different story.....