Gary Bozza

A monthly column from an industry expert about ways to increase your company's value.

Bridging the Value Gap

When thinking about selling a business, there is nothing more disappointing than realizing there's a gap between what you want to put in your pocket and what potential buyers are willing to pay. But in a sales process, there are many more gaps than you might imagine.

There are valuation gaps generated by timing issues between a "buyer's market" and a "seller's market." There are gaps in the value you perceive you've put into your business and what a buyer perceives they can get out of it. Even the various methodologies (income, asset and market-based approaches) used to establish business appraisals generate value gaps.

There are also differences between what an owner needs to support a retirement lifestyle and what can be extracted from a transaction at the actual time of sale, as well as differences between an offer to buy, what and how the buyer pays, and what the seller ultimately gets after fees and taxes. And, finally, the timing of retirement and buyer's versus seller's perception of can increase the valuation gap.

Selling a business is a complex financial and psychological process with many moving parts, any one of which can cause a major misstep resulting in a negative impact on value. Value is much more than financial; it is the sum of all the factors that contribute to the seller's level of satisfaction from a transaction.

Why These Gaps Exist

According to the Business Enterprise Institute, the biggest issue is that owners don't believe these gaps exist — at least not for them. And if owners aren't convinced that the gaps exist, they will be reluctant to invest any resources into bridging them. Harvard Business School professor Howard Stevenson has stated that this common misperception is based on the entrepreneur's inherent optimism and lack of knowledge. Separately, these issues are unhealthy, but together they create a massive obstacle to planning a successful transition, ultimately killing a satisfying exit experience.

Typically, owners overestimate financial value because they know how difficult it was to start and build their business to its current state. They fall victim to the notion that what they put into the business is the same as what a buyer will get out. They are bullish on future business growth and investment performance. They are in denial about how much money they will need in retirement to maintain a desired lifestyle and haven't given a whole lot of thought to how long they will live after they leave their companies.

Owners often use this optimism and lack of knowledge as license to postpone taking the actions necessary to create a succession plan and desired outcome. Until they understand that where they think they are is far from where they actually are, and that where they need to be is even further from where they think they need to be, it is business as usual and nothing will happen. Knowing — not guessing — what you have and what you actually need is key to closing the many gaps that exist.

Owners who haven't thought through life after the sale of the business often minimize or overlook the non-wallet considerations altogether. The Successful Transition Planning Institute (STPI) calls these the head and heart issues around leaving a career. These are the "soft" emotional challenges that transactional advisors typically don't address, which, if not resolved up-front, can cause an owner to sabotage a transaction for no real business reason.

How to Close the Valuation Gap

When considering a sale, an owner's goal is to achieve perfect alignment (zero gap) between the various factors. For most owners, this is difficult to achieve without the help of experienced advisers. The chart on the following page shows some of the areas that skilled advisers can address.

When considering a sale, an owner's goal is to achieve perfect alignment (zero gap) between the various factors. For most owners, this is difficult to achieve without the help of experienced advisers.

Element	*Adviser*
Current Business Value	Appraiser or M&A Adviser
Business Value Enhancement	Succession Planner/Value Builder Adviser
Finding Qualified Buyers	Financial Planner
Post-Transaction Personal Transition Plan	M&A Adviser
Business Value enhancement	Succession or Transition Adviser
Purchase Offer vs. "Take-Home"	Tax or Legal Adviser

Selling a business is largely uncharted territory for people who have spent their lives developing processes that provide, market, and sell a product or service at a profit. But when it comes to implementing an effective process that markets and sells a business, the game changes dramatically. In nearly every case, it takes a team of experienced, subject matter experts to navigate out of the briar patch of legal, accounting, valuation, planning and marketing considerations that are involved. ■

Gary Bozza, *president and managing partner of WorldBridge Partners Chicago NW, has been winning industry awards and recognition in talent acquisition for the last 22 years, following a highly successful 18-year career as vice president of national accounts and director of Midwest sales, primarily at Moore (now RR Donnelley). Gary's business is dedicated to helping principals drive revenue and maximize the effectiveness of human capital resources. Contact him at 847.550.1300, Ext. 33, or at garyb@worldbridgepartners.com.*