

Figure These Two Things Out Before You Sell Your Business

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Your business is in good shape and you're feeling ready to sell. You have your key value drivers in place: skilled employees, strong sales numbers, a pattern of consistent growth. You've assembled an advisory team, conducted a thorough sweep of your organizational records, and eliminated the proverbial skeletons in your closet. You've also performed the deep, difficult work of preparing yourself emotionally and psychologically for the journey ahead.

Time to hit the gas—right?

Perhaps, not quite yet.

Yes, all of the above are fundamental success factors and important steps to take before engaging in a merger, acquisition, or another type of business transaction. But they're only the basics. Polishing every surface and tightening every screw won't make a difference if the business isn't built on a rock-solid foundation.

To adequately prepare for M&A, business owners need to proactively strategize and fortify their organizations for potential curveballs. As a seller, you need to think ten steps ahead of a buyer. You need to know what they want before they want it. It pays to err on the side of paranoia.

Here are two critical questions every seller must answer before stepping into the market:

1. Is the Business Structured Correctly?

One factor sellers frequently ignore is business entity structure. The way your business is structured today may not be the ideal structure during an M&A transaction.

Say your company is operating as an S corporation. You have detailed records of your finances and meetings, a strong leadership team in place, and—best of all—lower taxes than you'd have if the company was structured differently.

You may think this shows prudent business management—and in most cases, it would. In M&A, however, S corps at times fare poorly.

That's because certain buyers like to acquire LLC interests—not S corporation stock. The same vehicle that may shield you from high tax payments may create obstacles for a buyer during a sale.

In an environment less robust than the current market, it even could cause a potential buyer to pass on the deal.

Thus, as an S corporation owner, you may need to do an “F-reorganization,” a tax-free structuring technique that changes your business so that you’re selling LLC interests. A corporate restructure may improve your chances of closing the eventual sale. If you do have to restructure, you’ll need to do so in the pre-transaction phase.

2. Are Employees in It for The Long Run?

Your people are the lifeblood of your business. Without them, your organization wouldn’t be worth what it is, nor would it be well-equipped for continued success in the future.

Most sellers realize this, and yet a fair number neglect to lock down their key employees until well into the transaction. These business owners compartmentalize the deal and their day-to-day business operations separately. What they don’t realize is one domain frequently spills over into the other. A rocky M&A negotiation damages employee morale, and vice versa. By the time a transaction is nearly consummated, an ill-prepared business may have missed projections or dropped in value due to unexpected employee departures.

Always stay focused on your employee engagement and retention rates—before and during the transaction. Figure out how you’ll incent your people to cooperate and continue performing at their best while the deal is pending, and to stay with the new ownership after you’ve closed. Put plans into place early, well in advance of courting a buyer. The longer you wait, the less effective your efforts will be.

For sellers, employee retention and business structure are two vital pre-transaction considerations. But they’re only a couple of many.

If you’re thinking about selling your business, you need to prepare for anything and everything that could go wrong. Familiarize yourself with [Murphy’s law](#), and start strategizing as soon as possible. Forethought and planning today can save you serious time, money, and frustration tomorrow.

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