What Signs Tell You It’s Time to Sell Your Business?
Executive Summary

Here is some food for thought: forty years ago, the titans of the business world included Eastman Kodak, Pan Am, Penn Central, Wang Laboratories, W.T. Grant and Litton Industries. Although some pieces of those entities survive, none made it as intact businesses.

On the other side of that thought, forty years ago some modern titans did not exist: Microsoft, Apple, Google, Amazon, Home Depot, Airbus and DirecTV, to name just a few. Today, the market capitalization of that handful of companies is around $1.7 trillion!

And the point is?

Products, companies and even whole markets go through life cycles. These are determined by a myriad of factors: innovation, technology, politics, economics and the quality of leadership, to name some obvious ones.

What does this mean to you, a business owner, as you consider a sale of your business? To achieve the strongest result in selling a business, you want to sell while approaching the peak of those life cycles with your company, avoiding trying to sell your company after it begins the downside of its existence, and certainly before it becomes too obvious to any would-be buyers that it is past its prime.

The issue is knowing before it happens that your company is approaching the critical point in its cycle so you can execute an exit strategy while maximizing your value. In this discussion, we will cover some leading indicators that the products, market or company is nearing a critical juncture.
Red Alert! Your Products Are Under Attack!

1. Has a competitor launched a product or service that delivers more, or costs less, or both? Do you have a viable response, i.e., do you have your next generation near launch to get back in the game?

2. If the answer to the above is no, is that part of your strategy? Are you using your mature product to fund a new product(s) that will take you in a new direction while you bleed off the cash from your old product?

3. Realistically, how strong is your new product pipeline? Do you have the time and resources to effectively bring them to market? Are the new products sufficiently “new” to generate some excitement and protect your market position?

4. Are you being threatened by a “disruptive technology?” Will a new way of doing things leapfrog your offerings? Examples of this are what the internal combustion engine did to ground transportation, what the jet airplane did to steamships, what iTunes (and other challenges) did to recorded music.

When your products or services are being challenged and you do not have a strong competitive response, the value of your business will be negatively impacted. Not recognizing that this is happening or may happen is likely to put your business into a continuous downward trend, in effect liquidating the business through attrition.
But even though challenged with new or innovative products, there is value that can be realized if you acknowledge your difficulty before it can destroy your business. While an astute acquirer will identify the challenge to your products or services, there is value in your customer base, perhaps your physical locations, your brand, your processes and your employees.

This is a time when it is imperative for you to aggressively market your company to potential buyers.

Defcon 3! Your Markets Are Dramatically Changing!

1. The location of your customers is changing. If you are a B2B company, the physical location of your buyers is changing. The most obvious example is the movement to offshore outsourcing over the past several decades, but other markets also effectively relocate within the economy. The physical distance between you and your market can create a serious challenge to competitiveness.

2. The demographics of your market are changing. It is getting older, or younger, or more urban, or more leisurely, et. al. A prime example of this is the aging of the Post WWII “Baby Boomers.” Because of the population bulge of that age group, numerous industries have been impacted as the wants and needs of those millions changed as they all aged together. The markets for hula hoops, transistor radios, pony cars, college housing, affordable starter homes, McMansions, and probably now senior living and retirement needs have been driven by the simple aging process of society.

If the market for what you do is either physically leaving you, or
will be negatively impacted by changing demographics, it is probably time to sell.

3. Markets have life cycles that impact business. They can be young and growing, characterized by many entrepreneurial businesses. They can be reaching their peak and maturing, characterized by consolidation of the businesses in the market. They can be on the downslope, characterized by a contracting of capacity and further consolidation of remaining players.

4. Economics and cycles have huge influence on markets. Unfortunately, accurately assessing oncoming economic events is difficult for the most sophisticated observers, even more difficult for the rest of us. And this is truly a double-edged sword; many successful business leaders choose to become aggressive in tough economic times, seeking market share when competition is struggling. The easier situation to assess is when economic conditions are good: you’ll get more for your business in an up market than a weak one!

5. Government and regulation may have a huge impact on your markets. Like it or not, we are currently in a market where the government is having a huge impact on health care and health insurance. Similarly, the ending of two wars and budgetary issues have created serious unrest in defense related industries. Interest rate sensitive businesses have had a free pass to Go for the past six years.

Markets can drive you in either direction regarding selling or holding your business. A permanent shift that may be negative to your business is a clear sign to exit. Cyclical changes in your market go both ways, sell in a good market, hold when it’s bad. And the consolidation of competitors as a market ages presents more formidable
opposition, but also a ready market for exit.

**Defcon 2! Your Company Has Issues!**

1. Your company needs significant new capital invested to continue to compete. Bringing new capital means new partners, or more debt, or reinvesting your own funds, as well as committing yourself for a longer period to guide the company through the investment.

2. There are management issues that are difficult to solve: no clear-cut successor, a thin management team, or difficulty in recruiting the next generation.

3. Your systems need significant upgrading requiring expense and additional effort by your entire staff. For example, selecting, installing and debugging an ERP system can easily take two or three years of effort.

4. Changes in either your staff or those of major customers have eliminated strong lines of communication that could jeopardize customer loyalty.

Owners should not ignore the fact that, in many instances, the best way to solve company issues is to be acquired and integrated into another company that has already addressed the issues.

**Defcon 1! It’s Time for You to Exit**

1. Your company may be doing very well, but your estate is tied up in this one asset. It’s time to take some chips off the table.
2. Your health has become an issue, and it’s time to think more about your own well-being than that of the company.

3. You’ve removed yourself from the day-to-day operation of the company, and rely on your management team.

4. You are tired of this business and would like the excitement of pursuing something else.

5. You would like to retire, play golf, go fishing, and/or see the world.

Usually, there are several indications that it’s time to sell your business, but any one of the above items could be enough to push your decision in that direction. Here are two things we tell our clients to keep in mind when deciding whether the time is ripe to sell their business:

1. **You will maximize your value if you can sell without duress!**
   A forced sale will be easily recognized by the buyer, and the price will be adjusted accordingly.

2. **Your most valuable negotiating tool is the ability to walk away from the deal.** If you market your company while you have both the ability and desire to stay with it if the terms of a transaction are not to your liking, you will, ironically, be more likely to get the terms you want.

   As you consider the above factors, or others not mentioned here, that may bring you to a decision to sell your company, we at the investment banking firm of Aaron, Bell International, Inc. are available to assist you in your thinking, evaluate the current market for your company, and find the right transaction to achieve your objectives.
About Aaron, Bell International, Inc.

Aaron, Bell International (ABI), founded in 1989, is FINRA licensed independent investment bank focused on middle market mergers and acquisitions. We serve public and private companies with annual sales from $5 million to $250 million.

Since inception, ABI has provided hundreds of companies with investment banking consultation on strategic mergers, acquisitions, and enhancing business value in the U.S. and abroad.

Aaron, Bell utilizes proprietary techniques to assess core company strengths and underdeveloped value drivers enabling our clients to compromise less and gain more.

If you would like a complimentary assessment of your company, contact Aaron, Bell International today.

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