To Sell or Not To Sell, That Is the Question

If you are a business person, we are going to confront you with one of the most complex decisions in your life: Should you sell your company? What we will examine in this article is the possibility that on certain occasions, selling can be the best course of action for a company. But how can you know whether it is? Here are a few ideas.

Executive Summary

Is it better to keep plowing ahead, and if so, what should be done? It is difficult to forge ahead in this case, to what extent is it possible to sell? This is probably one of the most difficult and important decisions in a business person's career. Studying the processes of company decline shows that management tends to show a certain attitude of self-deception. Seen from a distance, that is, objectively, from the outside, it is amazing that an entire managerial team can derive itself through years of decline, living on a day-to-day basis with measurable variables that reflect a system in free-fall.

For a business person, it is difficult to ponder selling his or her company in a rigorous, objective way. Nevertheless, in many cases, selling may well be the best solution for both the company and the business person. This article does not attempt to prescribe selling at all costs, but it does strive to present the maximum number of crossroads at which decisive action is necessary and selling may be the best alternative. If this decisive action does not take place, the result could be the beginning of a process of decline, with a concomitant fall in the company's value, a process that may be irreversible.

From a standpoint of social responsibility, an entrepreneur's efforts to launch a new company are more satisfying than a business person who decides to throw in the towel and sell his or her company. But when a company is sold, it is because there is another business person (the managerial team, another company) willing to buy it. This is the best of both worlds: somebody is going to keep struggling to keep the company afloat, and the business person who sells will have the value created with his or her enterprising efforts available to apply to other initiatives proportionate to his or her personal circumstances at the time. Obviously, the worst case scenario is when the company enters into decline, loses value, and ends up closing. Every day in the news we see cases of companies that have gone under.

The beginning

Creating a company is a process that entails a deep emotional commitment and oftentimes a certain degree of sacrifice for whomever is involved in it. Building a business may involve taking on financial risks, not to mention constant work and dedication. Thus, companies are often personal or family projects with an importance that goes beyond merely generating resources and creating wealth. Neverthe-
How can I know if I should sell my company? Answer these questions...

1. Am I over the age of 65?
2. Do I have a clear succession plan?
3. Do my heirs have the training, education, and skills needed to keep running the company?
4. Are there any tax or legal conflicts between members of the next generation, or between my heirs and the professional managers?
5. Does my wealth depend substantially on this company?
6. Do I have alternative sources of income?

Ownership and management

- Resources
  - In my company, is there clear separation between family and business interests?
  - Do I have control over the company?

- Proposals
  - Does my company invest in projects that will create value for the company and its stakeholders?

Reasons for selling? Think about your company...

- Value Determinants of a Business
  - Ownership and management
  - Resources
  - Proposal of value

- Competitive environment
  - Industrial strategies
  - Profitability

- Competition
  - Product quality
  - Distribution channels

1. How do I or my more experienced recentely left my company, frustrated at the lack of opportunities for promotion?
2. Do I have a clear human resource policy that will attract, motivate, and retain the most valuable staff with the greatest potential?
3. Is it likely for the value of this company to decrease over the next 2-3 years?
4. Do I have a plan for replacing this intellectual property?
5. What is the average age of key executives in my company?

Flows to sustain the growth

- Need to fund development

- Is there a concentration of production in the distribution channels?

- Is there access to the channels?

- Is there a concentration in the distribution channels?

- Is there a wide range of suppliers or solutions to cover the needs of the product or service?
6. Regulation
A change in the legal environment in which a company operates can have a huge effect on its value. In certain cases, the very definition of a company depends on its legal framework, such as for companies that operate as concessions. Thus, being aware of changes in regulations is a vital competitive task. In other cases, regulatory dictates the boundaries of the field in which the company is operating. If the company is highly dependent on these barriers to keep up its competitiveness, it would do well to anticipate trends in legal regulations.

A business person must keep in mind each of these factors that affect the value of his or her company and anticipate the risks that might appear in each of them. Once the risks are clear and obvious to the company’s owners, they will also be so to the company’s clients, who will hesitate to buy the business if they do not necessarily involve concealing information from possible buyers. Perhaps the buyers are also aware of these problems but they think that they may be capable of changing the situation using instruments or strategies that are not available to the current proprietors.

The trees shouldn’t prevent you from seeing the forest
Even though an analysis of the situation in each of the areas outlined above can be done independently, the consequences of this analysis must be assessed as a whole. Perhaps none of the elements that determine a company’s competitive position is sufficient in itself to call the company’s business model into question, but the simultaneous appearance of several risk factors might make the scales lean towards the option of selling.

The head rules the heart
On occasions, even after having performed an exhaustive analysis and a thorough assessment of the company’s situation, and noticing a problematic deterioration in its competitive position, business people may have difficulties facing up to the evidence and be incapable of undertaking an unbiased, objective analysis due to emotional factors that have nothing to do with the company’s situation. Often, too, business people do not even reach this point, as these very same emotional factors lead them to refuse to embark on this self-assessment process. This is understandable, as a company is a project whose goals go beyond merely generating resources for its owners. A company is a living organism that needs to adapt and renew itself. For this reason, it is common for the founder of a company to feel a strong emotional tie with it and to resist acknowledging the reality of a changing environment through not very rational arguments.

Though it may be difficult for a business owner to take a step back from these emotional considerations, he or she must be aware that they undeniably exist and seek objective filters for processing them. One objective filter that will most likely come from outside the company and almost definitely outside the family. A business person can benefit from assessing the situation with an independent professional. Emotional barriers erected by business people for decisions that affect their companies can only have the effect of delaying necessary actions, worsening the business person’s negotiating position, and ultimately reducing the value that can be extracted from the company.

Emotional barriers to selling a company
Even though, having analyzed the factors mentioned above, business people may be aware of their company’s difficulties in competing in the future, oftentimes their greatest fear is all the unknown factors involved in the sale process. Here we have compiled some of the psychological barriers that business people, although there are as many of them as there are people facing the dilemma of forging ahead with their activity as always or taking the sale route.

1. What will I do when I sell my company?
If valid options are rejected via this type of argument, one should be aware that one is paying to work instead of receiving money in exchange. This is with, of the sale, of the company another different yet equally real problem will arise, how to administer the patrimony so that it is not squandered or harm the family, now that it is tangible. This is, with the Americas refer to as “from the family-owned business” to “the family in business.”

2. What will people say about me if I sell (social circles)? Running a company can often be valued beyond its economic appeal due to the access it can provide to certain prestigious social circles, such as membership (or leadership) in associations in the sector. Selling the company entails not only losing one’s economic capital, but also the social capital. Losing the status of business person can be a blow to one’s pride and can result in a lower social status in one’s milieu. Nevertheless, one should be borne in mind that it is better to not be a business person than to be an owner of a company with no future ahead of it.

3. It would be写道 to my workers
Sometimes owners of companies feel like just not business people but also patriarchs and protectors of an “extended family” of workers. It can be psychologically difficult to let go this role. In any event, it is important to know that the affective tie is often unilateral (employees do not often feel like the busi ness person’s “children”), and that the purported “emotional damage” brought about by the sale might be less than what one expects.

On the other hand, if the company is not viable and its mar ket position is irreversibly deteriorating, the business person is hardly doing his or her staff a favor by depriving them of the best options for ensuring the continuity of their jobs, such as what a carefully planned sale to another company could offer.

4. This company cannot be sold
This assessment is often due to a lack of imagination. In certain cases, the company can be sold, indeed. Nobody would be willing to buy the company and continue to run it exactly the way the current management or owners run it, that is, selling the same products or services in the same markets and in the same way.

However, if this is truly the reason, the business person must accept that the business has performed poorly, since nobody values his or her company at all or the negative aspects outweigh the positive ones. In any event, poet Antonio Machado said that “only the fool confuses value with price,” and business performance can change at almost any time. Management may be unaware that its assets, its intellectual capital, its patents, or its portfolio of customers might be better for another owner. A rational business person must always be open to study these options.

5. If I put my company up for sale, I’ll be jeopardizing its value
Many business people are afraid that if anyone finds out that a company is for sale it might be used to competitors’ advantage. The business person might think that his or her competitors will try to steal customers, arguing that a sale might lead to lower prices or higher prices charged by competitors. Selling the company entails not only losing one’s economic capital, but also the social capital. Losing the status of business person can be a blow to one’s pride and can result in a lower social status in one’s milieu. Nevertheless, one should be borne in mind that it is better to not be a business person than to be an owner of a company with no future ahead of it.

6. What to do with the sale proceeds
If valid options are rejected via this type of argument, one should be aware that one is paying to work instead of receiving money in exchange. This is with, of the sale, of the company another different yet equally real problem will arise, how to administer the patrimony so that it is not squandered or harm the family, now that it is tangible. This is, with the Americas refer to as “from the family-owned business” to “the family in business.”

Substantially depend on the regulation of the sector in which I operate?
If so, this is legal contexts substantially different from what is in force in other companies in other countries or the rest of the world?

If there is any of these paragraphs which influence any new regulations?
If so, are the companies from which you compete with.
Do they have greater financial muscle than those in my sector?

Regulation
57. Does my company’s value

If you operate protected by minor barriers (barricades, standardization
requirements, technical standards, domestic ownership requirements, etc.? 60. Is there a trend to eliminate these barriers? 61. Who is on the other side of these barriers? Is there a group of companies whose entrance is being artificially blocked (in Spain or abroad) and that are much larger or more solvent than my company? 62. Do I have a plan should the entry barriers to my market come down? Final considerations 63. Do I know the value of my company?

the company's strategy and reconsider its position, as avoiding these issues will do nothing more than aggravate the problem. (*Whoever doesn't plan for disaster.*)

9. At any rate, I have to leave the company to my children. Even though family succession is a fully understandable and highly reasonable goal, on certain occasions it is not necessarily the best option. Remember that the goal of leaving the company to one's children is really about giving them the possibility of a secure future. The goal per se should not be for the children to run the company. In this sense, if succession is not clearly planned, the best way of protecting your children's future may be selling the company and letting each one direct their activities (and their own capital) towards the terrain that is most interesting for them.

10. If I leave this ship, it will sink. Even though the experience accumulated by a business person is unquestionably an invaluable asset to a company, one should not fall into the misconception that it is indispensable. At times it may precisely be that having spent years or even decades at the helm of a company hinders one from seeing new opportunities or business opportunities that another person could clearly see. Once again, pride is a poor advisor when running a company.

11. The economy isn't very good right now. Many business people refuse to consider selling their company, thinking that the current economy or the situation in their sector is not highly favorable, and that thus the asking price of the company will be lower than what they could fairly and reasonably expect.

It may well be that the current situation in the economy or sector is indeed not favorable at a given time. However, if the other aspects of the business mentioned previously (ownership and management, proposal of value, competitive environment, replacements and regulation) are not favorable, it is highly unlikely that a better economy (whose arrival is always uncertain) will suffice to compensate for these shortcomings. In this type of situation, the business person would do well to consider selling the company despite the negative conditions.

12. Where should I invest my capital afterwards?

Emotional barriers to selling 64. Is it likely for the value of my company to grow? 65. If so, am I sure what might drive this growth? 66. With what degree of certainty do I expect that the conditions needed for my company to increase in value will be obtained? Do I want to and can I take on the risk that these circumstances would not be obtained? 67. Am I clearly aware of the most optimistic scenarios for the development of my company and the value associated with them? 68. Is the economy in a cycle of high liquidity? In the market, can I detect a high number of company transactions with values that seem very high?

The business person may have a great deal of experience in his or her own business, but this does not necessarily translate into experience handling financial assets. In the majority of cases, one sells one's company with the goals of the future investment in mind already (such as a new company). In other cases, however, the best advice would be to seek a financial advisor who, based on your investment profile, would help you to define the range of possible assets along with their profitability, levels of risk and priority. This analysis of great family fortunes that have been able to sustain themselves through the years shows a notable level of diversification in investments.