By Craig O. Allsopp and Curt A. Cyliax

What is a good way for you to get top dollar for your business?

First, consider selling to an outside third party, not to an insider such as a child, key employee or co-owner. Outside third parties typically have the cash and the ability to pay a higher earnings multiple for your business.

Secondly, proceed through planning steps prior to putting your company on the market. These steps, all part of Seven Step Exit Planning Process are:

- Setting your Exit Objectives;
- Determining the value of your business;
- And, most importantly, taking action to implement and enhance the Value Drivers in your business.

Third, once you have maximized the value of your business, undertake the proper sale process which, if properly conducted, can potentially put more money in your pocket.

Let's look at how the sale process itself to see how it works.

Basically, there are two ways to sell your company to a third party:

- A negotiated sale; or
- A controlled auction.

Maximizing the amount of cash you receive upon the sale of your company is the business owner's equivalent of hitting a game-winning home run. To hit one out of the park, you must know what to do before you approach the batter's box. So, too, with selling to a third party. Consider the case of Gary Reese who contacted our colleague John Brown.

Gary Reese, owner of Reese Diamond Importers, had been approached by a national competitor. Preliminary negotiations led to an offer of $7 million for the company. Before he accepted this offer, he called with the good news. John urged him to contact a business intermediary to orchestrate a controlled auction — a strategy Gary thought would scare off his suitor. The strategy scared the suitor all right — he offered another million dollars to avoid the auction. Gary subsequently hired the intermediary and sold his company (to another suitor) for $13 million cash. How?

First, Gary was clear about his objectives. He told the business intermediary exactly what he needed financially, when he wanted to exit, how long he was willing to stay and in what capacity, and which companies he absolutely would not sell to. Using those criteria, Gary's business intermediary developed a buyer profile and began to market the company.

Next, the intermediary developed a Deal Book, which told the story of Reese Diamond Importers. Qualified suitors signed confidentiality agreements and were sent the Deal Books. After studying the Books, three prospects entered the controlled auction in which they bid against each other for Gary's company. The auction concluded when Gary selected the buyer who met his financial needs and other Exit Objectives and signed a non-binding Letter of Intent outlining the terms of the purchase.

The buyer's attorneys completed the Due Diligence process (learning everything about Reese Diamond Importers as they drafted) and negotiated the definitive Purchase Agreement. The closing was held and Gary left the table with $13 million in cash.

Contrast the controlled auction sales method with a negotiated sale. In a negotiated sale, a buyer has identified your company for acquisition and you have decided to sell to that buyer. The buyer controls the timing, the cash payment and most of the leverage in negotiations.

A controlled auction introduces your company to a pre-selected list of qualified buyers. The key to a controlled auction is to have multiple buyers, bidding for your company at the same time, each having identical information and each being financially qualified to acquire your company. As a seller, you can get top dollar when these buyers compete against each other for the opportunity to purchase your company.

Controlled auctions are not one-size-fits all propositions. They work best when:

1. The value of the company is at least several million dollars and large enough to attract the interest of multiple buyers.
2. An owner's business intermediaries are skilled and experienced in conducting controlled auctions.

Getting top dollar for your business requires more than having the best possible business to sell. It also requires selling your business using the method best suited to maximize its value.