Four Key Questions to Answer Before Responding to an Offer on Your Business

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For many owners, receiving a serious, unsolicited offer on their business is part of the vision they've worked towards for years and a sign that what they've built has lasting value. While the offer is worth celebrating, making the right decision for you and your stakeholders requires careful analysis and discernment.

How can you determine when it's the right offer at the right time? Answering the following four questions can provide the insight needed to make the best decision for you and your business.

IS THE OFFER ON TARGET?

After you receive an offer, you must decide if it's reasonable. Is the offer high, low or just right for your company's value? As the owner, you know more about your company than the potential buyer but not necessarily whether it's a good price. Obtaining insight from a trusted investment banker and taking an objective look at your business should remain top of mind throughout the sales process. Your decision should be based not only on today's value, but also on the likelihood of your company appreciating value over the next few years.

A key part of your evaluation process should be a quality of earnings (QoE) analysis. Broader than a traditional audit, which typically only focuses on one point in time. A QoE analysis is a more complete review that evaluates numerous trends to better explain your company's value to prospective buyers.

A sign of a good deal is: No surprises. There should be no unexpected learnings for you or the buyer during the sales process. Once you've determined that you want to pursue an offer, be willing to open your books and records, with the assistance of a trusted advisor, and be upfront with the buyer.

DOES THE OFFER FIT YOUR COMPANY'S CULTURE?

Not every buyer is right for every seller. Deals can fall apart or be wildly successful based on the fit between a buyer and seller for a number of reasons including: company culture, industry dynamics, product familiarity and people. Review the buyer's offer and think about how the company you've built will fit within their current portfolio. Ask yourself the hard questions: Do you think you or your employees, customers and vendors will want to work with the new owner? If the buyer is making a strategic acquisition, are the two companies and products complementary to each other?

WILL THE OFFER PROVIDE THE RIGHT LANDING FOR YOU?

Whether the offer was unsolicited or something you've pursued, you will have to determine how a sale will impact and financially support your future goals? Maybe you're ready to launch a new venture and the offer provides the perfect launch pad. Or, it could be that the offer is just right, but you aren't quite ready to make a clean break with what you've built.

Talk with your family and friends and decide where you want to be the day your dream deal is done. Make sure that destination is available to you or, if necessary, pass on the deal if you aren't satisfied with your exit or leadership options.

DOES THE TIMING WORK FOR YOU AND THE COMPANY?

Spend time determining if now is the right time to sell. In addition to your knowledge of the industry, seek insight from a third-party professional advisor on the projected outlook for your business before you make a final decision.

There are always potential risks and rewards if you decline an offer in the hopes of attracting better offers in the future. Changes in the political and economic landscape, as well as in your industry, can positively or negatively impact future offers. While you can't anticipate every outcome, considering the possibilities based on what you know today can help you make the best possible decision for tomorrow.

About Andy Baker

As a Managing Director at Riveron, Andy Baker focuses on buy-side and sell-side financial diligence projects as well as CFO advisory services. He has worked in the industry for over a decade in leadership roles providing accounting and financial advisory services for public and privately-held companies. Andy has deep experience in financial due diligence, investigations, financial statement analysis, internal control reviews and ad-hoc internal financial models.

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Blockchain Can (Still) Benefit Your Business

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Prices for bitcoin, the most recognizable application of blockchain technology, crested at more than $19,000 in December before plummeting to less than $7,000 over the course of a month. While the volatility may tempt you to avoid blockchain applications, there are other exciting developments that will affect the financial industry sooner than you think.

At its core, blockchain technology refers to digital ledgers of information shared across a peer-to-peer network. In the case of bitcoin, the ledger is public and tracks the creation and exchange of digital currency using a chain of transactions that is uniform for every user in the system. Changes to the series of ledger entries in a blockchain system cannot be made without confirmation against the existing ledger by the participating users. This provides a transparent and robust system for the verification of information by nonaffiliated parties without a central decision-making authority. In short, blockchain technology creates an opportunity to make existing recording and tracking systems much more efficient and secure.

Trade finance blockchain applications are being developed to reduce the need for original paper documents. Historically, a typical letter of credit shipping transaction requires the satisfaction of certain conditions, including the presentment of original bills of lading and other physical documents to lenders or letter of credit issuers, before payment or delivery. By utilizing a blockchain application, a seller or purchaser creates a secure and transparent log of data points regarding the location and condition of the goods. Integrating this system with tracking devices or radio frequency identification (RFID) chips would produce secure, real-time information about the goods. These types of logs are resistant to tampering and fraud, which allows financing sources to rely upon them, rather than requiring the delivery of physical documents as a condition to funding. The delays caused by human error and the logistics of delivering physical documents can be shortened considerably.

Uniform Commercial Code filing systems and real property recording systems also could benefit from blockchain technologies that create a verifiable ledger of information. Several states, including Delaware, are currently reviewing such filing systems to determine how to implement blockchain technologies. Moving such recording systems onto a secure, unalterable, public register would reduce search and filing costs and decrease the likelihood of search and index errors, particularly with respect to real property records. An application that securely indexes the entire legal history of a parcel of real property in a single searchable ledger, without the need for costly trips to the local real property office, is now possible.

Delaware also has codified the ability for corporations to issue their shares through a blockchain application, rather than through a securities intermediary. In such corporations, the shareholders hold a direct property interest in their shares, rather than a proportional interest in a master certificate. By doing so, shareholders will be able to verify exactly what they own at all times. Boards also are able to more accurately track capitalization tables and voting records, eliminating errors that might arise from inaccurate stock transfer information.

While applications such as bitcoin continue to get most of the public press (both good and bad), don't overlook the potential for blockchain technology to provide significant efficiency gains to you and your enterprise.

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