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Are You Being Your Own Worst Enemy?

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Many business owners believe that they want to sell their businesses to a third party when they first start considering their business exits. Owners who want to start planning for a third-party sale sometimes fear that tight-fisted buyers will be the primary enemy in the way of a successful business exit. However, experience shows that it is business owners who are their own worst enemy when pursuing third-party sales, because they succumb to two common *Deal Killers*.

Briefly, a Deal Killer is a negative aspect of the business or its owner that can kill a deal with a third party if it isn't resolved before the buyer learns about it. There are several Deal Killers, but two common ones are:

1. An unwillingness to recruit the best possible players for the Deal Team.
2. Failure to preserve the company's most valuable asset: key employees.

Consider the story of Maxwell deHaan, a business owner who became his own worst enemy during the third-party sale process.

Maxwell deHaan was in the middle of exiting his business, deHaan Custom Tempering. His sons Hogan (the company's CPA and unofficial HR representative) and Dylan (a deal attorney), and daughter Hildegard (a business consultant) worked diligently to position Maxwell to sell his business within the next 12 months. They had taken pains to keep Maxwell as far away from negotiations as possible, due to his short temper and refusal to agree to concessions. They were in contact with a buyer willing to pay $16 million for the business, double what Maxwell needed for financial independence, provided deHaan Custom Tempering successfully passed the buyer's strict due diligence protocol.

Hildegard and Dylan both agreed that for their father's company to pass the protocol, they would need to recruit additional advisors to address key business issues. When they approached their father about this, he was livid.

"I spent all this money to get you all these degrees, and now you're telling me you need more help? Absolutely not. I'm not spending any more money on this. Get it done."

As Hildegard and Dylan struggled to determine how they could get the company to pass the buyer's due diligence scrutiny, Maxwell ordered Hogan to inform company employees that he would be leaving the business within the year and that the best performer would receive "5% of the final sale price." Hogan, who always strived to appease his father, carried out his duty.

Nearing the end of the buyer's due diligence team's review, Maxwell summoned Dylan and Hildegard for their final report. Hildegard explained that they had managed to get the company "as close to compliant as possible" with the buyer's expectations given their limited deal experience and resources. Dylan said that he would do his best to get the most money for the business as possible.

As Maxwell berated Hildegard and Dylan, Hogan entered his office. He told Maxwell that Jeffrey, who was the company's top salesperson by far, had resigned. In his resignation letter, Jeffrey said that Maxwell's disregard for his years of hard work by offering a share of the final sale price to "just anyone" was the final straw and that he was leaving the industry to pursue opportunities that valued his work.

"Fine, one less paycheck to write," Maxwell said in response. "It's not my fault he's having a bad quarter right when I'm ready to leave."

"Dad, this is a huge problem. The buyer thinks that Jeffrey is staying on with the company. Him leaving is going to hurt this deal," Dylan pleaded.

"I'm paying you to figure it out. So, figure it out." Maxwell yelled.

The due diligence review team came and went, with deHaan Custom Tempering failing in several crucial areas. Combined with Jeffrey's departure, the best deal Dylan could negotiate was for $7 million, provided Maxwell stayed with the business for five years to give the buyer time to fill in the gaps Maxwell refused to address.

Maxwell demanded that his children decline the deal and take the business off the market, telling them that he would fix the mess they created. But without his key employee, deHaan Custom Tempering began to hemorrhage money. Maxwell never found a capable replacement for Jeffrey, and his children—who grew weary of their father refusing their professional advice—left the company one by one. Maxwell ended up liquidating the company for $2.5 million five years later.

A cavalier attitude toward Deal Killers is a common mistake business owners make. If you'd like to discuss appropriate ways to avoid becoming your own worst enemy in the third-party sale process, please contact us today.

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