

10 Lessons Learned From Selling Our MSP



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About the Author

Eric Dosal has experience in just about every area of small business growth and development. A graduate of Babson College in Wellesley, Massachusetts, Eric immediately put his Finance and Investments Degree to work on Wall Street after graduation. In 2002, Eric returned to Miami and joined his family's IT Services Business, [Compuquip Technologies](#). Starting in sales, Eric worked his way up through the company, eventually becoming President and CEO. During his tenure, Eric and his brother created and developed the Managed Services Provider Division of the company, which they [recently sold to Konica Minolta](#). Now Co-Founder and CEO of BrightGauge, Eric enjoys talking with customers as part of his responsibility managing Global Sales and Marketing.



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Preparing to Sell

Deciding to sell your company is not a decision that you should make hastily or lightly. If you want to maximize the value of your business, you must start preparing for the eventual sale of business years before you are actually ready to find a buyer and sign on the dotted line. Industry analysts believe that no more than 20% of all business transactions result in long term and added value, yet entrepreneurs are chomping at the bit in order to make “the deal”.

As a business owner, you are making decisions daily, quarterly, and annually which affect both your company’s short term value and long term growth. When you decide you are ready to sell your company, you’ll want the buyer to see the best data, the most dynamic performance trends, and, most significant growth numbers. By planning for your sale early on, you can be sure to make decisions that will not only influence your short term success, but also your long term relevancy and appeal to potential buyers.

One of the easiest ways to start planning the sale of your company is to start a company journal. By taking the time to document your decision making process and the results and implications of those choices, you have already begun to craft a compelling and persuasive narrative.

“Selling my company was one of the most intense and difficult things I’ve ever accomplished in my professional career.”

As you move forward throughout this eBook, please know that thoughts, comments, and points are completely my own personal perspective based upon my early experiences on Wall Street and my recent successes acquiring and selling companies. I draw heavily upon my most recent success, selling our MSP practice to All Covered, and have outlined the lessons, challenges, goals, and objectives I have encountered during my career.



Introduction



Currently, there are more than 5 million American businesses with less than 100 employees. While the statistics for the failure rate of businesses can be quite daunting, those who hang out a shingle and become their own boss, owning and operating their own business can be exceptionally rewarding. There comes a time in the life of every business and every business owner that they must seriously consider selling their enterprise. While many entrepreneurs have an exit strategy in place before they even open their doors, most business owners have to make these decisions

along the way. **Deciding whether or not you should sell your business can be a highly emotional and personal experience.** This eBook is meant to be a guide based on my experiences in the past and more recently my experience selling our Managed Services Practice to All Covered.

For some business owners, they identified the benchmarks and goals they would use to measure their success from the outset. For these business owners, once their business hit their financial goals, financing and capitalization milestones, or productivity benchmarks, the owners knew it was time to sell. These business owners realized they had **taken the business as far as they could, and it was time for them to pursue other opportunities and challenges.** These business owners may look for buyers with experience and expertise to take the business to the next level. Additionally, some business owners may not be willing to invest in the future growth of the company. They are happy with the status quo and are not ready, willing, or able to invest in the company's continued success.

Burnout is another big reason why business owners sell. This a legitimate reason; building a successful business can be emotionally and physically exhausting. **Many business owners feel a personal responsibility to their business, their employees, and their customers.** Selling the business may allow an owner to take a step back from the management of the business and focus his or her energies on the type of work he or she truly loves. Without a solid succession plan, many business owners sell so they can retire and enjoy their “golden years”.

There are also economic reasons for selling a business. A business owner may decide that the market has “peaked” and that strong buyer interest will allow them to fully fund their next challenges. When a business is successful, the “buzz” about it may increase the price a buyer is willing to pay. Alternatively, if the business is struggling, the business owner may see the sale as a “parachute” and allow them to exit the scene without closing their doors.

Whether your motivations for selling the business is economic, personal, or a combination of the two, **there are a number of steps you must take to ensure that you receive the most money from the sale of your business** and that your investments and interests are protected. From getting your financials in order to calling in some professional to facilitate the sale, the more prepared you are, the smoother the transaction and process will be.

“The more prepared you are, the smoother the transaction and process will be.”

#1 – Environmental Scan

Before you begin advertising for a buyer or entertaining offers from potential buyers, it is in your best interest to conduct an environmental scan. Exploring and identifying some of the internal and external factors that directly and indirectly affect your business will help you not only craft an effective narrative for your business, but will also help you leverage your company's strengths, identify any vulnerabilities, and proactively address any challenges well before you reach the negotiating table. Here are three things you should consider when starting your scan.

Take your temperature. Timing, they say, is everything. Begin your scan by reviewing whether your company is on the upswing, the downswing, or holding steady. Have you had a few good years, or are you still recovering from the economic downturn. Knowing if your company is a hot commodity or if it's a "fixer upper" not only dictates the terms of your agreement, but it will set the tone for the narrative you create for prospective buyers.



“All of the factors, trends, and intangibles identified by your environmental scan are interconnected and related.”

Start following trends. Pay close attention to the social, economic, technological, legal, and regulatory issues. Listen to fact, rumor, and speculation, and see how each scenario affects your company's productivity and bottom line. Take it a step further and get specific about the industry. Are there new technologies on the horizon that will make you and your company more or less relevant? By staying on top of the trends and ahead of the curve, you'll put yourself in a stronger position down the line.

Identify your competition. Evaluate your strengths and weaknesses as well as those of your direct competition. What do they do better than you do? What are your

greatest assets? Do a comprehensive review of internal performance. Focusing on your internal benchmarks will help you itemize your accomplishments and potential for growth.

All of the factors, trends, and intangibles identified by your environmental scan are interconnected and related. The information gleaned from your survey will help you decide if the time is right to sell, what you can do to make your business more attractive, and how to position your company as a "hot commodity."

#2 – Addressing Your Team



Now that your environmental scan has identified all the external factors, including market trends, your competition, and your company's overall potential for growth, it's time to turn your focus inward, and identify your key staff and management team. Having an experienced management team on board before, during, and after the sale will not only help the transaction go smoothly, it will make the transition more manageable for all parties.

It is very likely that your buyers will want you to stay on in some role or capacity for an extended period of time.

Depending on how active you are in the day to day running

of the business prior to the sale, this can be as few as three months, or as long as two years. Most business owners stay on with the new company for about 12 to 18 months, managing transition and customer service issues, and stepping away from the strategic and operations side of the business. Remember that the new owner will have his or her ideas about how to run the business. Accept that the business, and your role in it, is changing. Keep your eye on the prize, which is a successful closing and sale, and keep an open mind.

It's a different story when it comes to your key management team. The buyer and new owners may want these power players to stay on long term. Work with your staff to make them comfortable with the situation. Draft and have them sign new contracts and agreements which will then be part of the negotiations. If your buyer sees that your key staff is onboard, they will be less hesitant to pull the trigger. Your customers and clients will also feel confident about the sale if they feel their

relationships with management and staff will be protected. Your buyers will be looking at customer and client relationships quite closely during the due diligence and vetting process, so you will want to keep customer satisfaction and client confidence high during the transition.

Be sure to broaden your definition of "key" staff. It won't always mean your executive level team. The success of many businesses may be won or lost by their effectiveness of their sales team, their receptionists, and other "junior" level staffers. Be sure to include these people in your negotiations. At the very least, you want to make sure they don't disrupt the company during negotiations.

You may have started the business on your own, but as it has grown, you've come to depend upon a valued team. Make sure you recognize their hard work as an asset to the company. It will help to protect them (and you) during the transition.

"Be sure to broaden your definition of 'key' staff. It won't always mean your executive level team."

#3 – Start Your Preparations

Once you have identified and reassured your key staff and management teams, it's time to start thinking about the actual sale. Most sales of businesses, take between six and twelve months to close, with about ten percent taking even longer. Selling your business can be very much a “hurry up and wait” game, with both the buyer and the seller having a number of “opt out” points along the way.

Your first step is to discreetly announce your business is for sale. You want to do this confidentially; it would be very precarious if your customers, employees, suppliers, creditors, and most importantly, your competition discovered you were selling. Using a banker/broker can help you target appropriately buyers, by placing ads in industry media outlets or just working their networks.

Once a buyer has “bitten”, either you or your banker/broker should conduct a pre-screening interview in order to determine financial availability and gauge interest. If the buyer seems legitimate and qualified, have him or her sign a confidentiality agreement. If they refuse, negotiations end.

After an agreement is signed, you may want the potential buyer to tour your facility. In the interest of discretion, you may want to schedule this for after hours, to decrease the possibility of employee and industry rumor, gossip, or speculation. Before the tour, provide the potential buyer with your selling narrative. Provide the buyer with a brief outline of the history of your company, as well as a five year growth strategy and plan. Remember that the buyer is purchasing the potential growth and success of your company, so, use the data from your environmental scan, make your case as to why now is the time for him or her to buy.

The ball is now in the buyer's court. You can't move forward until they present you or your banker/broker a letter of intent. Now, negotiations can begin. On your part, you'll need to start amassing all your financial documentation so the buyer can do his or her due diligence. This includes:

- Financial statements (ideally audited if you have them)
- Corporate docs, incl articles of incorporation, minutes from board meetings
- Interim monthly financials statements (Unaudited)
- Credit agreements
- Budgets, business plans
- Contracts and partnership agreements
- Policy and procedure manuals
- Information about employee benefits and compensation
- Real estate information (mortgage, leases, liens)



Gathering this information is time consuming and tedious, but it must be done, and done well. Incomplete information may cause the buyer to walk away and the deal to fall through. Take heart, though, your potential buyer will need to gather his or her personal financial information, so you can be sure that he or she is an appropriate and legitimate buyer.

Once due diligence has been complete, the negotiations on sale structure and payment begin. While you may have been hands on up until this point, many business owners opt to take a backseat during this portion of the sale, as it can be very emotional.

Consider gathering all your due diligence information well before you start courting a buyer. It will speed the process along and give you time to address any challenges or gaps well before your potential buyer does.

#4 – Increase Curb Appeal

As you are preparing your business for sale, you can simultaneously begin to develop a marketing strategy for attracting legitimate and qualified buyers. Potential buyers will focus on your business's future growth potential, and the best way to highlight that is to document and demonstrate past performance and outline future plans and strategies.

Get Organized. While you are gathering your documents for the due diligence packages, start curating information for your business narrative. You want to create a story that documents and tracks your company's profitability and earnings. Highlight the company's assets and identify areas for future growth. You want to write a story that helps a buyer understand your industry, your business, and its potential growth and current liabilities.

Don't Neglect Growth Opportunities. If you've been considering expanding your business, pull the trigger. Show potential buyers that there is room for dynamic growth, so expand your customer base, introduce a new product line, or launch a new marketing strategy. Have you been sitting on the sidelines of social media? Now's the time to start creating a presence on Facebook and Twitter.

Work Your Networks. Start accumulating customer satisfaction benchmarks. You want to show potential buyers that your customers are loyal and engaged. If you haven't implemented measurable customer satisfaction benchmarks, start initiating them now. Surveys, reviews, and loyalty programs are good places to start.

Raise Your Profile. Create and implement brand management strategies. If you are your industry leader, keep up the good work. If you need to raise your profile, start documenting the ways you are making inroads into the marketplace. Your buyer is looking for growth potential.

“You want to make your business as appealing as possible, and as they say, “you never get a second chance to make a first impression.”



Up your “curb appeal”. Selling a business is much like selling a house. Make sure your exterior is as appealing as your interior. If you have been postponing any facilities upgrades or maintenance, do it now. An investment in new technology will also raise the profile and value of your company. You want to make your business as appealing as possible, and as they say, “you never get a second chance to make a first impression.”

Think about this process as you would any other marketing campaign, and the product is your business. Be detailed and deliberate and let your success speak for itself.

#5 – Get Professional Help

Once you have developed a compelling narrative about your business and its potential for future growth, it's time to put together your dream team. You may have started your business as a solo entrepreneur, but as the business grew, you knew when it was time to call in reinforcements. Over time, you created a staff to manage different areas of your business. A smart business owner knows when he or she needs some help, and you'll need some help when it comes to selling your business.

Start with a banker/broker. While the internet makes “do it yourself” transactions popular, hiring an experienced and reputable banker/broker will save you time, money, and frustration in the long run. A banker/broker specializes in the confidential identification of buyers and should have experience negotiating your side of the deal. He or she can manage and coordinate the collection of all your documentation and facilitate the flow of information between you and the prospective seller.

Contract with an Accounting Firm. Even if you have a trusted bookkeeper, CPA, or CFO on staff, you will want to consider an outside expert. You may not want staff, regardless of how trusted and valued they are, to be in on early stages of negotiations. Hiring a CPA or firm to gather historical financial data, create realistic revenue and liability projections, and audit your books will be invaluable. Additionally, you'll need a CPA to advise you on and help you manage your estimated tax liability from the sale.

Selling a Business is not unlike selling a house. A qualified business appraiser can not only evaluate the relative worth of tangible assets, like equipment and real estate, he or she can assign value on less physical assets, like your brand, your intellectual property, even your staff.



“A smart business owner knows when he or she needs some help, and you’ll need some help when it comes to selling your business.”

Lawyer up. The legal details involved in the sale of a business are huge. Ask your attorney for recommendations of lawyers who specialize in business transactions.

Find a Spokesperson. You may have done all your marketing, advertising, and public relations work in house, but if you are selling your business, you may need some outside expertise. Hiring a public relations professional to manage your message to your staff, to your suppliers, to your creditors, and most importantly your customers and clients, can go a big way towards a smooth closing.

#6 – Your Communication Plan

It's time to put your dream team to work. Nine out of ten prospect buyer start their search to buy a business online. Your banker/broker can help you identify where you should be placing your confidential online advertisements. Generally speaking, there are three types of buyers:

- Buyers may be interested in a specific market. These prospective buyers read local ads and online listing sites, targeting their search to a particular area. These potential buyers may work their personal and professional networks, seeking leads and tips from bankers, banker/brokers, attorneys, and accountants.
- Other buyers are interested in a specific industry. These prospective buyers will start their online search targeting specific business types and industries. They may reach out to banker/brokers as well as industry leaders and trade associations.
- The third type of buyer is looking for a business. These buyers cast the widest net and work local, regional, national, and international angles.



You may be partial to selling your business to one type of buyer over another. If your business requires a specific skill set or certification, you will be more comfortable with an industry specific buyer, for example. It is your prerogative to limit or broaden your search as you see fit.

While your banker/broker is developing a strategy to court the most appropriate and qualified buyers, you, your CPA and public relations team should be working on your selling memo. This narrative helps you define your business, its successes, its challenges, and its position in the marketplace to any prospective buyers. Think of it as very in-depth and comprehensive online dating profile.

- The cover page and summary should, without releasing proprietary information, explain what your business does and why it is an attractive option. For many, this summary should be enough until the confidentiality agreement is signed.
- Create a detailed explanation of the business's history, its ownership structure, overview of the product, staffing, and opportunities for financial growth.
- Identify your company's strengths and competitive advantages
- Outline your key management team and their roles in the success of the company.
- Explore marketing trends, both economic and industry wide.
- Provide a comprehensive analysis of your customer and benchmarks for their satisfaction
- Identify your competition and your relationship to them and their products
- Explain your market position and potential for growth
- Identify and challenges and outline strategies for meeting them head on.
- Address any concerns the buyer may have and offer solutions and alternatives
- You may provide any additional marketing materials, growth strategies, strategic plans, or other materials you and your team determine would be helpful.

Taking some time to develop a good marketing and communications piece will help you showcase your company's strength's, acknowledges it's challenges, and offer proactive solutions and strategies for increased and continued growth.

#7 – Vetting Legitimate Buyers



Once you've developed and implemented a communications plan and a public relations strategy, it's time to start thinking about the buyers. Generally, there are many types of buyers interested in businesses, each with their own definition of success and level of appropriate risk.

Depending on your business, you may attract one or more of these types of buyers. Regardless, you and your banker/broker can save some time and energy if you ask your buyers some specific and up-front questions. Spending a little time getting to know a potential buyer will help you weed out prospective buyers that are window-shopping from the qualified and legitimate buyers.

You want to feel comfortable with the seller. It's your brand and reputation they are purchasing, so you want to make sure it's in capable hands. Additionally, if you are financing some of the transaction, your business will need to remain successful so you receive full payment.

- Are they qualified?
- Does your business require any particular licenses or certifications? Do the perspective owners have them?
- Have they worked in your field or industry before?
- What's their reputation?
- Qualified buyers will have a substantial down payment. You may want to walk away if there's not enough upfront capital. Most buyers will need some form of traditional financing. You have every right to get as much details about their financing options as you can.
- What's their financial plan?
- Are they preliminarily approved for anything?
- Are they committed to investing capital during their first year of ownership?

“Most business owners remain involved in the business during a transition period... anywhere from six to eighteen months.”

Most business owners remain involved in the business during a transition period. Depending on your current role and activity within the business, this can be anywhere from six to eighteen months. The potential owner should have a well thought out transition plan.

- Will your role be more strategic or day-to-day? Will you be handling customer and client relations, or taking a back seat?
- How will you be compensated for your time?
- How will the company manage your presence and involvement?

Finally, listen to your intuition. You're a successful business owner because you're smart and hard working. A qualified buyer has thought through most, if not all, of the scenarios and questions you present to him or her. You'll quickly be able to eliminate any “window shoppers” and focus on legitimate buyers.

#8 – Negotiating the Deal

Once you've vetted your potential buyers, it's time to get down to brass tacks and start negotiations. You and your financial team have crunched all the numbers and ran all the possible situations and scenarios, so you have a good idea of what kind of numbers you are working with. Don't let all your hard work and preparations go to waste by making mistakes at the negotiating table. Here are some tips to help you keep your head in the game.

Listen More and Talk Less. Contrary to what you might think, the negotiations aren't about you anymore. Listen carefully to what the potential buyer has to say and pay attention to any emotional and nonverbal cues they may demonstrate.

Ask plenty of questions. When you do speak during initial negotiations, ask more questions and tell fewer stories. Your selling memo should speak for itself, so it's time for the buyer to present his or her case.

Stay credible. You should always tell the truth. Don't skirt around other uncomfortable issues or business challenges to gain the temporary upper hand. Your goal is long-term leverage for the final negotiations.

Be specific. If you start "hedging your bets" and offering approximations, the buyer will immediately gravitate towards the lower numbers. "Between" and "about" are concessions.

Stay focused. Negotiations are the final leg of a long, and sometimes emotional journey. You're tired, you're emotionally drained, and probably ready to move on to the next phase of your life or career. Don't announce that you think you're almost there- it sends a signal that you value closing the deal more than the terms of the actual deal.



“Negotiations are about compromise and leverage. Take what you know about the buyer and your business and use it to your advantage.”

Go First. For years, business experts advised sellers to let the buyers open the negotiations. “Make me an offer” was often the opening of the conversation. Lately, experts believe that the first number quoted is closer to the actual sale price, and research supports this principle. Your number “anchors” the conversation, so go ahead and show your hand.

Negotiations are about compromise and leverage. Take what you know about the buyer and your business and use it to your advantage. Be patient, and know where you can give a little and where you need to stand firm. Call in reinforcements, especially your banker/broker, to provide outside help and expertise with this emotional step and you'll be happy with the outcome.

#9 – Managing The Transition

Now that negotiations are complete and you are ready to sign on the dotted line, it's time to start thinking about transitions. During the selling process, you have been thinking about your new role, the roles of your key employees and staff, and your relationships with clients and vendors. Here are some tips on how to make the transition as smooth as possible.

“Being prepared for employee and customer reactions can help you manage expectations and leverage the transition for growth.”

- Negotiate your role in the transition before you close the deal. Determine how long you will be involved, what your responsibilities will be and how you will be compensated. Your presence in the new company and your confidence in the new ownership will make a big difference with employees and customers.
- Communicate the transition with key employees and staff early in the process. As we mentioned in earlier sections, getting key employees on board is critical to the company's continued growth. You may need some of your staff to help you gather information and data for your due diligence packages. Let employees know this a great opportunity to show the new owners their value.
- Be honest with employees, customer, and vendors. Things will change. Acknowledge it and position it as an opportunity.
- Once the deal has closed, be proactive about telling everyone about the sale. Start with employees and then let your vendors, customers, and creditors know. Be sure to stress your confidence in the new owners and outline your own roles in the transition process.
- Explain why you've sold the business. This goes a long way towards answering any questions about the businesses future success.
- Have confidence in your buyer. If you've vetted the buyer appropriately, you should be satisfied the business is in capable hands.
- Take care of the small details. There are a number of little details that will need to be managed. Be sure you, or someone on staff handles them. They can include:



- Turning over alarm codes and security passwords
- Customer, supplier, vendor information
- Updated operating manuals and procedure guides
- Tie up legal loose ends, including notifying customers of existing contracts
- Notify creditors or pay off debts not assumed by the new owner

Transitions are difficult for everyone. You should expect some bumps and growing pains, but being prepared for employee and customer reactions can help you manage expectations and leverage the transition for growth.

#10 – Managing Your Legacy

The deal has closed and you are no longer a business owner.

In fact, for the first time in many years you may be working for someone else. This transition can be difficult, so managing your expectations about the experience can protect your business, your ego, and your legacy.

The new business owner is looking to protect his or her investment, and he or she may require you to sign a non-compete clause, effective after your tenure with the company ends. A non-compete is a standard, legal document that prohibits you from working in the same region and/or industry for a number of years. Although the specifics may vary, you'll need to think about what you want to do next, if your goal is continue working.

Stay Credible. Your customers, vendors, and employees will remember and value your honesty and integrity. Don't lose sight of the foundations of your success while you are in transition.

Once you've ended your tenure with the company, its best not to check in with the new owners for a while. They are bound to be making changes, which you may take personally. Do everyone a favor (especially your ego) and put some space between you and the company. It's time to start looking forward, not backwards.



“Put some space between you and the company. It’s time to start looking forward, not backwards.”

If you handled yourself with honesty and integrity throughout your career — from the first day you opened until the day you hand in your keys, you will have positively impacted the lives of your employees, your customers, and your community. It's time to put the next part of your life into action, so take the lesson you learned from starting, running, and selling your business and apply them to your next endeavor.

Final Thoughts & Resources

This eBook was created to be your guide throughout the long, intensive process of selling your business. In addition to developing a long-term sales plan for your business, you will want to create a vast and diverse network of resources to help you over the years, before, during, and after the sale.

I have created a list of resources that I have found helpful over the years, and I encourage you to explore them for yourself.

- **HTG Peer Groups** (www.htgmembers.com) – Learning with and from the experiences of your peers is extremely valuable and can help you improve your overall business operations.
- **Service Leadership** (www.service-leadership.com) – The team at Service Leadership, through their partnership with HTG, helped organize our financials and their benchmarking tools helped us to identify areas of improvement.
- **TruMethods** (www.trumethods.com) – If you are looking to build out your sales team and process, TruMethods is a great resource to help you get started and moving in the right direction.
- **Leon & Mayer, Co** (www.leonmayer.com) – They were the bankers we used in our transaction, and as mentioned above, I highly recommend you consider getting a banker early in the process. León & Mayer has experience in this arena.
- **Dosal Brothers Blog** (www.dosalbrothers.com) – My blog with my brother. We share a lot of our experiences and lessons learned from starting, building, and selling our managed services practice, among other things.

How BrightGauge Can Help

BrightGauge Software is the only cloud based business intelligence (BI) platform simplifying data visualization and data analysis for the IT Service Provider (ITSPs) and Managed Service Provider (MSPs) industry. Founded in 2010 by two industry veterans, BrightGauge enables its global user base to create customizable “TV ready” dashboards and automated reports tailored to their business. With its intuitive and powerful data discovery features connected to custom datasources, BrightGauge makes the science of custom data visualization easy for the everyday business user.

To learn more please visit www.brightgauge.com and join the conversation [@BrightGauge](https://twitter.com/BrightGauge).