What's It Worth?
Business Valuations, Mergers, Acquisitions, and Consulting
NEWSLETTER ARTICLE ARCHIVE

Partnership Buy Out – Have you Done your Homework?

The profits have gotten a little tighter and the phrase "this company ain't big enough for the two of us" has become very popular around the office. Somebody has to buy someone out – but who and how?

Typically, the partner with the operational skill set will buy out the partner that is more focused on sales and marketing. Why is this? The answer lies in the gifts and talents each partner has. The one who is strong in sales always sees another opportunity knocking. Once he or she has some cash from the buy-out, the partner will then have the seed money needed to make the next fortune.

The partner with the operational gifts and talents is typically eager to buy out their sales partner because they can see how they can make the company that much more efficient, thereby creating additional profit! He or she will also tend to have more patience in dealing with the current customer base and bringing in additional sales from this foundation. Once again, opportunity is knocking, it just sounds a little different.

Now that we have decided who is going to buy whom out in the hypothetical sale, we have to determine the price that must be paid and the how to structure the deal.

One of the key ingredients of a deal is that a 'deal' actually exists! Let me explain. Every deal must have financing in order to be a deal. The best way to keep a deal on the right track is for both parties to know where they are going before they get on the Deal Train. Here is a list of things to take on the journey:

1. Price and deal terms that can be supported by the cash flow of the business are a must.

2. Preliminary financing research which has been completed. You do not want to have your partner leaving and awaiting a check that will never come. This typically makes for bad feelings and the costs go up for all concerned.

3. A transition period for the exiting partner that assists the company in continuing positive cash flow. Make sure the partner does not leave too quickly and customer relations are lost or hurt.

4. Non-compete and non-solicitation agreements for the exiting partner that can be agreed to by all parties. Many partners have a hard time with the definition of “Non-Compete”. Most Sellers prefer to have the ability to go back into the industry after a couple of years – just in case their new business idea jumps the tracks!

5. Timeliness: “Time Is Of The Essence” in partnership buy outs, but make sure that you allow yourself enough time. Selling or buying a business typically takes a much longer time that residential or commercial real estate. Though I have seen deals get done in less than 30 days, typically it will take around 45 to 75 days

When you buy your Deal Ticket at the Station Window, make sure to pick up a ticket for your CPA, your Attorney, and your Business Appraiser. These three advisors can help drive the train and keep you on track! All Aboard!!

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