Bench Strength

How buyers value your company could hinge on what it thinks of your management team

As we congratulate the ProSales/Dealers Choice Four Under 40 Class of 2018, it is a good time to revisit how buyers assess the strength of a management team in a company to be acquired.

Experience shows that buyers do so by exploring the past, present, and future. It is typical to share with buyers the background of each manager at the present company and at past companies. Buyers want managers who show a steady, logical progression in their careers and who have climbed the ladder at the company, mastering new roles along the way. They examine past positions for experience that, while different than the scope of their current role, likely benefits the manager in many ways.

Beyond looking at the track record of each individual, buyers appreciate a management team that has worked together in the past. When a new manager is brought into a business, it is viewed as a positive signal if that manager can recruit key members of their past team to join them at the new business. This means the team is dialed in to one another and knows each other's strengths and weaknesses.

On the other hand, from the standpoint of the entrepreneur, such a team can create the risk of unexpected departures if the team appears to be serial group movers. It is greatly preferred if that team is moving together for the first time or has a track record of remaining at past companies for long stretches of time.

Turning to the present, buyers get encouraged when they hear a selling owner can spend a significant portion of the year away from the business, such as living at their second home in another state. Late in a deal, when they are talking with non-shareholder managers who work for a semi-absentee owner, buyers ask how that dynamic has worked in the past. They want to know whether day-to-day managers have the majority of the decision-making authority needed to run the business. It's not a problem if they must check in with the owner before ordering a large piece of equipment, but they must be able to effectively run the business. Such cases provide buyers with comfort that the next generation is already running the company and is ready to more formally serve in that role.

The opposite situation—one in which the selling owner will have a hard time leaving the business—creates scenarios in which it's the seller's phone that rings when a new customer has a great new project or an existing customer has a problem. This will be perceived as an owner who can't let go or one with a management team that is not ready to take on ultimate responsibility for the business.

Finally, buyers will look to determine whether all the roles that will need to exist in the future are currently being filled. A classic example is whether the already overloaded controller will be able to prepare monthly financials for the bank or acquirer after the transaction is complete. If they cannot flex and grow into that role, perhaps a chief financial officer will need to be brought in. In other businesses, the owner still has too much of a role in generating new customers, possibly necessitating the hire of a capable sales manager or corporate development officer.

Regardless of whether a given business owner is ready to sell, it is a good idea to conduct a buyer-focused assessment of the management team. Owners who operate with a complete understanding of how a buyer will view their management bench are in the best position to make management improvements and fully realize the value they have created in their business.

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