Technical Issues

Potential buyers will assess every aspect of your technology systems. Be prepared.

A company's relative lack of technological sophistication can hurt its sales value or keep a deal from happening at all. Some sellers may not be aware they are receiving a lower valuation for their business than they otherwise would simply because the buyer is deducting from the valuation the amount necessary to modernize operations. In other cases, buyers or investors walk away rather than take on the daunting task of upgrading technological capabilities.

Technology upgrades can be expensive, and Murphy's Law seems to prevent such upgrades from being delivered within budget or on time. So it's in your interest to have systems that will keep buyers and investors interested in you when you're ready to sell. Here are five minimum requirements to keep in mind as you evaluate your technology systems:

Accounting System. Ideally, you have an enterprise resource planning system that accurately tracks revenue and expenses as well as prepares monthly financials. Quarterly financials are no longer sufficient.

Speed. Top-notch companies are able to produce financial results for a given month 10 to 15 calendar days into the month following. If you can't achieve that, make a list of the bottleneck items that prevent you from doing so and address them. It's difficult to persuade a buyer or investor that, having taken a month to close out each month's financials in the past, a company will be able to quickly begin completing them almost two weeks earlier.

Inventory. Ideally, a company's accounting system includes a perpetual inventory system. The system doesn't have to be driven by an RFID tag on every product, though doubtless that is the direction in which we're heading. For now, buyers are satisfied if the accounting system includes a perpetual inventory. Annual physical inventories often require a brief shutdown of the business that hurts sales and results in the company being sure of its gross margins on only one day of the year. In a dynamic and competitive world, that is simply not adequate. Today, companies are expected to know the gross margin of each product and service area.

Software Licenses. Software companies have developed ways to prevent sharing a single software license across multiple computers, but it still happens. Such sharing may save a company a few dollars, but it comes with a cost. Setting aside the embarrassment of having a buyer or investor discover that a business operates with pirated software, the company will be required to purchase any missing licenses at closing. The expense falls solely on the seller and equates to a decrease in the agreed-upon purchase price.

Homegrown Software. Some companies are proud of avoiding licenses by writing their own code. Such customized applications often meet the needs of the company more closely than commercially available software, but if a single person at the company designed such software, it creates a significant risk. Similarly, if consultants have moved on from that type of software to more modern solutions, it may be difficult to find anyone to upgrade the system or ensure that it continues to meet the company's needs going forward.

Aside from all these technical issues, there's a human one as well: Companies interested in participating in a capital transaction will likely also need a true chief financial officer to go beyond monthly financials.

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