If you’re a hard-working entrepreneur with a successful small business, you may come face-to-face with a very difficult decision one day: Should you continue to run your company as if it will last forever? Or should you take steps in order to maximize its value on paper, so that it can be sold at the drop of a hat to a buyer who’s willing to pay top dollar?

If you find yourself grappling with this very question, you’re not alone. Thousands of entrepreneurs are struggling with the same issue – whether to take a long-term view of company-building, which seemingly involves one set of strategies; or to take a more short-term view of the company, which involves a whole different set of imperatives.

What if someone told you that, on this gut-wrenchingly difficult decision, there may be a way to have your cake and eat it too? That’s the philosophy of serial entrepreneur John Warrillow.

John Warrillow has studied entrepreneurs and interviewed hundreds of them on his weekly radio show. He’s built successful companies, and he’s also sold some of them. Now he’s written a book on how to do this well, aptly titled Built to Sell: Creating a Business that Can Thrive Without You. In short, if you want to learn what it takes to build a highly-sellable business that you may never choose to sell, then John Warrillow is the man to teach you.

“The best businesses are always sellable at any time,” writes Warrillow in the opening pages of his book, “and smart businesspeople believe that you should build a company to be sold, even if you have no intention of cashing-out or stepping back anytime soon.” If you share Warrillow’s belief, then Built to Sell will be right up your alley. Warrillow highlights the fundamental qualities that virtually every business buyer looks for in a company, regardless of the industry. And Warrillow does it in an entertaining and engaging way – by telling a story.

In Warrillow’s book, the lead character is an imaginary small business owner named Alex Stapleton. Stapleton owns a boutique advertising agency based in New York City. As time goes on, Stapleton becomes more and more convinced that he should
sell the firm. On one hand, his business is successful, and Alex has a few super-loyal customers. But he’s incredibly overworked. Since the business is his baby, Alex finds himself doing most of the heavy-lifting on a day-to-day basis, and his customers all want him personally involved in their projects.

When he decides to look more seriously at selling the firm, Alex meets with his old friend and serial entrepreneur named Ted Gordon. The story unfolds as Ted teaches Alex how to turn his advertising business into a highly-sellable company, without necessarily forcing him to sell it.

This summary intentionally mirrors the flow of Warrillow’s clever little yarn. As we go on, we’ll cut back-and-forth between the fictional story of Alex and Ted, and some real-world pointers from Warrillow to help us interpret the story.

**The Stapleton Advertising Agency**

Our man Alex started the Stapleton Agency eight years ago, or so the story goes.

After moving up the ladder at a multinational marketing agency, Alex realized he’d got as much out of that job as he felt he could. Sure, Alex had learned a whole lot from the firm that employed him. But he’d grown tired of making his senior executives look good, while doing most of the work and coming up with all the best ideas. So Alex decided to venture out on his own. (No doubt, many of Warrillow’s readers will be able to relate to the story to this point.)

Alex started out as a one-man shop, designing catchy logos and other products for small businesses. Gradually he moved up to becoming an approved vendor for a major bank, which allowed him to expand and hire a handful of permanent staff. Having “approved vendor status” for the big bank meant that the Stapleton Agency could now count on a steady flow of orders.

When Alex started his little agency, he dreamed of working on glitzy, national campaigns with fat budgets. He imagined himself directing models and actors between booze-soaked lunches with chief marketing officers. He wanted to be a real player in the industry. Instead, he spent most of his days interacting with boring middle manager- had become his number one customer, and dealing with dull administrative issues back at the office.

Eight years after having taken the plunge into entrepreneurship, Alex came to realize that the fire in his belly was gone. That’s when the hero of our story decides it’s time to make another major life change, so he reaches out to an old family friend, Ted Gordon, for some advice on how to sell the Stapleton Agency, with hopes of maximizing his return on investment.

The story picks up with Alex walking into Ted’s corner office – with its lovely panoramic view of the New York City waterfront – for the first time in a long time. As he settles into a plush leather chair, Alex imagines Ted’s office as having been the epicenter of many important deals over the years. He’s happy to see Ted again, but
also a little bit overwhelmed at the same time.

“Why did you want to see me?” Ted asks the much younger Alex.

Alex knows that Ted’s a very busy guy, so he gets right to the point. “I’ve decided I want to sell my business.”

“That’s a big decision,” says Ted. “Let’s back up a minute, what made you decide to sell?”

And so Alex quickly recounts the story of having to endure endless, soul-sucking conversations with unimaginative middlemen at the big companies he serves. He also talks about how his clients always want to deal with Alex himself, which puts too many demands on his time. And finally, he tells Ted about his mediocre office staff, who require endless attention and oversight.

After about thirty minutes of Alex rationalizing why it’s time to sell, Ted asks a question that stumps Alex at first: “How would you describe your business to a stranger at a cocktail party?”

Eventually, after collecting his thoughts, Alex explains that Stapleton is basically a run-of-the mill marketing agency. It creates materials like brochures, print ads, and Web sites.

“So you run a service business that’s highly dependent on a small group of important clients who in turn demand that you personally tend to their account, and you compete with a lot of other players who provide similar services?” asks Ted.

“You could put it that way,” says Alex.

Ted paused for a minute or two before offering his valuation analysis: “Alex, your business is virtually worthless today.”

Now picture yourself in Alex’s shoes. How might you feel if you’d just spent eight long years of your life building a perfectly viable small business from the ground up, and decided to sell it, only to be told by someone you greatly respect that your business is actually worthless?

Fortunately for Alex, though, the story doesn’t end there.

“Let’s be clear,” continues Ted, “I’m telling you that you probably can’t sell your business today. But that doesn’t mean you’ll never be able to sell Stapleton. If you really want to sell it, we need to work on making some changes in your business. I can help, but it won’t be easy. You’ll need to make some tough decisions and bold changes. Are you prepared to follow my advice?”

Naturally, Alex accepts Ted’s generous offer of assistance. And off we go from there.
Ted’s Advice – How to “Build Your Business to Sell”

In the weeks that follow, Ted gradually reveals to Alex, over a series of impactful lessons and clever anecdotes, the three critical steps that are required to build a sellable business:

**Scalability**

The first step in building a company that can thrive without you is to find a service or product that has the potential to scale. For a small business owner who one day might hope to sell-out, scalable things must meet two very important criteria:

1. they are “valuable” to your customers, which allows you to avoid commoditization; and

2. they are “teachable” to new employees.

Ted encourages Alex to think deeply about which of his products or services have real potential to scale, so he can start to pour more of his time and effort into developing those valuable lines of business, even if that’s not where most of his revenues are currently coming from.

Alex has to put his ego aside – which is never easy to do – and do an honest reality check on his business. He comes to an important realization about types of projects the Stapleton Agency is great at, as opposed to everything else where his firm is essentially just mediocre.

“It seems the work we’re best at is designing logos,” Alex offers up after considerable amount of personal introspection. “We have a system we follow every time we get asked to create a product logo. Clients like the work we do, and we’re able to charge a good dollar because clients know a product logo is something they’ll use for a long time. Once we create one product logo, we have our foot in the door and clients often come back as they launch new products.”

Ted then challenges Alex to completely re-focus his business on just doing logos, premised on a proprietary “Five-Step Logo Design Process” that had worked for Alex well over the years.

At first, Alex resisted Ted’s advice.

“There’s no way we could build a business on just logos!” he exclaimed. “Our big clients think of us as their agency of record, and we get asked to do all sorts of projects for them.”

But after much discussion, and some further introspection, Alex came to understand that he’d been accepting too many different projects, which were all over the map. Stapleton is a small shop, so it’s critically important to specialize. Alex realized that he’d been trying to beat the big ad agencies at their own game by “running a general store” (i.e. being all things to all people), which is never a winning strategy for a small
entrepreneur, because resources are limited.

Ted offers this prediction: “An amazing thing will happen when you start turning down other projects in favor of promoting your specialized logo design process; you’ll instantly become more referable. If you offer a generic service like advertising or marketing, people will have trouble describing to their friends why you’re special because you are just like everyone else. If, however, you are New York City’s best logo creators, you’ll be memorable and referable. For every generic marketing project you turn down, you will win two logo assignments.”

Back to the Five-Step Logo Design Process mentioned earlier, Ted encourages Alex to spend the time thinking about and documenting each of the steps so that an uninitiated employee can repeat the model in the same way each time, without Alex necessarily being there to hold his hand. This formed the basis of a new instruction manual for delivering the logo design service. To make sure the manual was effective, Alex tested his instructions by asking a new member to deliver the service from scratch without his involvement; and it worked.

Getting an instruction manual like this right requires time and patience. When you’re already busy as heck just trying to pay the bills, it may not be immediately obvious why you need to make extra time to write things down when you already understand intuitively how to do those things. But if you ever hope to sell your business, it needs to be done.

It’s also important to name (and ideally even patent) your scalable product or service, says Warrillow. “Naming your offering gives you ownership of it and helps you differentiate it from those of potential competitors,” he writes. “Once you own something unique, you move from providing a commoditized service or product to providing one whose terms of use you control.”

**Build a Sales and Management Team**

Once you’ve narrowed in on your high-value product or service offerings (i.e. only those that have real potential to scale), you then need to remove yourself from selling them.

“If you have other employees producing the product or service but you’re still the ‘rainmaker’ responsible for all the major sales, you will not be able to sell your business,” warns the author.

Returning to the fictional account of Alex and Ted, our hero is urged to, “if at all humanly possible,” hire at least two people to do sales, not just one. Why? For one thing, explains Ted, sales careers typically attract competitive people, and a little healthy competition between two employees will work in your favor. For another, a potential acquirer will want to see that you have a product or service that can be sold by salespeople in general and not just one superstar salesperson. As the thinking goes, if two people can sell your service, anyone can sell it.
It’s also critically important to build a reliable management team.

“If you’re going to sell your business, you need to demonstrate that it can run without you,” explains Ted. “You need to show a potential acquirer that you have a solid management team that can keep the business running long after you’re gone.”

Of course, as any entrepreneur would know, finding and retaining a capable office manager – particularly on the type of salary that you can afford to pay – is usually easier said than done. Because offering generous compensation packages simply isn’t possible for most small business owners, many will offer equity in the company as an incentive to lure in capable managers. Warrillow characterizes this as a trap that should be avoided at all costs if you ever hope to sell your business someday down the road. A new owner won’t want to see her shares diluted.

“Avoid using equity to retain key management through an acquisition,” writes Warrillow, “as it will unnecessarily complicate the sale process.” Instead, create a long-term cash incentive plan for your key managers. Each year, take an amount equivalent to their annual bonus and put it aside in a long-term incentive account earmarked for each manager you want to retain. Allow the manager to withdraw one-third of the account’s balance each year. That way, a good manager must always walk away from a significant amount of money should he or she decide to leave your company.” It’s a fair approach to compensation that also helps keep people loyal.

Create a Positive Cash Flow

Having a positive cash flow cycle will greatly increase the paper value of your company,” explains Warrillow. This is because when a potential acquirer is looking at buying your company, she knows that she will need to write two big checks right off the bat. One, obviously, is to you, the current owner. The second check is to your company to fund its working capital (i.e. the money required for your business to pay its day-to-day bills). If your business needs lots of cash right up front, the acquirer will have to set aside money for working capital, lessening his or her appetite to write you a fat check. In fact, it may kill the deal outright.

The good news is, the inverse is also true. If your company generates excess cash each month, a potential acquirer will usually pay more for your business because she won’t have to commit funds up front for working capital. So, how can you turn an average business into a highly cash-flow positive one? Ted and Alex canvass a wide range of options, but the two they ultimately land on are:

1. insist on upfront payment by clients for services rendered; and
2. stop drawing a salary for a year or so, as the owner.

Of course, neither of these are particularly easy options – some clients will refuse to pay up front. Which means you may need to drop them as clients. And going for a year without a salary would also be a tough slog for most entrepreneurs. But let’s face it, if it means the difference between getting a multi-million dollar payday when
you sell your business, versus having to sell for pennies on the dollar, it’s worth it.

Once you’ve solidified your sales and management teams, and started throwing off some nice juicy cash flow every month, you may (you hope), get an offer for your business in the form of a nonbinding letter of intent (LOI). This is what eventually happens to Alex in Warrillow’s story. But as Ted quickly reminds our protagonist, “a letter of intent is not a firm offer.”

Unless an LOI includes an iron-clad breakup fee (which is exceedingly rare for smaller companies), the buyer has every right to walk at any time. “In fact, deals often fall through in the due diligence period,” warns the author, “so don’t be surprised if it happens to you.”

As we review any LOI received, Warrillow encourages us to keep in mind that our own real estate or financial advisers will likely be trying to sell the benefits of the offer to us because, as an agent, he’ll only get paid if the deal goes through. Don’t be unduly swayed by your advisers. Study the offer carefully and don’t make any rash decisions.

Also, as an owner, it’s important that you don’t get rattled during the due diligence process. Any smart buyer will usually dispatch a team of MBA-types to your office to identify any perceived weak spots in your model. That’s their job. If you keep your cool during this period, and of course never lie or hide the facts, then things will work out as they should.

Common Pitfalls

After all of this, building a business to sell might sound easy. But it’s not.

“Stopping yourself from accepting projects outside of your scalable product or service is the toughest part of creating a business that can thrive without you,” writes Warrillow. In fact, it’s the most common pitfall faced by tens of thousands of entrepreneurs.

“You will have customers asking for exceptions, and you will second guess yourself on more than one occasion,” he warns. “This is normal; you have to be strong on this and resist the temptation. There is a point where the wind will start blowing the other way and your customers, employees, and stakeholders will finally realize that you’re serious about focusing on one thing. It takes time. It will happen, and when it does and you feel as if the boat has actually shifted, you will have sailed a long way toward creating a sellable company.”

Of course, at the end of the day, having made all of these tough changes within your business, you may very well decide not to sell to someone else.

That’s why Warrillow prefers to think of his Built to Sell model as more of an “options strategy,” as opposed to an “exit strategy.” The idea is to have as many choices in the future as possible. When you follow an options strategy you build systems and a
management team around you so you can

1. sell out and leave the business,

2. install a president and move into a chairman’s role, which is a kind of quasi-exit or

3. personally keep building your company until the day you die.

Conclusion

While the New York City advertising firm featured in Built to Sell is entirely fictional, the trials and tribulations of its imaginary owner, Alex Stapleton, are very real for many entrepreneurs across this country. There are approximately twenty-three million small businesses in the United States, and yet only a few hundred thousand are able to be sold each year. That means for every small business owner who may be looking, for whatever reason, to cash-out and move on to the next thing, there are about a hundred businesses that simply will not sell, no matter what.

Built to Sell provides an actionable framework for ensuring that you can be among that fortunate one percent. Because even if you may not be seriously thinking about selling your business right now, you might sleep a bit better at night knowing that you could sell if you needed to.