12 mistakes Made by Funeral Home Sellers

by: Jeff Boutwell, President-NewBridge Group

Selling a funeral home is a time-consuming and emotional project. It requires careful planning, experienced advisors, knowledge of the industry, and an understanding of the negotiation process. Many funeral home owners try to sell their business without professional assistance resulting in multiple mistakes that reduce proceeds to the owner, or create seller's remorse in the years after the sale.

The following is a list of common mistakes made by business owners that attempt to sell themselves:

1. Not having an appropriate Confidentiality Agreement. Before providing a potential buyer with information on your business, make sure you have a signed agreement where the potential buyer agrees to not disclose your information to anyone other than the people helping him review the opportunity. A well-drafted confidentiality agreement is essential to protect the privacy of your information, particularly when the potential buyer is also a competitor. This agreement should also prohibit the buyer from soliciting any employees of the seller if a deal is not consummated, for a period of time.

2. Not having a well prepared presentation of the business. Sellers often just hand over copies of financials and other requested information and ask a buyer to make an offer. This is almost always the worst approach you can take. Remember the old adage that "first impressions count"? It's much better to have a professionally prepared presentation that includes all the summary information that a buyer would need to make an offer. This should include information on the historical profitability of the company, as well as a projections showing the adjusted profit of the business if it were operated to run as efficiently as possible. Put some thought into about what adjustments could reasonably be made so that profits would be slightly higher than the prior years. But be careful, however, about presenting unreasonable projections that would adversely affect your credibility by being overly optimistic. It's much more believable if you can show data to back up the adjustments and also have a knowledge of industry standards for what's realistic for each expense category. Expect to have questions about the projections, but if they're realistic then a buyer should be willing to pay for some of these enhancements to profitability.

3. Not financially qualifying a potential buyer prior to entering discussions with him. As an active industry M&A consultant, we get calls almost daily of people wanting to buy a funeral home. The majority of these individuals, unfortunately, don't pass our initial standards for actually being able to purchase a business. Companies are easier to research because they may already own other funeral home locations. But individuals should be required to fill out a personal financial statement and provide additional documentation if requested detailing their source of funds to complete the purchase.

4. Having an inadequate understanding of the market. A well-informed seller will have a deep understanding of the business transaction landscape. You should know who the potential buyers are, what the different "personalities" are of each potential buying company and a basic understanding of how they will value your business. To avoid having unrealistic selling price expectations, the seller needs to understand how other similar businesses are being valued in the marketplace. If your competitors have sold for X multiple of earnings or revenue, you will need a compelling rationale why you should be valued much higher.

5. Negotiating a price and structure without regard

to tax considerations. The tax structuring implications of a sale can have a significant impact on the net economic return to the owner. How much should you allocate to each asset class? What percentage should be paid in a non-compete vs consulting agreement? Should any of the purchase price be allocated to goodwill? You need to know the right questions to ask and the right answers.

6. Not understanding the negotiation dynamics. All M&A negotiations require a number of compromises. Going into negotiations expecting to win every point will almost always ensure that you end up with no deal and thereby will lose every point. A successful negotiation process is like any relationship, it requires give and take and both parties need to remain flexible to find solutions to challenges rather than demanding to have their way. Maybe you give in on a non-financial term in exchange for winning a point on price, or vice versa.

7. Neglecting the day-to-day operation of the business during the M&A process. The process of exploring a sale of a company can be distracting and time consuming. And a business owner you need to keep the daily operations running smoothly. If a sale isn't consummated you don't want to come back and realize the business was neglected. And you definitely don't want operational problems to arise during the negotiations or due diligence with a buyer.

8. Focusing on the total sale price rather than the many intangibles. As a broker to the industry, I've advised hundreds of funeral home owners as they've gone through the process of selling their business. As I follow up with these former owners in the years after their sale, I have never heard a former owner say they wish they'd demanded more money from the buyer. But I've heard several say they wish they'd learned more about the buyer before selling. If you've owned your funeral home for years then its likely a real part of your family now. So who the new owner is and how they are going to treat your business and the families they serve should be as important as anything when you're negotiating with potential buyers. Sometimes the best buyer isn't the one offering the highest price.

9. Allowing a third party interfere with something you want to do. If you're the owner of the business, you should be able to make the decision about when to sell it and under what structure. But many owners will succumb to guilt from a family member that doesn't want them to sell. Some owners will allow an overzealous attorney or accountant to kill the deal rather than look for ways to help you achieve the owners goal of finding a reasonable and fair transaction. Everyone involved has their own motives and sometimes an account or attorney just doesn't want to lose you as a client, so they don't have the same motivation as the owner in wanting to see a sale occur. Allowing these third party individuals to kill the sale happens too often. So you need to communicate to everyone your desire to complete the transaction and that you only want their advice if they're going to help move toward that goal.

10. Failing to negotiate and agree upon a favorable sale agreement. One key to a successful sale of a company is having a well-drafted acquisition agreement protecting the seller as much as possible. Here are some of the key provisions included in the acquisition agreement:

- The conditions to closing (you may want a financing contingency that expires after a few weeks so if the buyer can't prove funding pretty quickly then you're not bound to the agreement).
- The adjustments to the price (a seller will want to avoid formulas that adjust the sale price downward).
- The nature of the representations and warranties (a seller wants these qualified to the greatest extent possible with materiality and knowledge qualifiers).
- The scope of and exclusions to the indemnity (baskets, caps, carve outs from the indemnity all being important issues).
- A timeline for closing that's fair to the buyer, but also doesn't string along a seller if the buyer doesn't work quickly to close the transaction.
- Provisions for termination of the acquisition agreement

11. Not understanding that time is the enemy of all deals. The longer negotiations drag on, the higher the likelihood the deal will not happen or the terms will get worse. The seller and the seller's lawyer must have a sense of urgency in getting things done, responding to due diligence requests, turning around markups of documents. It is also essential that one seller representative is delegated authority to make quick decisions on negotiating issues so that the deal momentum can be maintained.

12. Not having an experienced M&A advisor

lead the process. An experienced M&A Advisor or Business Broker should be able to lead you through the process of solidifying a sale and avoid all the mistakes listed here. You'll want someone who has worked in the funeral industry for multiple years and has closed transactions with all the different types of individual buyers, regional buyers or public buyers. An experienced advisor will help with the following:

- Prepare an executive summary and confidential presentation on your business that shows the business operating at its highest potential.
- Prequalify potential buyers before ever showing any information to them.
- Provide information on comparable valuations of other similar businesses.
- Identify the potential buyers that likely would pay the highest price.
- Manage all prospective buyer communication.
- Coordinating meetings with potential buyers.
- Assist each buyer in their analysis and potential financing.
- Assist you in reviewing all offers to determine which best fits your needs.
- Negotiate letter of intent so that you receive the highest possible price with full consideration of the tax liability.
- Assist attorneys with final documentation preparation.

As an M&A Advisor to the funeral industry for more than 20 years, NewBridge Group has represented more than 300 funeral homes in their successful sale of their businesses.

Jeff Boutwell, President, has worked as a merger and acquisition consultant solely focused on the funeral industry for more than 20 years. Having been involved in more than 400 transactions, Jeff's experience negotiating with public and private buyers of funeral homes has given him an unparalleled knowledge of the industry and best methods to increase the values of funeral home businesses. Contact Jeff at jeff@newbridgegroup.com.