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BOOK REPORT

Selling Your IT Business: Valuation, Finding the Right Buyer, and Negotiating the Deal
 by Robert J. Chalfin
 Wiley, 2006

April 10, 2006

If you need to sell an IT enterprise, you need Robert Chalfin's concise reference book. His advice is practical and sound, and his CPA background is a bonus here, as is his experience gleaned from lecturing at the Wharton School.

The book begins with a discussion of the attributes that buyers seek in a business, types of buyers you would want to sell to, the right reasons for selling, and most important, timing.

The accounting and finance issues covered in Chalfin's book are basic. Need to get a performance measurement of your business? Calculate any number of financial ratios (e.g., working capital, ROI, ROA, software revenues, and service revenues—the last two are IT related). Tedious aspects of selling a business covered here include closing out the books, accurate stock appraisal, a comparative balance sheet that reflects two or more years of information prior to the sale, and an accurate P&L that reflects a good number of years prior to the sale. Some of the heady legal aspects of a sale would be better offered to a CPA, business advisor, or lawyer, as Chalfin recommends.

In the end this book is a wonderful surprise for any entrepreneur whose eyes may otherwise glaze over at such details as discounted cash flows and fair market value. Chalfin ends with a chapter titled "After the Sale." His advice: Prepare to work at the former business for a while, perhaps less than eighteen months. Although that may seem an odd arrangement when you have sold a business, it's a normal part of the process, he writes.

Chalfin is President of The Chalfin Group, Inc., a strategic planning and advisory services business.

- Sara Grant

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How to sell your software firm.

There's a new book out that's perfect for anyone looking to sell their software firm.

"Selling Your IT Business: Valuation, Finding the Right Buyer, and Negotiating the Deal" is jam-packed with useful advice from someone who really knows his stuff.

Author Robert Chalfin is both a CPA and attorney, and a long-time lecturer at the Wharton School of the University of Pennsylvania.

Through his company [The Chalfin Group Inc.](#), he's helped many entrepreneurs navigate the shark-infested waters of buying or selling a business.

In a measured tone, his book covers all the greatest hits of the process:

- the main types of buyers, and their motivations,
- what to put in your selling memo (hint: use a concise excerpt from your business plan),
- dealing with your employees,
- dealing with your board,
- confidentiality and due diligence, and
- a detailed discussion on valuing your business.

Anyone with a limited background in finance will appreciate the chapter on financial metrics, with crisp definitions for dozens of terms you'll hear during any M&A.

Case studies and sample forms are peppered throughout.

There's a line-by-line analysis of the seller's typical representations and warranties, and a nine-page annotated list of online resources. This concise bundle of helpful information would be a valuable addition to any software CEO's desk.

With all this practical advice in one place, here's a suggestion: Even if you're *not* thinking about selling your software business soon, pick up this book anyway.

Study it for lessons on how to run an effective software firm today. The stronger your business is now, the easier any future sale will be.

How to increase your yield from downloads or trial CDs.

Getting a lot of downloads, but not many sales from them?

Here's how to increase your harvest from software downloads or free trials, courtesy of B2B sales trainer Steve Kraner of [Topline Solutions](#).

"A top telesales rep told me the other day of his simple plan to maximize the value of leads from software downloads," says Kraner.

[continued »](#)



Next Class

Getting the Analyst's Attention

Instructor:

Stephen England

March 9, 2006

9am Pacific, noon

Eastern

What the class will cover:

- How the analysts wield their influence
- How to detect and quantify analysts in the deal
- How to measure competitive impact of analysts
- How to build an effective AR campaign
- How to integrate AR into your overall marketing and sales plans to maximize your sales
- 5 "do" and 5 "don't" tips (with software company case study examples)
- How to find out which analysts cover you

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Says Weissman, "Understand your motives for selling and what you want to achieve. Pay attention to market factors and how they could impact your sale. Build value and second-tier management, watch margins, diversify your business and be realistic and knowledgeable about your company's worth."

She continues, "Rely on your advisors – but take the time to go elsewhere for an objective valuation of your company's worth. Have account-

ant-prepared financials ready for distribution before moving ahead."

Iorio had good advice as well. "Prepare your company for a sale – whether it's this year or 5 to 10 years from now. Get your financial reporting in order. One thing that almost every buyer of a contract or temporary staffing company looks at is the seller's gross margin. I continue to be amazed that so few staffing companies (at least at this smaller level)

structure their income statements on a gross margin basis (perhaps, more amazed that their accountants don't insist upon it.)"

Doing the right things not only is good business but also will help with a sell. Says Sacco, "Make sure your internal house is in order, maintain clean records, no lawsuits, tighten up margins, solidify customer and staff relationships and sell into an up market."

Geyer agrees: "Before introducing your company for sale you need to 'Paint the Store,'" he says. "By this, I mean structure your company so as to be able to present it in the best possible light to a buyer and thus maximize value."

McFaddin adds, "Profitability is key. There is no longer a focus on out-of-control growth at the expense of income. Also, make sure your management team is solid. Make sure your expectations in terms of valuation and structure are in line with the market. Buyers may walk away from sellers who are unreasonable and may not come back around, even with lowered expectations."

Timing

For those owners agonizing over the exact right moment to sell, these veterans stress that that should not be a primary consideration.

Says Iorio, "It's good advice for any business owner – not just staffing company owners. Don't try to time your sale for the peak – it won't happen. Even more important, understand that the buyer is looking for continued, upward movement or at a minimum – stability. The staffing industry is cyclical – very susceptible to the downturns in the economy. Over the last year and a half,

New Book, Selling Your IT Firm, Out Now

For IT staffing firms who might be considering selling, a new book is aimed at their segment. "Selling Your IT Business: Valuation, Finding the Right Buyer, and Negotiating the Deal," has advice, metrics, and case studies and should serve as a great manual or reference for those owners in the IT space.

Author Robert Chalfin is both a CPA and an attorney, and a veteran lecturer at the Wharton School of the University of Pennsylvania.

For those owners who have a limited background in finance, one chapter is devoted entirely to financial metrics, definitions included.

In an interview, Chalfin said he wrote the book (released just this last January) because he saw a big need for this information in today's market. Regardless of intent to sell, he says, many owners

just want to know how much their business is worth.

He says that selling for IT firms and staffing firms is different than in some areas. For example, in more traditional businesses, the owner may sell in a more chronological way – like when they turn 65. But with the peaks, valleys, burnouts and economic stresses in our segment, owners may not know when they will sell. For this reason, it is imperative that an owner has a compass to figure out if his business is going up or down. Chalfin says the metrics and benchmarks in his book will help the owner do exactly that.

Selling Your IT Business: Valuation, Finding the Right Buyer, and Negotiating the Deal, by Robert J. Chalfin, published by John Wiley & Sons, Inc., is available at most bookstores and Amazon. s