12 Myths About Public Relations Firms Being Acquired

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Whether you're actively considering the sale of your public relations firm, or it's just a vague idea that's been percolating at the back of your mind for a while, it's important to have realistic expectations before pursuing a deal in earnest. Because delusional beliefs about the acquisition process can occasionally preclude the most opportunistic of transactions, separating fact from fiction is a prerequisite. Following are 12 of the most common misperceptions that PR firm CEOs hold about selling their companies.

1. **MYTH:** I'll lose all my autonomy.

TRUTH: You'll actually have a big say in what happens during and after the integration of your firm into the buyer's organization. In fact, the success of the deal depends on it. Of course, your role will substantially change, but remember that the buyer is not only purchasing your firm, but also your accumulated wisdom. Your opinion matters.

2. **MYTH:** My firm will remain as a silo within the buyer's firm.

TRUTH: It's certainly possible that a buyer will elect to preserve your practice as a wholly-owned, standalone operation. However, in our 13 years of advising both buyers and sellers of PR firms in a mergers & acquisitions capacity, we can confidently say it's much more likely that your firm is being purchased as a strategic investment by the buyer because of everything it brings to the table, thus complementing the buyer's firm. However, the onus is always on the seller to make his or her expectations crystal clear to the buyer – both verbally and in writing – at the outset of the transaction to ensure a true "meeting of the minds." This could potentially involve interviewing past CEOs of other PR firms acquired by the buyer.

3. MYTH: I'm better off waiting to sell until my firm reaches $X in revenue.

TRUTH: History proves that there is no magic number required for a successful transaction. Whether your annual revenues are $300,000 or $40 million, buyers are looking for PR firms that complement their organization strategically, not only monetarily. And even if you were to pick some specific revenue goal as a prerequisite for a sale, you may never get there on your own. Make an honest assessment of your chances of reaching your peak revenue as compared to how those chances might improve with the help and added resources of the right buyer.

4. MYTH: My firm would need to be twice as big as it is now before anybody would be interested in buying it.

TRUTH: Even through organic growth and diligent new-business initiatives, as referenced in Myth 3, not every PR firm CEO possesses the innate business acumen to grow a firm 15-20% or more every year. Billings must grow for revenues to grow, and staffing growth is contingent upon those revenues. So waiting five, seven or 10 years to reach some hypothetical “critical mass” could be wishful thinking at best, and you might miss out on a terrific, once-in-a-blue-moon opportunity to sell to the right buyer based upon the realities of your business right now.

5. MYTH: If I sell my firm, my clients will leave me.

TRUTH: In reality, most clients are generally supportive of mergers – provided that you’re honest with them about your motivations, and that you can assure them that they’ll continue to receive the same high level of service they’ve come to expect from you. Of course, there are few guarantees in life, and some client attrition is a natural part of any service business, but you shouldn’t let that concern become an insurmountable obstacle to pursuing a sale of your firm.

6. MYTH: After I sell, I’ll be stuck at the buyer’s firm forever.

TRUTH: With apologies to the legendary N.W. Ayer & Son ad agency that once handled the De Beers diamond account: Nothing is forever. Your contract will be very specific about upholding your obligation to fulfill a finite tenure at the buyer’s firm in order to receive your full earnout from the sale. A period of 3 or 4 years is fairly common – hardly an eternity.

7. MYTH: A buyer will always pay the asking price for my firm.

TRUTH: Buyers know the marketplace like the backs of their hands, and it’s the marketplace itself that dictates the selling price, not some supposed valuation prepared by you or your CPA. Unlike the real estate industry, "bidding wars" rarely happen in the PR business, and a seller who remains unrealistically firm on price based on some "accounting trick" valuation strategies may find his or her firm being repeatedly bypassed by potential buyers.

8. **MYTH:** After being my own boss for so many years, I could never report to someone else again.

TRUTH: Following a sale or merger, the success of the combined firm is one based on personal chemistry between buyer and seller. Many sellers have enjoyed rewarding careers after resuming the role of employee in the buyer's firm. To put it in other words: In the sale of your business, your reputation is at stake as much as the buyer's is, and you simply wouldn't enter into a business transaction of such magnitude with people you didn't like. You should only begin a relationship with a buyer who feels that he or she has as much to learn from you as you do from him or her.

9. **MYTH:** I'm a serial entrepreneur at heart. Once the sale of my firm closes, I'll just start another PR firm.

TRUTH: Not so fast. Your contract will invariably include a non-compete clause that prohibits you from competing directly with the buyer's firm for a specified period of time, sometimes extending beyond the three- to five-year window required to achieve a full earnout. So maybe think about becoming a restaurateur in New Orleans or perfecting your fly-fishing technique in Idaho instead – just don't plan on founding another PR firm for a while if you plan to leave the buyer's agency when your contract expires.

10. **MYTH:** I don't have to worry about my senior-level people.

TRUTH: Never forget that to a buyer, your firm's key assets are its client roster and its management team. A buyer will want some assurance that your senior-level managers are on board with the sale, and that you've done everything possible to keep them happy, motivated and fulfilled. It's not uncommon for a seller to incorporate compensation guarantees for certain key performers into the sale agreement as a retention incentive. And it's equally common for a buyer to want to continue to compensate and reward top performers in the same way that you did.

11. **MYTH:** We've got decent billings, but my firm isn't profitable enough to attract a potential buyer.

TRUTH: Profit is not the highest-ranking criterion for a successful acquisition. It's much further down on the list. Of course, any successful for-profit company must be able to demonstrate a consistent track record of profitability to remain in business and to attract a buyer. But specifically with regard to PR firms, the actual profit margin is less important than other critical factors such as strategic synergy, client roster, and the quality of your management team.

12. **MYTH:** Everything will work out perfectly to my advantage. After all, I have a signed contract!

TRUTH: We're all familiar with the meaning of the Latin term *caveat emptor*. But few of us are as familiar with opposite side of the transaction: *caveat venditor*. Before consummating a deal to sell your PR firm, it's imperative that you make sure that the buyer has the financial resources needed to honor the terms of your compensation agreement – both the initial up-front payment at closing and the full earnout structure contingent upon reaching specific profit benchmarks. Your mutual-fund broker is required by law to tell you that past performance does not necessarily predict future results, but the buyer of your PR firm? No

Like most PR firm CEOs, you've undoubtedly poured your heart and soul into your business, and the decision to relinquish ownership of it is not one to be made hastily. And if you’ve never sold a business before, having a trusted advisor at your side throughout the process can be invaluable. When it comes to reaping maximum rewards from all that you’ve invested in your company over the years, always remember that an educated seller is a wise seller. Don’t allow erroneous preconceived notions to thwart you from reaching the next stage of your professional life.

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