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Three secrets to setting up advisory boards

By John Warrillow

A hidden advantage for business owners is the ability to play good-cop, bad-cop with a potential buyer

An advisory board can be a great asset in building a sellable company.

Pick advisers who have been involved in business transactions before, and they will guide you through the process, point out what drags down your valuation, and challenge you to build something sellable.

One hidden advantage of an advisory board is the ability to play good-cop, bad-cop with a potential acquirer.

For example, you could tell an acquirer that your board:

- Needs to meet to consider the offer, which buys you more time to drum up competitive bids;
- Is concerned the offer is too low;
- Is counselling you against accepting certain conditions in the offer.

This allows you to be the good cop in the negotiation process, ensuring you can have a positive working relationship with an acquirer post-sale.

Ron Dersch of Edmonton-based DAI Capital Advisors agrees. Mr. Dersch's firm represents both buyers and sellers and he believes an advisory board can be an important asset in the sale of a company. Mr. Dersch provided his secrets for setting up a board:

1. Pick the right people. "Select members who will complement weak spots on your management team and are willing to challenge you."
2. Shut up and listen. "Smart entrepreneurs listen to their advisory board. It's a different dynamic than a management team meeting, where you can debate the issues. In an advisory board meeting, you should do most of the listening."
3. Pay them. "If you don't pay them, you won't have engaged advisers. Too many entrepreneurs think advisers will come out of the goodness of their heart, and that's a mistake. Pay for their time, and both you and your advisers will take the meetings a lot more seriously."

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John Warrillow is the author of Built To Sell: Turn Your Business Into One You Can Sell. Throughout his career as an entrepreneur, Mr. Warrillow has started and exited four companies. Most recently he transformed Warrillow & Co. from a boutique consultancy into a recurring revenue model subscription business, which he sold to The Corporate

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