Selling Tutorial

Is it time to sell? Selling your business is a major decision! You have devoted your time, money, and energy to building, running, and operating your business. It may well represent your life's work. You may have already decided that now is the right time to sell, and you want the very best professional guidance you can get. This is when working in tandem with a professional business broker can make the difference between just getting rid of the business and selling it for the very best price and terms!

Following are some of the most common topics and questions frequently brought up by sellers.

Are You Ready to Exit?

If you've gone this far, then selling your business has aroused enough curiosity that you are taking the first step. You don't have to make a commitment at this point; you are just getting informed about what is necessary to successfully sell your business. This section should answer a lot of your questions and help you through the maze of the process itself.

Question 1

The first question almost every seller asks is: "What is my business worth?" Quite frankly, if we were selling our business, that is the first thing we would want to know. However, we're going to put this very important issue off for a bit and cover some of the things you need to know before you get to that point. Before you ask that question, you have to be ready to sell for what the market is willing to pay. If money is the only reason you want to sell, then you're not really ready to sell.

Insider Tip

It doesn't make any difference what you think your business is worth, or what you want for it. It also doesn't make any difference what your accountant, banker, attorney, or best friend thinks your business is worth. Only the marketplace can decide what its value is.

Question 2

The second question you have to consider is: “Do you really want to sell this business?” If you're really serious and have a solid reason(s) why you want to sell, it will most likely happen. You can increase your chances of selling if you can answer yes to the second question: “Do you have reasonable expectations?” The yes answer to these two questions means you are serious about selling.

The First Steps

Okay, let's assume that you have decided to at least take the first few steps to actually selling your business. Before you even think about placing your business for sale there are some things you should do first. The first thing you have to do is to gather information about the business.

Here's a checklist of the items you should get together:

- Three years' profit and loss statements
- Federal Income Tax returns for the business
- List of fixtures and equipment
- The lease and lease-related documents
- A list of the loans against the business (amounts and payment schedule)
- Copies of any equipment leases
- A copy of the franchise agreement, if applicable
- An approximate amount of the inventory on hand, if applicable
- The names of any outside advisors

Notes

If you're like many small business owners, you'll have to search for some of these items. After you gather all of the above items, you should spend some time updating the information and filling in the blanks. You most likely have forgotten much of this information, so it's a good idea to really take a hard look at all of this. Have all of the above put in a neat, orderly format as if you were going to present it to a prospective purchaser. Everything starts with this information.

Make sure the financial statements of the business are current and as accurate as you can get them. If you're half way through the current year, make sure you have last year's figures and tax returns, and also year-to-date figures. Make all of your financial statements presentable. It will pay in the long run to get outside professional help, if necessary, to put the statements in order. You want to present the business well "on paper". As you will see later, pricing a small business is usually based on cash flow. This includes the profit of the business, as well as the owner's salary and benefits, the depreciation, and other non-cash items. So don't panic because the bottom line isn't what you think it should be. By the time all of the appropriate figures are added to the bottom line, the cash flow may look pretty good.

Prospective buyers eventually want to review your financial figures. A Balance Sheet is not normally necessary unless the sale price of your business would be well over the $1 million figure. Buyers want to see income and expenses. They want to know if they can make the payments on the business (more on this later) and still make a living. Let's face it, if your business is not making a living wage for someone, it probably can't be sold. You may be able to find a buyer who is willing to take the risk, or an experienced industry professional who only looks for location, etc. and feels that he or she can increase business.

Insider Tip

The big question is not really how much your business will sell for, but how much of it can you keep?. The Federal Tax Laws do determine how much money you will actually be able to put in the bank. How your business is legally formed can be important in determining your tax status when selling your business. For example: Is your business a corporation, partnership or proprietorship? If you are incorporated, is the business a C corporation or a sub-chapter S corporation? There are some tax rules, effective January 1, 2000, that impact certain businesses on seller financing. The point of all of this is that before you consider price or even selling your business, it is important that you discuss the tax implications of a sale of your business with a tax advisor. You don't want to be in the middle of a transaction with a solid buyer and discover that the tax implications of the sale are going to net you much less than you had figured.

Who is the Buyer?

Buyers buy businesses for many of the same reasons that sellers sell businesses. It is important that the buyer is as serious as the seller when it comes time to purchase a business. If the buyer is not serious, the sale will never close. Here are just a few of the reasons that buyers buy businesses:

- Laid-off, fired, being transferred (or about to be any of these)
- Early retirement (forced or not)
- Job dissatisfaction
- Desire for more control over their lives
- Desire to do his or her own thing

A Buyer Profile

Here is a look at the make-up of the average individual buyer looking to replace a lost job or wanting to get out of an uncomfortable job situation. The chances are he is a male (however, more and more women are going into business for themselves, so this is rapidly changing). Almost 50 percent will have less than $100,000 in which to invest in the purchase of a business. In many cases the funds, or part of them, will come from personal savings followed by financial assistance from family members. The buyer will never have owned a business before, and most likely will buy a business he or she had never considered until being introduced to it.

Their primary reason for going into business is to get out of their present situation, be it unemployment or job disagreement (or discouragement). The prospective buyer wants to do their own thing, be in charge of their own destiny, and they don't want to work for anyone. Money is important, but it's not at the top of the list; in fact, it probably is in fourth or fifth place in the overall list. In order to pursue the dream of owning one's own business, the buyer must be able to make that "leap of faith" necessary to take the risk of purchasing and operating their own business.

Buyers who want to go into business strictly for the money usually are not realistic buyers for small businesses. Keep in mind the following traits of a willing buyer:

- The desire to buy a business
- The need and urgency to buy a business
- The financial resources
- The ability to make his or her own decisions
- Reasonable expectations of what business ownership can do for him or her

What Do Buyers Want to Know?

This may be a bit premature since you may not have decided to sell, but it may help in your decision making process to understand not only who the buyer is, but also what he or she will want to know in order to buy your business. Here are some questions that you might be asked - and, should be prepared to answer:

- How much money is required to buy the business?
- What is the annual increase in sales?
- How much is the inventory?
- What is the debt?
- Will the seller train and stay on for a while?
- What makes the business different/special/unique?
- What further defines the product or service? Bid work? Repeat business?
- What can be done to grow the business?
- What can the buyer do to add value?
- What is the profit picture in bad times as well as good?

A Few Things to Consider

Buyers Want Cash Flow

The first thing to keep in mind is that the vast majority of buyers want to buy cash flow. Sit down with your accountant or bookkeeper and begin to get your financial statements in order, with cash flow the order of business. Cash flow is not the same thing as profit. Most buyers look at the profit and loss statement or tax return, as well as owner or family compensation.They will consider any excess compensation to employees and family. Buyers will also look at large, one-time expenses such as a new computer system or remodeling. They will consider non-cash items like depreciation and amortization. Interest expenses will be reviewed, as will owner prerequisites. These are items that a professional business broker considers when advising a selling client on a selling price.

Insider Tip

What about the Internet? The Internet is a real "buzz" word - and if its use is appropriate for your business, then developing a web site is important not only to your on-going business, but also to a buyer. Many buyers are conscious of what the Internet is doing for many businesses. If you have a web site for your business, it could be a big plus.

Appearances Do Count

The time to replace that old worn-out piece of equipment is before you decide to sell. Don't assume that a new owner will want to do it or that the price will be slightly lower because you haven't replaced it. The time to "spiff up" the business is now, even if you aren't selling. Fix the sign, replace the carpet, paint the place - make it look good. Even if you're not selling, it's just plain good for business, and you never know when the time to sell occurs. Keep-in-mind that anything that increases sales also increases profits and the all-important cash flow!

Everything Has Value

There are other things that add value to your business. Don't discount the value of customer lists, proprietary products and/or techniques, well-maintained equipment, secret recipes, customized software programs, or good employees. These are termed "off-balance sheet items," and although not used in most pricing models, they add to value. Look at your business very carefully so you don't overlook those items that make your business more attractive to the buyer.

Eliminate the Surprises

Long before you put your business on the market eliminate the surprises! Review every facet of the business and remedy any problems that could appear during the sale process. No one likes surprises - most of all potential buyers. Whether legal, accounting, environmental, or anything else - solve it now.

Insider Tip

This may sound like something that should have been done when the business first started, so it may be "after-the-fact". You should create an operations manual. You may already have one, started one years ago, or simply, have thought of doing one. Now is the time. It may actually create added value to the business. Even if it doesn't, it will impress buyers that you have your business "act" together and should help you sell more quickly and effectively. Preparing a manual on how to operate your business can also be helpful even if you don't want to sell. It doesn't have to be elaborate, just cover the basics. A collection of ads that you have placed, a catalog or sample of products, publications, or menus (if the business is food related) is also impressive. Include anything to do with the business that might be helpful for a new owner. However, don't include anything that is proprietary, such as customer lists, suppliers or secret recipes, etc.

You Can Help!

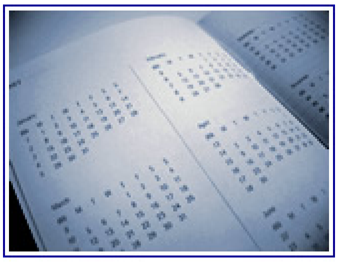
It might also be helpful if you took a good look at your business from the perspective of a buyer. Try to put yourself in the place of a prospective purchaser of the business. What would you do to make it more attractive or more saleable? Obviously, the financial records of your business are critical to the sale of your business, but how it looks is also important. First impressions really count! If a potential buyer doesn't like the appearance of your business, the rest of it may never get a chance.

You might want to check the following to see if any of them are applicable:

- Keep normal operating hours. There may be a tendency to "let down" when you put your business up for sale. However, it's important that prospective buyers see your business at its best.
- Repair signs, replace outside lights, etc. You don't want your business to look as if it has been neglected.
- Maintain inventory at a constant level. If you let your inventory slide, your business will look neglected. If anything, increase it so your business will look busy.
- Remove items that are not included in the sale and unnecessary items, especially if inoperative.
- Repair non-operating equipment or remove it if you are not using it.
- Tidy-up outside premises.
- Spruce-up the inside of the business.

Common Seller Questions

How long does it take to sell my business?



It generally takes, on average, between five to eight months to sell most businesses. Keep in mind that an average is just that. Some businesses will take longer to sell, while others will sell in a shorter period of time. The sooner you have all the information needed to begin the marketing process, the shorter the time period should be. It is also important that the business be priced properly right from the start. Some sellers, operating under the premise that they can always come down in price, overprice their business. This theory often "backfires," because buyers often will refuse to look at an overpriced business. It has been shown that the amount of the down payment may be the key ingredient to a quick sale. The lower the down payment, generally 40 percent of the asking price or less, the shorter the time to a successful sale. A reasonable down payment also tells a potential buyer that the seller has confidence in the business's ability to make the payments.

Why is seller financing so important to the sale of my business?

Surveys have shown that a seller who asks for all cash, receives on average only 70 percent of their asking price, while sellers who accept terms receive on average 86 percent of their asking price. That's a difference of 16 percent! In many cases, businesses that are listed for all cash just don't sell. With reasonable terms, however, the chances of selling increase dramatically and the time period from listing to sale greatly decreases. Most sellers are unaware of how much interest they can receive by financing the sale of their business. In some cases it can greatly increase the amount received. And, again, it tells the buyer that the seller has enough confidence that the business can, indeed, pay for itself.

What happens when there is a buyer for my business?

When a buyer is sufficiently interested in your business, he or she will, or should, submit an offer in writing. This offer or proposal may have one or more contingencies. Usually, they concern a detailed review of your financial records and may also include a review of your lease arrangements, franchise agreement (if there is one), or other pertinent details of the business. You may accept the terms of the offer or you may make a counter-proposal. You should understand, however, that if you do not accept the buyer's proposal, the buyer can withdraw it at any time.

At first review, you may not be pleased with a particular offer; however, it is important to look at it carefully. It may be lacking in some areas, but it might also have some pluses to seriously consider. There is an old adage that says, "The first offer is generally the best one the seller will receive." This does not mean that you should accept the first, or any offer -- just that all offers should be looked at carefully.

When you and the buyer are in agreement, both of you should work to satisfy and remove the contingencies in the offer. It is important that you cooperate fully in this process. You don't want the buyer to think that you are hiding anything. The buyer may, at this point, bring in outside advisors to help them review the information. When all the conditions have been met, final papers will be drawn and signed. Once the closing has been completed, money will be distributed and the new owner will take possession of the business.

What can I do to help sell my business?

A buyer will want up-to-date financial information. If you use accountants, you can work with them on making current information available. If you are using an attorney, make sure they are familiar with the business closing process and the laws of your particular state. You might also ask if their schedule will allow them to participate in the closing on very short notice. If you and the buyer want to close the sale quickly, usually within a few weeks, unless there is an alcohol or other license involved that might delay things, you don't want to wait until the attorney can make the time to prepare the documents or attend the closing. Time is of the essence in any business sale transaction. The failure to close on schedule permits the buyer to reconsider or make changes in the original proposal.

What can business brokers do - and, what can't they do?

Business brokers are the professionals who will facilitate the successful sale of your business. It is important that you understand just what a professional business broker can do -- as well as what they can't. They can help you decide how to price your business and how to structure the sale so it makes sense for everyone -- you and the buyer. They can find the right buyer for your business, work with you and the buyer in negotiating and every other step of the way until the transaction is successfully closed. They can also help the buyer in all the details of the business buying process.

A business broker is not, however, a magician who can sell an overpriced business. Most businesses are saleable if priced and structured properly. You should understand that only the marketplace can determine what a business will sell for. The amount of the down payment you are willing to accept, along with the terms of the seller financing, can greatly influence not only the ultimate selling price, but also the success of the sale itself.