BABM
BAY AREA BUSINESS MAGAZINE

September 2008

Planning to Sell Your Business?
First Look in the Rear View Mirror

By Dan Maloney CPA CFP CM&AA

Business Intermediaries often quote an estimate that, at any given time, approximately 20% of businesses are for sale. As consumers, we may doubt that statistic since we continually patronize the same shops year after year. However, consider another statistic, this time from the Small Business Administration. The SBA estimates that *80% of privately owned businesses are not able to be sold*. WOW, with those statistics in mind, maybe the entrepreneurial dream can turn into a nightmare when it's time for the entrepreneur to sell the business! If businesses aren't readily salable, it can quickly become a buyers' market. That's not good news for an anxious seller, but sellers can increase their odds for success. *Call to owners* - it's time for some proactive planning!!!

Sellers Look Through the Windshield. Buyers Look Through the Rearview Mirror.
To begin addressing the issue, a seller should ask, "Would I buy my own business?" If the seller originally acquired the business by purchase, he or she probably understands the significance of the question because she went through a due diligence investigation. However, if she started the business from scratch, she may need to step back and look critically at the first impressions the business may present. The past may be a predictor of the future.

Buyers may "Just Say No"
Most buyers are just as anxious to hang on to their investment dollars whenever a deal looks questionable as sellers are anxious to receive the sales proceeds. Potential buyers look for reasons to "just say no" and move on to the next prospect on their target list. The seller's job is to reduce the likelihood of hearing the no's, and to work to assure a favorable first impression that eliminates at least this first major no. Price is always a factor, but softer issues play the staring role in the business buying drama. Soft issues affect "value", and enterprise value is a major determinant of price.

Start with the easy issues.
Just as a homeowner would paint their house before listing it for sale, business sellers should spruce up the curb appeal of the business. If the building is owned by the business, consider painting it. Update or trim the landscaping. Repair any damaged or worn signage. If the business doesn't sparkle, the buyer may start his or her due diligence review knowing that extra working capital will be needed for deferred maintenance. Scrap any obsolete inventory and machinery if the units can't be sold. Don't expect the left over inventory to be a buyer benefit. Buyers won't pay for it and they will look at the disposal issue as a chore. Buyers want their new business to have some "pizzazz" when they show it off to friends and family.

Write It Down.
Document the company as much as possible. Make it easy for prospective purchasers to quickly grasp the company culture and the issues. Put contracts and important documents

in binders and index them. If the business's policies and procedures manual is lacking or needs updating, gather the pertinent documents and complete the task. An organization chart showing all key positions needed should be prepared. Prepare a list of key employees and offer some facts on their employment history. Flow chart the business sales processes from sales order acquisition through receipt of cash. If you don't have a detailed listing of machinery and fixed assets showing both book value and market value, prepare one. Any documents that may "eliminate the no's" are good candidates for inclusion in the binders. This process may take some time up front, but having documents readily available will ease due diligence and help the prospect come to a decision sooner.

Many business sellers initially become concerned about preparing and disclosing basic financial information and neglect assembling due diligence binders. They lose sight of the fact that reviewing financial information is only one aspect of the investigation process. If the buyer doesn't understand the business, the numbers won't have much meaning to them. Numbers alone won't eliminate the no's, but they may just cause them.

Focus on Running Your Business.

A side benefit of preparing the non-financial documentation is that, even if some of the gathered information isn't needed to show to a prospective buyer, just having assembled it will help in the continual management of the business. After all, if 80% of businesses do not readily sell, you'll need the information to continue to grow your business.

Selling a business is no easy task. It's difficult to focus on running your business while trying to sell your business. First look in the mirror!

*****

Daniel J. Maloney CPA CFP® CM&AA is the Founding Principal of Certified Acquisition Associates LLC, a business intermediary firm specializing in sales, mergers & acquisitions of successful privately-owned companies. If you have questions about preparing your business for sale, visit www.certifiedacquisitions.com or send a note to questions@certifiedacquisitions.com