Why am I Getting So Many Calls about Selling My Business?

By Dan Apple

Over the past couple of years, have you received many inquiries, especially from private equity firms, asking if you've considered selling your business? Private equity firms invest in companies and industries they believe have the potential for significant growth and profitability. The garage door industry fits this target perfectly.

Why me? There are so many small garage door businesses in our industry that could be "rolled up" into one large, more profitable business. PE firms call this "fragmentation" and see this as a great opportunity. Even without raising prices, there is inherent annual growth in the garage door business due to the ever-increasing demand for housing and commercial buildings. Repair, replacement and maintenance segments are attractive because they are recession resistant. Garage doors are essential for homes and businesses, even during recessionary times. This makes the cash flow in this industry less risky.

Should I talk to them? Have you given serious thought to selling your business? If so, a general discussion with an interested party is fine. Of course, revealing detailed financial information or future business plans should not be discussed without a non-disclosure agreement. However, if you have no interest in selling just tell them or ignore the inquiry altogether. While it is wise to use caution when responding to these type inquiries, it's important to know there are many solid private equity firms out there that could be the right fit for the sale of your business.

You need a plan. Like most important decisions about your business, it is best to have a plan before talking with potential buyers. Whether you plan to transfer to children, sell to employees or go to the open market, developing a good exit strategy helps tremendously. To start the planning, we suggest you explore these seven factors. A recent article on Investopedia.com identifies 7 steps that should be considered when establishing your plan of attack.

1. Identify the reason for the sale

You've decided to sell your business. Why? That's one of the first questions a potential buyer will ask. Owners commonly sell their businesses for any of the following reasons:

- Retirement
- Partnership disputes
- Illness or death
- Becoming overworked
- Boredom

Some owners consider selling the business when it is not profitable, but this can make it harder to attract buyers. Consider the business's ability to sell, its readiness, and your timing. There are many attributes that can make your business appear more attractive, including:

- Increasing profits
- Consistent income figures
- A strong customer base
- A major contract that spans several years

2. Decide on the timing of the sale

Timing is everything. And that includes the time it takes to get everything ready to sell your business. Prepare for the sale as early as possible, preferably a year or two ahead of time. The preparation will help you to improve your financial records, business structure, and customer base to make the business more profitable. These improvements will also ease the transition for the buyer and keep the business running smoothly.

3. Do a business valuation

Determine the value of your business to make sure you don't price it too high or too low. You can do this yourself or by hiring a business appraiser to get a valuation. If you hire an appraiser, they will draw up a detailed explanation of the business's worth. The document will bring credibility to the asking price and can serve as a gauge for your listing price.

4. Should you use a broker?

Selling the business yourself allows you to save money and avoid paying a broker's commission. It's also the best route when the sale is to a trusted family member or current employee. In other circumstances, a broker can help free up time for you to keep the business up and running or keep the sale quiet and get the highest price. That's because the broker will want to maximize their commission. Discuss expectations and advertisements with the broker and maintain constant communication.

5. Preparing documents

Gather your financial statements and tax returns dating back three to four years and review them with an accountant. In addition, develop a list of equipment that's being sold with the business. Create a list of contacts related to sales transactions and supplies, and dig up any relevant paperwork such as your current lease. Make copies of these documents to distribute to financially qualified potential buyers. Your information packet should also provide a summary describing how the business is conducted and/or an up-to-date operating manual. You'll also want to make sure the business is presentable. Any areas of the business or equipment that are broken or run down should be fixed or replaced prior to the sale.

6. Finding a buyer

A business sale may take anywhere from a few months to years. This includes the time you take to prepare all the way to the end of the sale, according to SCORE, a nonprofit association for entrepreneurs. Finding the right buyer can be a challenge. Try not to limit your advertising, and you'll attract more potential buyers. Once you have prospective buyers, here's how to keep the process moving along:

- Get two to three potential buyers just in case the initial deal falters.
- Stay in contact with potential buyers.
- Find out whether the potential buyer pre-qualifies for financing before giving out information about your business.
- If you plan to finance the sale, work out the details with an accountant or lawyer so you can reach an agreement with the buyer.
- Allow some room to negotiate but stand firm on a price that is reasonable and considers the company's future worth.
- Put any agreements in writing. The potential buyers should sign a nondisclosure/confidentiality agreement to protect your information.
- Try to get the signed purchase agreement into escrow.

You may encounter the following documents after the sale:

- The bill of sale, which transfers the business assets to the buyer
- An assignment of a lease
- A security agreement, which has a seller retain a lien on the business

7. Handling the profits

Devise a plan for what to do with the profits that you'll make from the sale of the business. The first instinct may be to go on a spending spree, but that probably isn't the wisest decision. Here are a few things you may want to consider:

- Take some time—at least a few months—before spending the profits from the sale.

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- Create a plan outlining your financial goals and learn about any tax consequences associated with the sudden wealth.
- Speak with a financial professional to determine how you want to invest the money and focus on long-term benefits, such as getting out of debt and saving for retirement.

Summary

Selling your business will be a tall task. It will take a big time commitment on your part and lots of planning and patience to succeed. That said, you've already done the most important thing – you've grown a successful garage door business that has real value. Through all the long hours, victories, failures and challenges you've managed to guide your company to profitability and good standing in your local marketplace. It's now only fitting to consider crossing the goal line, spiking the ball and doing your touchdown dance by cashing out.