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10 Things You Should Know About Selling Your Business

1.) Who are the buyers?

There are three primary groups of buyers:

Private equity groups: These are investment groups that buy private companies. The limited partners that invest in private equity groups include institutional investors and individuals of substantial net worth.

Strategic buyers: These are buyers with specific reasons for wanting to buy a company besides their return on investment. Strategic buyouts focus on how companies will fit together and how their anticipated synergies will enhance long-term earning power.

High net worth individuals: These individual "owner-operators" typically acquire and manage the companies themselves.

2.) What are buyers looking for?

The most important thing buyers look for in a business is a healthy income stream with consistent and predictable earnings and a strong outlook. Buyers want to see a steady or positive trend on earnings, regardless of industry or economic conditions.

3.) Why is confidentiality important?

Confidentiality must be the primary objective throughout the marketing process. If employees, vendors or competitors learn that a business is for sale, it could adversely affect the business and/or the transaction.

4.) How long does it take to sell a business?

Selling a business is a complex and difficult process that takes time. If marketed properly, most businesses will sell within four to twelve months between the initial time to market and closing.

5.) Is there an optimal time to sell my business?

Yes. The best time to sell a business is during a time of strong financial performance. If your industry is going through consolidation and strategic buyers are interested, it may be the best time to sell.

Timing the sale of your company with economic conditions can increase the value of your business. Debt markets can sway from conservative to aggressive and interest rates vary. Selling your business during a period with aggressive lending and lower interest rates allow buyers to leverage more debt and ultimately pay more.

6.) When should I begin preparing my business for sale?

Ideally, you should begin preparing your business for sale two to three years in advance. However, any preparation time is better than no preparation at all.

7.) What should I do to prepare my business for sale?

- Organize financial statements - Organize your company's financial statements so they are transparent and allow prospective buyers and lenders easy evaluation. Audited financial statements will provide further assurance to outside parties. Business owners should also reduce the number of "perk" expenses deducted through the company and eliminate non-operating assets from their balance sheets.
- Reduce dependencies - Many businesses are over-reliant on a single large customer or supplier, a key product line, a key employee or the owners themselves. These risks and dependencies decrease many companies' values. Try to build a "diversified portfolio" so your company provides several products and services for a wide base of customers and industries.
- Build infrastructure - A strong infrastructure will also decrease the company's dependency on the owner and/or key manager, which increases value. In other words, strive to make yourself redundant. Trained employees, modern equipment and effective systems for financial reporting, inventory and operations management are great starts.

8.) Why do some businesses never sell?

- Not priced properly - The primary reason why some small businesses do not sell is that they are overpriced. It is very important for business owners/sellers to establish a realistic and credible asking price for their business and to support it on a number of levels, including financial history and market comparables.
- Insufficient marketing - Sellers should be prepared to have their businesses confidentially marketed for a minimum of six months. The intermediary hired to market and sell your business should create a competitive environment where multiple buyers bid for the business.
- Commitment to the process - Business owners should be prepared to spend time with prospective buyers and provide sufficient (qualified) information throughout the sales process when requested. This is most important after a purchase contract has been signed and the buyer has begun the due diligence process.

9.) How can deal terms and structure affect me?

Generally, the better the terms offered (such as post-closing payments based on performance or seller financing), the higher the total transaction value. However, seriously evaluate these payment options because they bear significant risks. The deal structure (i.e. asset sale versus stock sale) will also influence the transaction price. Know that proper tax planning is essential in maximizing the net proceeds of a sale. Many business owners tend to focus too much on the gross proceeds (before taxes) of a sale rather than the net proceeds.

10.) What advisers should I consult with and what costs are involved?

Selling your business is a complex process and using the expertise of a professional intermediary, attorney and accountant is highly beneficial to you. It is important that you continue to focus time, energy and expertise on managing your company.

Professional intermediaries typically collect a fee after the sale of your company. Usually, the fee is a percentage of the selling price, usually starting at ten percent and decreasing based on the size of the deal. Some "seminar" intermediary firms charge large upfront fees ($29,500 to $45,000) after making extraordinary promises that are unrealizable. Reputable intermediaries earn the bulk of their fees after a sale.