

SELLING YOUR BUSINESS

Any number of reasons may prompt you to sell your business. Perhaps you are ready to retire. Maybe you are ready for new challenges. Whatever your reason, you will no doubt want the best possible deal.

Selling your business can be a lot of work. To begin with, you are probably already busy enough just running your business, and the process of selling it will add to your workload. Also, you may not find a prospective buyer immediately, and you may feel anxious while you wait. Furthermore, after you do locate a buyer, you will have many steps to complete before the sale occurs. And you may experience many ups and downs along the way. You can ease the pain and speed up the affair if you proceed in an organized fashion.

Plan For The Long Haul

Selling a business has four steps: locating a qualified buyer, negotiating the deal, allowing the buyer time to thoroughly investigate your business and to obtain financing, and closing. Just like people, every business is different. There is no standard amount time for closing a deal, and it may take quite a while. Your business may be in "limbo" from the day you decide to sell it until the day it is actually sold, and you may face some confusing decisions. For example, while your business is for sale, will you renew your Yellow Pages ad? Will you raise your prices? Will you give your employees raises? Will you enter new markets or leave old ones? Will you renew your lease or fix your roof? While your business is for sale, you will most likely face many decisions that may affect and be affected by the sale.

But, you ask, how long can your business be in limbo before it starts to run down? Which of your decisions can you put off, and for how long? The answer to these questions may help you set a deadline. If the business does not sell by that deadline, you might need to take it off the market for a while. If you go beyond your deadline, you might be selling under duress, and so might not get the best deal.

Assemble Your Team

To properly handle the sale, you should assemble your team of advisors. Your team should include an attorney, an accountant, and a broker. The attorney and the accountant should help you structure the transaction so

that you will obtain the most favorable tax result. The attorney can also make sure that all the necessary documents are prepared for your protection. The broker should help you find a buyer. The broker (perhaps with the help of your accountant and your attorney) can also help you determine a sales price.

Setting Your Sales Price

Your industry may have standard formulas you can use as a guideline to help you determine an average sales price. These may be based on a multiple of your net earnings. For example, your sales price might be the average amount you have taken from the business during the past five years multiplied by five. If, during the past five years, you took an average of \$100,000 from the business, an average sales price might be \$500,000.

An average price might also be based, at least in part, on the selling prices of businesses comparable to yours. However, every business is different, and the needs of sellers are different. There may be reasons why your business is worth more or less than the price suggested by a formula or by the sales of similar businesses.

Selling a business involves lots of negotiating, particularly regarding the price. Most buyers will not pay your initial asking price. You should have a high and low price in mind, and you should be prepared to accept less than your initial asking price.

Obviously, if your initial price is too high, you may have a hard time attracting buyers. On the other hand, buyers may suspect that too low an initial price indicates that your business has hidden problems. Setting too low a price, then, may also make it hard to sell your business. Instead, you need to find a reasonable price range. Your initial asking price should be at the top (or maybe just beyond the top) of that range.

To determine a reasonable price range, you should consider applicable formulas and prior sales of similar businesses. Then, you should identify all the unique characteristics of your business. These could include attributes such as your customer base, your location, your cash flow, your profit margin, your particular goods or services, the talent of your employees, your equipment, or your inventory. These characteristics might justify a higher than average price or might indicate that a lower than average price is in order.

Once you have settled on a price range, unless you have to sell at any price, you should ask yourself whether you really want to sell your business within that range. If the answer is no, you should take your business off the market until you have built it up so that it is worth more.

Financing The Sale

Most buyers will need to finance part of the purchase price. Sellers often provide part of the financing by accepting some of the payments in installments over time. If at all possible, you should avoid financing the sale because you are taking on the risk that the buyer will not pay you.

Assemble Your Paperwork

To sell your business, you and your broker will need to persuade a buyer that your business is worth owning even though you want to sell it. Before you start seeking buyers, you should succinctly describe in writing all the positive aspects of your business that you identified when setting your price range. This writing will help prospective buyers distinguish your business from others they might be considering.

At some point, buyers will want to examine your financial records. You should make sure that these are all current and complete. Otherwise, a buyer might have the impression that your business is disorganized and is therefore less attractive. Also, the ultimate sale of your business may be delayed if you are scrambling to assemble your paperwork.

Investigate Your Buyer

You do not want to waste time with prospective buyers who have no realistic ability to buy or operate your business. If someone expresses a serious interest in your business, you should investigate their past and present business experience and their financial worth with the help of your attorney and your accountant. You should ask for potential buyers' financial statements and tax returns. If buyers are already operating a business, you should visit their work place, and you should "talk shop" with them to make sure that they really understand your particular industry and that they are prepared to assume the greater responsibilities that will arise if they buy your business. Because buyers almost always borrow some of the purchase price, you should also speak with their bankers to find out whether they are credit-worthy.

Prepare To Negotiate

The real "fun" starts after a prospective buyer has examined your initial paperwork and after you have qualified your buyer. This is probably when you and the buyer, with your attorneys, will start serious negotiations regarding the purchase price and all the other terms and conditions of the sale. In an effort to obtain the lowest price, buyers may make unflattering remarks about your business. There may be lots of contentious arguing. It may sometimes seem as if the buyer is totally inflexible, unfair, and unrealistic. You may see several drafts of lengthy contracts. The negotiations may seem endless. You may need to change your mind about certain aspects of the deal, and you may find that your goals have changed with the circumstances. Try to understand that all of this is part of the process, and try not to take it too seriously or too personally, especially if you have not reached the deadline by which you must sell the business.

Prepare To Wait

Before or after the contract is negotiated and signed, the buyer will probably want to conduct a thorough investigation of your business. When buyers engage in this investigation, it is called "due diligence." The time by which the buyer must complete the due diligence and the scope of the buyer's due diligence will depend on the circumstances and will have been the subject of negotiation. For example, the buyer may want to examine lots of your records and all your physical assets. The buyer may want to interview key employees and customers. After completing the buyer's due diligence, the buyer may try to renegotiate the price. You are not necessarily required to let the buyer talk to your employees or customers. And many sellers will not allow a buyer to do so because they fear that their business could be damaged if the sale falls through. Again, the scope and duration of the buyer's due diligence will be the subject of negotiation.

The Closing

If all goes well, the sale will occur before your deadline, and you will receive a nice, large check. This occurs at the final step, which is called the closing. Usually, the closing takes place in the form of a meeting that you, the buyer, and your attorneys attend. Documents are exchanged and the money changes hands. You will have gone through a long, tough process, but you'll feel great because you will have finally received your reward.