Selling a Business: 12 Steps to Success

Simply put, selling a business is complex. Business owners who decide to sell their business should be prepared, patient, responsible, and realistic about the process. When owners strategically plan the sale of their business, from start to finish, they put themselves in a much better position to succeed. Below are some essential steps required for successfully selling a business.

Commitment to selling

Deciding to sell a business is one of the greatest challenges that a business owner will face. When debating your company's future ownership, it is imperative that when the business owner makes a rational decision to sell, they see the plan through. It is only human nature to question if it's the right time to sell, but those owners who see their calculated decision through, will be successful in the end.

Bring in professionals

The sale of your business will require the expertise of many professionals. In order to maximize deal value, terms and closure seek out trusted advisors to protect your best interests. In most business transactions, this team would consist of an attorney, business broker, and CPA. Mixed into these roles and responsibilities is that of a business valuator. More times than not, CPA firms do not specialize in business valuations and getting the price right from the start is a must to maximize seller's value.

Selling a business is a long, arduous process full of hurdles and bumps in the road. It is at the business owner's peril if they try to go at it alone. Not only will they most likely encounter unforeseen challenges and mishaps, but their business will most likely deteriorate while they're trying to juggle all of the responsibilities involved in successfully selling a business.

Conduct a business valuation

An independent, third party business valuation is expected in today's business selling marketplace. The objective and value of a business appraisal is to set a fair asking price so that your business assets (both tangible and intangible) are fairly valued and attractive to savvy buyers. The business valuation will validate your asking price, enabling a seller to significantly reduce buyer negotiations and confidently stand by their asking price. In some cases, the professional broker will have access to a reputable business valuation firm and may be able to facilitate the process of preparing your company for a business valuation. Many brokers do offer an opinion of value, but using the expertise of a credible, business valuation firm can be one of the best decisions a business owner will make; *inaccurately* valuing a business (high or low) can be very damaging to a business seller.

Confidentiality, Confidentiality, Confidentiality

It is obvious that the majority of business owners do not want to hang a for sale sign on their business, alerting employees, customers, and vendors of their intentions. Maintaining discreetness during the sale of your business is a must. All parties advising you on the sale of your business should first sign a confidentiality agreement. You can prepare a simple mutual NDA or ask these professionals for their boilerplate agreements. In addition, all potential buyers will need to sign a non-disclosure agreement before any material information about the business is shared. Once the business is being listed, your broker should operate carefully as a blind business listing is meant to peak buyer interest, not to give them enough details to figure which specific business is for sale. It is at the owner's peril if they do not ensure confidentiality is maintained throughout the process; if a prospective deal goes south or if the seller changes their mind about selling, the business will be protected looking forward.

Get your affairs in order

When entertaining prospective buyers, they will want to closely analyze your financial statements, both past and current. It is important that all adjustments and reporting be made prior to presenting balance sheets as any material change prior to closing will have an impact on the final purchase price. In addition, larger operations with $5MM+ in annual sales should have their financial statements audited. While this is not cheap, it reassures buyers that your asking price is fair based on legitimate financial reports and studies have indicated this serves as a value driver in purchase price. Other areas you should focus on include lease agreements (if you do not own real estate), key employee contracts, key client contracts, etc. Finally, get your physical business location(s) in presentable order by cleaning, organizing and preparing for VIP visitors.

Package the business

Presenting your company's information to buyers is going to be important to ensure they are informed, educated and more importantly disclosed about the state of your business. They'll want to learn about your operation, industry, financial performance and future prospects. A confidential, presentation package is needed with most buyers. Professional business brokers should be able to extend these types of value added services in order to properly package your business for a professional presentation.

Market the business

Finding qualified buyers that meet your criteria is absolutely critical. This step requires an added layer of discretion. Take time to use the right marketing channels for your type of business, discreetly promote the business to buyers, and rigorously qualify interested parties. The more popular outlets for business listings include local/national newspapers, internet directories, direct mail and networking. Your intermediary should facilitate and execute this step so that you can do the next step.

Keep Running Your Business

While selling your business may prove distracting, it is imperative that the owner continue to run his or her operation; almost as if it wasn't for sale. While you will be making sure your ducks are in row and ready to put on its best face for potential buyers, taking care of your employees and your customers is important. It is to the owner's detriment if business sales decline, staff begins asking questions, and if the sale takes longer than anticipated. Maintain business as usual and let your business selling team run the ball to the goal line.

Entertain multiple buyers

A business seller who is entertaining several qualified buyers is in a position of strength leading up to the sale of a business. Not only will this inherently solidify the value of a business with the prospects of a bidding war, it will ensure the most appropriate buyer is found for the future health of the company. Selling a business is not just about money, it is also about a simpatico with a buyer and their intentions with the business operation. Looking out for the overall best interests of your employees, customers, and brand should be an emphasis for a responsible business owner.

Due Diligence is a two-way street

Following an Offer to Purchase or Letter of Intent, your qualified buyer is most certainly going to conduct due diligence on your business, its financials, customer lists, employee contracts, vendor relationships and other elements you claim to be in place with the sale of the business. While this is a normal process, typically lasting a couple of weeks (sometimes longer based on deal size), due diligence should not just be from the buyer.

You, the business owner, should be conducting due diligence on the potential buyer. Beyond financial buying power and purchase price, you should be interested in their background, intentions with the business and its key employees, management philosophies, maintaining culture, etc. Instruct your business broker to find out why inquiring buyers are interested in your business, ask for a resume, and dig for answers.

Close the Deal

The professional team you assemble to help execute the sale of your business, should serve as a buffer between you and potential buyers when it comes to negotiations. Common areas that are negotiated are purchase price, terms and deal structure, non-competes, owner training/support, etc. Your business broker is a conduit and should be able to effectively represent you when it comes to terms, inclusions, and exclusions. Above all else, it is critical that you not only rely on your broker, but also your attorney, when negotiating, drafting and accepting terms in the Purchase Agreement. The seller's attorney and buyer's attorney will need to actively communicate with one another to get everyone to the closing table and seal the deal.

Don't fumble the handoff

Most buyers will seek assistance from the seller in the transition of the business. The involvement and seller participation is going to significantly vary by industry and type of acquisition, but you should prepare to stay on board for a reasonable period of time. This is an essential step in the successful transfer of a business so that the company's operations, employees, customers and overall stability are protected. Just as a quarterback has to mechanically hand the ball to a running back, so does a seller hand the business off to a buyer. If this is rushed or done in a nonchalant manner, the business could stumble, take a dip and experience rough road ahead. A responsible business seller will dedicate time to work with the new owner, at no cost, typically lasting several weeks to a couple of months. Any period longer should come at the business buyer's expense and a previously agreed upon rate of compensation.

There are all types of complexities in planning and executing the sell of a business. The smart business owner will enlist the services of professionals who can help them carry out a full exit strategy which will most often lead to: securing a higher purchase price, selling to the most qualified buyer(s), ensuring the business is prepared for a handoff, and protecting the futures of existing management, employees and clients.

Contact Fair Market Valuations at 877.VALU.BIZ today to learn more about our business valuation services and to schedule an in-person, no obligation meeting with one of our professional experts.

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