

KEY STEPS TO SELLING YOUR BUSINESS

Make a Firm Commitment - Many entrepreneurs first approach the process as an opportunity to determine what the business is worth. This can be counter productive and “flag” the business to potential buyers as not being a serious acquisition candidate. Estimating the business value should be a regular component of the annual business planning process. With the value information at hand, it is much easier to make a commitment to sell when the time is right. A firm commitment will also lessen the possibility of “sellers’ remorse.”

Decide Who is in Charge – Eliminating confusion and possible contradictory information coming from several management executives of the seller will facilitate a faster sale. Consistency is key to maintaining buyer momentum, especially at the early stages of dealing with a buyer.

Speak with One Voice – As the deal progresses, the buyer will naturally want to speak with others. To make sure sellers speak with one voice, the sales team should regularly meet to review the process, anticipate questions and “rehearse” the answers for overall consistency.

Analyze the Financials –Clean up the balance sheet by eliminating outdated information. Since the balance sheet can be a repository for miscellaneous asset purchases as well as annual financial results, some financial housekeeping may be in order. Also, preparing a comparative ratio analysis will help a buyer more quickly understand the dynamics of the business.

Determine a Realistic Value – There are many ways to value a business, but the primary value driver is discretionary cash flow. In large businesses, cash flow is referred to as EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) while most smaller businesses use terms such as SDE (Sellers’ Discretionary Earnings). Depending on the size and complexity of the business, it is advisable to obtain a third party opinion of value.

Create Curb Appeal – Just as homeowners would trim their bushes and paint their houses before listing the houses for sale, an entrepreneur should attempt to create a great “first impression” of the business. Selling a business is much more complicated and detailed than selling a house and creating “curb appeal” will give a buyer more confidence that the assets of the business are well cared for.

Document Company Policies and Procedures – To facilitate the buyer’s understanding of the business and help with the due diligence (investigation) activities, company policies and procedures should be documented and assembled for the buyer’s review. Topics could include the Sales process from purchase order to receipt of cash, Vendor relations, Employee position descriptions and Organization charts, Rules of behavior, and similar items.

Assemble the Transaction Team – As the plans to sell the business are being made, it is time to determine what help is needed. Professional advisors on the team often include your transaction attorney, CPA, banker, insurance advisor, tax advisor and business intermediary.

Prepare the “Memorandum” – Unless you plan to sell the business yourself, a qualified business intermediary should be engaged to help you prepare the offering memorandum. This is the primary “sales tool” which should be provided only after non-disclosure documents are received from the buyer candidate. To prepare the memorandum, your intermediary will need financial statements and/or tax returns with account details for at least three years, the latest monthly financial information, explanations of seasonal and yearly variations of sales, inventory levels and other financial items, lists of all fixed assets, company brochures and business plan, company legal structure and historical background, lists of employees, customer and vendor lists, a competitive analysis and other internal management information.

Implement the Marketing Plan – You and your intermediary can decide to post the basic business information on multiple listing sites for businesses, such as the MLS of the IBBA (International Business Brokers Association) and other marketing sites, advertise in newspapers and trade publications, conduct a direct mailing program to targeted buyer groups, search internet based buyer databases, contact private equity groups and network with other intermediaries.

Establish the “War Room” – To keep information accessible and facilitate the due diligence investigation, it is advisable to organize a quiet place where buyers, sellers and advisors can meet to discuss the transaction and review confidential information. The room can be onsite in a conference room or extra office or perhaps at the office of a professional advisor.

Locate and Qualify Potential Buyers – When buyers are identified, they should first be “qualified.” Statistics indicate that well over 90% of potential buyers never acquire a business and initially qualifying buyers will prevent time from being wasted. Your intermediary can request and require that prospects disclose their financial ability to acquire the business as well as review their background information to determine if they are serious candidates.

Obtain Non-Disclosure Agreements – When buyers sign a non-disclosure agreement, they commit to keep all written, visual and other information confidential, generally for two years. They agree not to disclose any confidential information unless authorized by the seller. They also agree that all information remains the property of the seller, will be used only to assess the prospective purchase of the business, and will be returned upon request.

Prepare for Due Diligence – The due diligence process can consume the seller’s valuable time otherwise needed to run the business. Buyers will analyze and make inquiries into financial information, legal issues, capital asset expenditure needs, R & D

spending, market position, industry trends, and many other issues. Both business and personal issues (such as why the business is being sold) will be explored. Having a thorough offering memorandum will create efficiency in the due diligence process and being prepared will help maintain momentum.

Develop an Owner Transition Program – It can be hard to let go of the business unless the seller knows that the new owner is capable of running the business. In addition, buyers won't commit to the acquisition unless they are certain the business will thrive without the seller present. To remedy this, most sellers offer a training program and remain with the business for a negotiated period as an employee or consultant.

Another aspect of transition deals with second guessing. Sellers can suffer from "sellers remorse" if they haven't planned for the transition into the next phase of their life. An entrepreneurial business can fully absorb one's day and plans should be made to fill the expected void.

Explore Non-Compete Agreements – Along with making a commitment to sell the business, the entrepreneur seller should understand that buyers expect sellers not to interfere with the buyer's prospects of successfully growing and operating the business. Non-compete agreements, with clauses detailing both time and distance terms, are used to address the buyer's concern.

Consider Consulting Agreements – If the business is specialized and technical, it may be advantageous to the sales process if the seller is willing to remain with the business as a consultant. Being willing to remain as a consultant can give the buyer confidence that the seller believes the business has a profitable future. Fees from consulting services can also be a flexible component of the negotiations in determining the sales price of the business.

Negotiate the Letter of Intent – The letter of intent is the buyer's acknowledgement that the buyer intends to follow through with the purchase of the business following a successful due diligence process. The letter of intent is generally a non-binding agreement which is delivered before detailed confidential information is released and after the buyer and seller discuss the basic deal structure.

Execute the Sales Agreement – Once the buyer completes the due diligence examination, the offer to purchase will be executed. This document becomes the Sales Agreement and will include all representations and warranties to be provided by the seller. The purchase and sale agreement is usually prepared by the buyer's attorney. It is always advisable that all parties obtain the advise of legal counsel.