

Best Time to Sell Your Business

Most business owners are so busy running the day-to-day operations of their business that they do not give ample consideration to this question. Before selling a business, there are many factors to address and adequate preparation can maximize the return to the owner.

In a perfect world, the best time to sell a business is when the business is performing well with future projections looking even better, the national economy is strong and the industry is getting a lot of attention from Wall Street investors. However, regardless of the state of the economy or the industry, there are certain things owners can do to make their business as attractive as possible to potential purchasers.

To build market value, address the following items:

- Standardize and document all company procedures
- Eliminate liabilities or liens and resolve any outstanding litigation
- Investigate transferability of leases and sales & supplier contracts
- Perform maintenance on company equipment to ensure good operating condition
- Secure key employees with employment contracts
- Eliminate non-performing or non-contributing employees from the payroll

- Establish a management team that can operate without the current owner
- Reduce reliance on one or two large customers for the majority of sales
- Spruce up the physical aspects of the business facility
- Have clean, verifiable financial statements for the past three years

To improve cash flow, take the following action:

- Reduce unnecessary inventory
- Collect any outstanding receivables
- Re-negotiate favorable key supply contracts
- Reduce personal adjustments on Income Statements
- Ensure financial controls are established

Owners should be aware that there is an inherent conflict that arises with running a business and preparing it for sale. Many businesses are run with the objective to minimize tax liabilities. Unfortunately, the same techniques and accounting practices that minimize taxes also minimize the value of a business. Ideally, plans to sell a business should be made three to five years in advance of the anticipated sale. This will allow adequate time to make changes and demonstrate a track record of maximum profits.

In addition to setting a future target date to sell their business, a business owner should ask themselves what they want to get out of the sale. Do they just want to finance their retirement? Is it important that their son or daughter remains with the business? Can they gain tax benefits by financing part of the sales price? Do they want to ensure the new owner will treat their customers with the same level of service? Make a list of priorities and seek the advice of business professionals to ensure there are no surprises during the business transfer process.

Once a decision has been made to sell, a business owner should be conscious of the need for confidentiality. Any leaks about the sale of a business can cause panic and fear for the employees, suppliers, landlords and banks. Great care must also be taken to assure that competitors and customers do not learn of the planned sale. Competitors may sabotage a business by leaking the information to employees and customers. Key employees may start looking for other employment. Customers could be concerned about how the business will perform under new management and may seek alternative sources for the product or service. If any one of these were to happen, the value of a business could be significantly decreased. Working with an experienced Business Transfer Specialist can minimize the risk.

The name of the business and any detailed information should be disclosed only after it is determined that a potential buyer has the skills, experiences, financial capability and leadership required to run the business being considered. In addition, all potential buyers should be required to sign non-disclosure agreements stating they will maintain confidentiality on all information discussed.

By now it should be clear that early planning of the sale of a business will generate the most value and will likely expedite the ownership transfer. To summarize, focus on building market value and improving cash flow, prioritize the terms of the sale, seek the help of business professionals and maintain confidentiality.