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PREPARE A COMPANY

WAYS TO PREPARE YOUR BUSINESS FOR SALE

Many entrepreneurs go into business with personal objectives in mind for their life. Business owners often express that they wanted to be in charge of their work-life balance, and being an owner of a business in the field they know and love gave them the ability to do that. The idea started with a spark, and slowly the business model and start-up plans developed and grew. Entrepreneurs usually have a plan in place for how to grow their business and focus heavily on expanding and building their empire, but they often fail to put a plan in place for their eventual and inevitable exit from the business.

When a business is just beginning, the end of the business is often not included in plans; however, a succession plan is absolutely necessary, and part of that planning process is grooming the business for a smooth transition when the owner is no longer there. There are several ways to exit a business, but one thing is for sure; the acquirer will absolutely want to see value in their investment. For this reason, an owner should prepare for a sale if they wish to get the most value for the business they started from the ground up.

The Business Should Work Like a Well-Oiled Machine

If a business cannot properly function without the presence of the business owner, this can be worrisome for potential buyers, especially because if an owner is selling, it is most likely because he or she has a desire to leave the business. Therefore, a strong management team needs to be in place to take care of daily functions when the owner isn't there.

When a business is being sold, it needs to be set up for a smooth transition. An acquirer will be more at ease knowing that their investment is going in a company and its well-managed operations, rather than a company that needs the owner present to function each day. So, business owners should learn how to delegate early on, and train management staff accordingly.

The Book of Clients, or Customer Base, Should be broad and Dependable

A business can have great revenue even with a small collection of clientele. However, if all the revenue is coming from only a couple key customers, this can be a turnoff for acquirers. Hypothetically, if one of those clients leave, and a business loses a large percentage of its profit as a result, that can be devastating. The idea of this scenario can present a huge red flag for a business's operations. It is best to prepare by having a broad collection of clientele to show to potential buyers.

If a business provides a service that is especially niche in nature, then the owner should be prepared to show how he or she can guarantee the book of clients or customer base will remain intact after the business transaction is complete. An illustration of customer loyalty is crucial here.

No Skeletons in the Financial Closet

In a perfect business, all financials are clearly recorded and up-to-date. However, in some business models, owners will provide themselves with add backs that are beneficial for taxation purposes. Although, those add backs are great for the business owner, they can often make the business look less profitable on paper than it actually is. For this reason, it's a good idea to work with an accounting firm to ensure all financials are up-to-snuff for a successful business sale.

An accountant can help an owner identify those expenses that might be helping or hurting the overall value of the business. For example, lots of times salaries for family members or for the business owner can often be decreased or added back to the value of the business to show that those expenses are not necessary to the ongoing business model. Perhaps there have been some one-time big purchases made by the company, often these can be added back as well.

An acquirer will want to see where all expenses for the business are going, whether they are necessary or for discretionary purposes. It all needs to be recorded and easily identified.

Know How You Want to Exit

Business owners want to exit for various reasons, whether for a health scare, retirement, more time with their families, and the list continues. Regardless of the reason for the exit, it is important to know how one would like to exit. There are a few ways an owner can exit a business. An owner can consider a full or a partial sale of the business.

A full sale will allow an owner to exit the business completely. This option will still give the owner some choices on when he or she would like to exit. An owner can leave the business immediately at the closing of a transaction, or he or she might consider staying on with the business through the transition of new ownership. A timeline for transition can be discussed with the mergers and acquisitions team hired to help with the transaction process. Anything an owner seeks can be achieved.

A partial sale of the business gives owners additional options beyond just selling some ownership to another party. A partial sale can free up some time for the current owner if he or she wants to take a more passive role in the company, or it can allow an owner to continue in a leadership capacity to continue assisting in the growth of the business.

Given there are a few ways to exit a business, an owner should be aware of his or her options and prep the business accordingly. If a full sale is desired, then most certainly, the business needs to be groomed from top to bottom to ensure the business is attractive to prospective buyers, in the sense that it will easily transition to new ownership and continue just fine without the current owner at the helm.

If an owner does want to continue having some sort of presence in the company, then a partial sale is most likely the best option, and an owner wants to be able to illustrate his or personal value to potential acquirers and show how he or she will continue to be a necessary asset and assist in taking the business to the next level.

Prepare Emotionally

This might seem like an obvious point to touch on, but is absolutely necessary. Many business owners grow their businesses from the ground up, so owners have a very strong emotional connection to the organization. Unfortunately, even in prepping the company for sale, an owner needs to be realistic and start to come to grips with the reality of the eventual sale. Often, people who invest emotionally into creating something will value their creation in a way that cannot be fully realized by others. Conversely, at times, these creations may actually fetch a value in excess of what one believes is achievable. Letting go of a business can be like letting go of a child. An owner needs to reflect internally, at length, on this decision before pulling the trigger and selling.

It is a lengthy process, and there will negotiations every step of the way. If an owner does his or diligence ahead of time by preparing the financials, the management team, booking quality clients and building a broad customer base, it will run much more smoothly. A business owner really needs to be in the mindset “to sell” to make the best of this process, so emotional preparation is just as important.

Put a Knowledgeable Team in Place

The last step in preparing to sell a business is actually putting a team in place that can make it happen according to the owner's needs. If an owner attempts to sell his or her business on her own without personal knowledge of the business transaction process, he or she could potentially be setting the transaction up for failure.

The sale of a business requires a great deal of time and attention. This time and attention can negatively affect the value of a business if a business owner decides to spend his or her time focusing on the sales responsibilities rather than the business itself. A mergers and acquisitions firm, an accountant, seasoned legal counsel, and a wealth manager can all assist an owner in making the most from a transaction.

These professionals can help an owner identify weaknesses in business operations; they can help them evaluate the competitive atmosphere within their market to create the most value for the business; they can help them make sure their finances are transparent and fill in any gaps before an owner presents the business to potential acquirers; they can even help an owner prepare emotionally by presenting them with all the different exit strategies at their disposal, and illustrating how those strategies can be catered to ensure the business continues to grow the way the owner originally envisioned.

In Conclusion

Gearing up for the sale of a business is no easy task, but with the right plan in place, it can be quite satisfying on every level for a business owner. Preparation is essential, and properly grooming a business for sale with the right team helping can make all the difference. As an owner comes to the pinnacle of this decision and begins exploring options and considering how to get the business ready for sale, all of the aforementioned points need to be addressed. Using this guide will put an owner on the path for a successful transaction.

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