

# **SELLING A BUSINESS**

One of the most important decisions you'll ever make, selling your business, requires careful contemplation and planning. You should understand the process because profitable companies are being approached every day and being prepared can allow you to take advantage of opportunity.

## **Determining If You Are Ready to Sell**

The first step in selling your business is to decide if this is really what you want. It is important to be clear about your reasons for sale because one of the first questions a buyer asks is "Why are you selling?" While you have a good reason to sell, it is also important to assess if you are ready to sell. To make this determination sellers should ask:

- What kind of transaction would I like to see happen?
- How long can I wait for the right deal?
- How much risk am I willing to take?
- How much tax am I willing to pay?
- Should I sell only part of the business?
- What will I do with the proceeds?
- What would I personally do after the sale?
- Do I need or want to work with the new owner?
- Are there other opportunities I would find more personally rewarding?

Contemplating a sale means much more than money that can be made. You also need to assess the impact on your lifestyle and family situation.

## **Preparing the Business for Sale**

Once you've determined you are financially and psychologically motivated to sell, you can begin the selling process. To make sure the business is presentable to potential buyers, begin to analyze the business from a buyer's perspective. Ask yourself what kind of assets and information need to be strengthened to make the business more attractive. More specifically:

- Clean up the financial statements. Make sure you have 3-5 years of clean and accurate statements available.
- Gather pertinent business information. Buyers will want to know such things as the skills and experience of the staff, the number and tenure of your employees, the size and value of your facilities, the market value of your assets, and or the type of manufacturing equipment available inventory, etc..

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- Physically improve the looks of the facilities. Put new paint on the walls; make sure the equipment is clean and running well and tidy up office space.
- Document your business processes. Many buyers will expect you to produce a business manual that details how your business is run. Take the time to document all the steps in your business cycle, including design, ordering, manufacturing, shipping, sales, disposal, billing, customer service etc...
- Prepare a business and or a marketing plan. Buyers will want to know what you would do to continue growing a business. Document your marketing strategies, identify your major customers, pull together information on industry and customer trends and indicate how you might increase sales, develop new products or open new markets.
- Obtain an accurate and up to date business valuation. To avoid selling your business a huge loss – or pricing yourself out of the market, sellers should obtain an accurate and unbiased third party valuation done by a professional skilled in the practice.

Once you've cleaned up the plant or facilities, gotten your books in order and pulled together all the necessary business information, you can start to think about the actual sales process. Here the message from experienced owners and advisors is clear: **Don't try to sell the company on your own!**

### **Working with an advisor**

Since most entrepreneurs will only sell one business in their lifetime, it makes sense to hire a professional to assist in the sale of your business.

Unlike a house that can be listed in a newspaper for all to see, sales of private companies are most often kept confidential. The right advisor can help you anonymously locate the type of buyer that best fits your company's goals. In fact, the best advisors also work with people who actively are looking to buy qualifying each both professionally and financially before ever presenting them to the seller.

Working with an advisor also frees you time to concentrate on running the business. After all, if you are focused on selling the business, profitability could suffer, driving the value down.

There are three types of advisors who can help entrepreneurs sell the company:

- **Business Brokers:** Brokers take a percentage of the selling price and will be motivated to find the right buyer at the highest price

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- **Investment brokers:** Bankers typically work with owners to determine the most appropriate buyer. Some bankers work for a fixed fee; others charge a percentage of the sales price.
- **Intermediaries:** The role of intermediaries is to introduce the buying and selling parties and help them negotiate the best deal.

If you can find an advisor who is experienced in the industry, has a good track record and can help you put together a solid presentation package, the investment will be well worth it.

## **Surviving the Sales Process**

Once your business has been spruced up, packaged and put on the market, the hardest part of the process begins. This is not only because you have to keep focus on the business as well as responding to buyers, but also because this is the point at which most sellers start to second-guess themselves.

The emotional upheaval can be difficult for other reasons as well. For starters, it can be tough to keep the sale a secret from employees, suppliers and customers. Employees and customers can get nervous and start looking elsewhere for jobs and products. This can make the business appear vulnerable at the time it needs to look its best. Another problem occurs when buyers pressure sellers for their asking price.

It's also difficult for many owners to remain patient during a process that can take anywhere from three months to two years.

## **After the Sale**

After the deal is closed, most buyers prefer that the seller stay on as an employee or consultant for anywhere from six months to two years to help with the transition. The amount of time can be negotiated but this may conflict with your goal to spend less time on the job. Also don't be surprised if you find yourself antsy to start a new venture. You have been successful because of your drive, passion, determination and vision and it's just not easy to turn off those qualities. Many of the people with whom we deal as buyers are people who sold their businesses and got bored staying at home watching their money grow in certificates of deposit. It doesn't take long before most entrepreneurs are champing at the bit to get back in the game.

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## **Six Questions Most Often Asked By Buyers**

Sellers need to be prepared to answer the following questions:

- Why are you selling?
- Will management remain after the sale?
  
- Are the financial statements accurate and current?
- Are there EPA, OSHA or EEOC issues with the business?
- Is Seller financing available?
- What is the asking price?

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