Six Things Every Business Seller Should Know

Source: The Business Owner (http://www.thebusinessowner.com)

You've devoted untold time, money and energy to building and running your business. It may well represent your life's work and net worth. Now you've decided that it is finally the right time to sell. Here are six things you should know.

Financially, You'd Probably Be Better Off Keeping Your Business.
Buyers buy businesses for the income they can receive. They look at past profit performance to predict the future, then pay a price that will allow a fair risk-adjusted return. Mid-size businesses sell for 2.5 to 4.5 times pre-interest, pre-tax earnings. If your business generates annual benefits to you totaling $500,000, a buyer might pay four times or $2 million. Some seller financing will probably be required as well. If you are paid cash at closing and you invest this sum and earn 10 percent annually, your income will be $200,000 per year. You've taken a major pay cut.

If Your Primary Sales Pitch is "This Business Could…," You're Likely Wasting Your Time.
Buyers of private businesses are a very conservative bunch. If they are not, their bankers will require them to be. As such, they must rely on solid historical performance to justify purchase prices. Business sellers that try to peg most of the value on what the business "could" do typically waste their time and lose credibility. Buyers don't have to buy. They only put their money at risk when the find a good deal. If you wouldn't do it…it's likely nobody else will either.

To Maximize Value, Be Open to Providing some Seller Financing
If you ask for 100 percent cash at closing, studies show you'll typically receive a much lower total price. This is because the amount of cash that the buyer has and the amount the bank will lend are usually fixed amounts. The sum of the buyer's cash and bank financing is the maximum you can receive at closing. Now, would you like more? Then offer some seller financing. Worst case is you don't get paid your entire seller-financing portion, but you still received more than the all cash price!

They Won't Appreciate the Work that Went into Building Your Business.
Unfortunately, buyers look at your business simply as an investment. They won't appreciate the blood, sweat and tears that you put into building it. You'll always have the pride of knowing what you accomplished and the respect of those who watched you do it. Don't expect any more from a buyer than a fair price.

Buyers Love When You Represent Yourself.
Few sellers are experienced in business sales or valuation. All sellers are emotional when it comes to selling their "baby." No seller is objective. As the saying goes, "If you represent yourself you have a fool for a client." Do your heirs a favor and hire an expert to assist you.

Your Competitors Aren't Good Buyers
Sure, competitors are logical buyer candidates and quite easy to identify. So you contact the owner of XYZ and ask, "Are you interested?" Now he has a free chance to gather information that will help him compete against you. And even if you don't send him your confidential information, he'll use the fact that you want to sell against you … starting today. Oh, he competes in a different territory? These buyers won't pay as much because the skill, expertise, processes and methods of your company are less valuable to those already doing what you do.

The better (and lower risk) buyers are individuals, financial buyers or companies in related or adjacent industries.

The intent of the above is to save the business seller time, money and frustration. If the time is not right, focus your energy on posting solid performance, then enter the selling market. When you do, keep in mind that selling a business is a sales activity. Even though it is done discretely, selling a business successfully requires the same elements as any successful sale… preparation, presentation, representation and negotiation. It doesn't happen on its own. Be realistic, and play to win!