Selling My Business - When an Owner is Ready... and what he must do

Five Critical Areas to Address in Successfully Selling Your Business

The business owner who woke up one day and said to him or herself, “I’m really tired of going to work”, or “this just isn’t fun anymore” – is probably late about thinking to sell his/her business, perhaps too late. Funny, every business has a plan, a beginning and a course of action, but it rarely has a destination… an end point.

You have a mission statement, but do you have a final goal / destination for the business…an exit strategy? Sooner or later you, or someone else, will have to sell your business. Do you want this to occur on your terms….or someone else’s?

So when is the best time to sell a business? **The best time to sell your business is when the business is generating its best profits** – when you don’t have to or more importantly **WHEN YOU DON’T WANT TO**. Why? Because usually it is then – the most valuable to the most buyers! Can’t say this enough, it is better to sell your business too early than too late, for ‘too late’ often means “not worth much”.

The following are five essential areas that need to be addressed to have a successful sale of your business. Notice, I said successful, not just a “sale”. **Successful means obtaining and fulfilling your goals and aspirations before, during and after the sales process.**

Clean and Verifiable Financials: All personal income streams and financial benefits need to be identified on the business’s Tax Return. **Usually 3 to 5 years of Tax Returns, P&L’s and Balance Sheets are requested.** Be careful on the aggressive use of your business as a write-off. If a bank is involved, e.g. SBA, all revenues, business deductions and personal income streams will need to withstand a forensic accounting. The more aggressive you are sheltering income, the more likely a bank will hesitate becoming involved.
Financeability can be critical to a successful sale. Rarely will a buyer use all cash for an acquisition if he can leverage the transaction, either through a Bank or by the Seller. All owner income streams and deductions need clarity and – most importantly – a verifiable trail through journal entries, bank statements etc.

Infrastructure: Have personnel in place to fully operate the company. **Your management team and/or key personnel are critical assets in the total value your business offers a buyer**.

A sole owner operated business diminishes the value of the enterprise. Why? Is the business principally driven by the owner through his personality and skills? And when he leaves – then what? Buyers don't pay for 'then what'. Or can the business and its products and services stand-alone…operated by a new owner or others beside the owner? If so, you have added value to the entity and made the business much easier to sell.

Technology Updates: **Keep your business up to date with industry** t**echnology for management, operations and sales.** Web presence, social media platforms and an integrated performing Customer Relationship Management ("CRM") program are needed in today's technology driven sales and service market place. Keep technology for Operating and Management systems current with best in class industry levels.

Seller's Discretionary Cash Flow ("SDCF") or Seller's Discretionary Earnings ("SDE"): This is the **most important metric used in valuing your business**. It is the bottom line! Why? It demonstrates what funds will be available for the acquisition to pay for debt service, a new owner's salary, and a return on the down payment investment. **The SDCF needs to show good growth or stability year to year for three or more years.**

SDCF is the company's profit, as shown in the tax return, plus adding back the owner's salary, bonuses, distributions and any other financial benefits (insurance, phone, car etc.) paid for by the company. It includes income taxes, interest expenses, and any non-cash expense such as depreciation or amortization.

Freedom to take a Vacation – Anytime: The ability for an owner/operator to NOT be needed in the day to day operations only lends more value to your business. A new owner now has the option of being a business manager or a daily operator; and with that flexibility – the universe of possible Buyers increases.

Successfully addressing these five critical areas makes your business more valuable and much, much easier to sell.

Four final important points;

- Always be candid and honest when discussing your business with a buyer. Honest with everything including its weaknesses and failures, not just the successes. It will only strengthen your credibility in the eyes of the buyer, and a good buyer will accept a forthright explanation of a negative.
- Second, view the entire process of selling your business through the eyes of the buyer.
- Third, the business you are selling is the one you have today, not the one you had years ago.
- Fourth and last, you (by the way you act and speak to a prospective buyer) will be the best salesman and representative of your business, but remember you are representing your business – not yourself. Check your ego with your coat.