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Prepare Your Business for Sale

by John Catalano

I'd like to share some thoughts and resources for the business owner who is thinking of selling. It's always a tough call.

For more than 20 years, I have built and sold my own businesses and sold others' businesses, so I like to think that I have seen both sides of the street and know a bit about the emotions of a business sale.

I have been involved in transactions in industries as diverse as packaging, hardware, consumer goods, software and metal fabricating.

- **John's Rule #1: Nobody will buy a dog.**
- **John's Rule #2: People will buy anything shiny.**

Mentally

Your first step is to change how you look at your business. Get ready to look at it coldly and remotely, from the eyes of a buyer. Adopt the mindset that you now have a new product to sell: the business. This will probably be the biggest sale of your life, so from now on treat the business as a product. Strip out the emotion. Adopt the long view since it will take a minimum of six months — likely up to two years — to put a deal together.

Preparation

Work really hard one to two years ahead to make the numbers shine. This sale won't happen overnight anyway, and you need time to polish. See Rule #2. Your CPA will tell you what numbers/ratios have to look better to a potential buyer. The goal is to develop financials that demonstrate positive trends. You will also use this time to build and realign your organizational structure to operate without you.

Your banker, lawyer and accountant should know of your plans immediately. They can help in several ways, such as advising you on how to tighten the ship, giving suggestions on improving the business (that they weren't comfortable telling you before) or quietly identifying acquisition candidates for you. But they will not and cannot sell the business for you. Speaking of your lawyer, the best \$5,000 (or more) you will ever spend is when you pay them to write the sale agreement and not allow the buyer's lawyer to write it. Trust me: whatever they charge you is cheap.

Packaging

The package you prepare is a marketing tool for the biggest sale of your life. We talked earlier about your product for sale; now you have to have something to present to buyers. Don't blow it. Consider it your advertising piece. Every business broker will "recast" your financials to remove expenses related to your personal involvement. For instance, your wages will be removed and replaced with those for a manager. They will also modify insurance, automobile, travel and entertainment expenses that would probably not occur with a manager. These will translate to additional "cash flow" to the buyer and make your numbers look even better.

Beyond the recasting, I like to prepare a limited business plan. This is a significant (\$3,000 to \$6,000) pre-sale expense, but it serves a number of functions, all of which are intended to lead to a quicker sale at a higher price. The 15 to 25 page printed and bound document lays out the current business climate, production, marketing and management all in one place for the buyer to see. One benefit of the plan is that the process gets you thinking of your business as a product to sell. Another benefit is to present the buyer with what you have done, thereby giving them ideas (opportunities) where you have gone wrong or missed. Remember: the buyer will buy your business only if they think they can do a better job at it than you do. So, we have to plant a couple of seeds for them. See Rule #1.

Timing

Sell at the top, not after things go south on you. See Rule #1. Try to stay aware of and ahead of trends. If you have a cabinet or furniture business, your numbers have dropped and you're probably a year too late, so keep bouncing along the bottom until you can make the numbers look better. Anything military related is looking good right now, but who knows what a new administration will do eight months from now. See Rule #2. Think of Los Angeles aerospace in the '90s. Aging and health care should continue to be attractive.

Confidentiality

The most common fears are that your customers and your best employees will jump ship. Get over it. Sell your product. Your CPA will tell you that selling to key employees can be a good move.

Finding a Broker

Look at [Internet postings](#) to check similar businesses for sale as well as their asking prices. The Wasatch Front has several business brokers, with a probable total of 500 or more businesses for sale today. All will post your listing all over the Internet through the many business broker networks. Most will (must) have additional ways to actively market your business. Evaluate if you want to use them or not. Interview three or four and ask for information on businesses they currently have for sale. This will tell you a lot, not the least of which is how they will present your business to potential buyers. Is it a one-page flyer, a spreadsheet, a bound document or _____? Ask how they will market your product.

Pricing

Valuation methods differ by industry. Some people are buying a job. One rule of thumb is that people will demand a 20 percent return on their investment. Therefore, a sales price could be five times earnings. Another measure for some businesses is gross revenue. Others could be a multiple of sales growth or return on investment. Your broker will run several **methods** for you.

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