



Selling Your Business: Take Care and Prepare

When the time comes to sell an old car, soap and a vacuum cleaner may be enough to make the vehicle attractive to a buyer. If the “service engine soon” light is flashing, that’s probably worth a look, too. But beyond such basics, most auto sellers don’t dwell on yesterday’s wheels.

The stakes involved in selling a company are far higher. The selling price should reflect the company’s true market value, but it’s about more than money. That value reflects the blood, sweat and tears of an owner’s life.

Considering how much you’ve put into it, get everything you can out of it.

First Things First

How to begin? You could just plunge in: Tweak a line, repair a floor, settle that old vendor dispute. No doubt there’s plenty that could be done. But your pre-sale work will be much more effective if you approach it methodically. Careful planning is the key to a successful business sale.

First, perform an initial valuation — an objective snapshot of your business in terms of its current market value. A professional business valuator can analyze all your assets and liabilities — cash, debt, machinery, financial records, customer base, reputation in the marketplace, and so on — and assign them accurate values.

This initial valuation serves as a map to help you identify the opportunities for improvement that will yield the greatest return.

Eyes on the Future

But as you analyze the results, keep in mind that your company's value *to a buyer* may be more — or less — than the sum of its parts. To a buyer, a company's true value lies in an estimation of its *future*. A DVD production line, for example, probably deserves more attention than a videotape operation. With that in mind, certain kinds of improvements generally prove useful before a sale:

- *Make the books shine.* Now's a good time for an audit, or at least a comprehensive review of your financials. Are your accounting procedures up to par? If not, some best practices may be worth implementing.
- *Let the profits flow.* If you've been trying to hold down taxable income — expensing aggressively, setting compensation and benefits to minimize profit — this may be a time for changes. A tax return that lists low net profits may minimize taxes, but disappoint a buyer. To maximize profits, owners might also want to slow down on perks, travel and entertainment.

Balance Frugality with Wisdom

- *Reduce expenses, but spend wisely.* Review your vendors and see where you can cut overhead. If your workforce is too large, you can be sure the buyer will trim it; control the process and derive some value from it by acting yourself.

But don't cut too deep. In particular, don't let your plant deteriorate, but continue all necessary maintenance and repairs. The key is productivity; a buyer won't begrudge your expenses, as long as every dollar spent brings in an acceptable return.

And don't neglect your marketing, but instead try to strengthen your customer base. Bring in a new customer, upsell a current one or extend a contract — all these are high-value improvements a buyer will appreciate. Finally, money spent for a few simple cosmetic changes can also improve your sale price.

- *Reduce risks.* Assess your management team. Does it promise the buyer continued commitment and stability? Make sure the company is protected by the strongest

noncompete agreements your state will enforce, as well as up-to-date patents, trademarks and licenses. Reduce or restructure debt, if possible, and streamline your accounts receivable.

Planning well doesn't guarantee a successful sale. A sale can still fall through for reasons outside your control. But if you've made the right changes to increase your company's market value, you'll have a stronger business — and possibly be in a better position to sell it down the road.

Our firm can help you with valuation, planning, preparation and the sale itself. Give us a call to talk about these projects.