

# 6 STEPS TO SELLING YOUR BUSINESS

Here are a few steps to help you navigate the sale process and make the most of your time:



## STEP 1: GET A PROFESSIONAL VALUATION

Valuing a business is not always a straightforward process; you will probably need the service of a valuation firm to determine the true value of your company. Also, using a third-party firm for valuation will bring credibility to the asking price.

The appraiser will take into account everything from inventory to sales, debts, and the business's cash flow to identify opportunities and set a realistic price.

### BUSINESS VALUE REALITY

Statistics show that the typical business owner has 80% of their net worth tied to their business, so preparing their business for sale to showcase maximum value is critical to their livelihood post-sale. Small businesses are worth two to five times their annual cash flow, plus any discretionary add-backs. For many small businesses the focus is on cash flow, it's very likely that physical assets will form only a small portion of the value of their businesses and is limited to what they generate towards the profit of the business.

It's important to note that cash flow alone will not satisfy savvy business buyers; you may need to present prospective buyers with a plan on how the business can grow and thrive without you at the helm.

## STEP 2: ORGANIZE YOUR FINANCIALS

In today's economic climate, buyers are looking to buy businesses that will not only be profitable but also have long-term viability. So, many perform their due diligence before making an offer. Buyers will consider everything from equipment to real estate and business accrual-based financials; it's your job to get these in order before taking your company to market.

Work with an accountant or business consultant to review your financial statements and tax returns dating back to 3 to 5 years. Create a list of inventory and equipment that you want to sell with the business, including any intellectual property and intangible assets. Buyers are looking for turn-key operations. Make sure that all documents are organized and presented in a way that is useful to the buyers. You shouldn't leave out any important information; you need to be as transparent as possible so that buyers know what they are getting. These will save you lots of time and future headaches, and they'll present a consistent and unified story of the historical and future business.

### **STEP 3: INCREASE YOUR SALES**

Most buyers will look at sales and gross profit to determine the viability of a business. They desire companies with sales growth year-over-year, which indicates buyers are looking to acquire businesses that are thriving, not surviving. Buyers will also inquire about the contracts you have in place and whether those contracts are transferable. They'll evaluate the future potential of your revenue streams as well, identifying recurring revenue that indicate ongoing sales sometimes years in the future. To make your company more attractive to buyers, you should boost sales and diversify your customer base if necessary. A diverse customer base, multiple income sources, and a robust management team or seller training will all help increase the value of your business.

### **STEP 4: TIME YOUR EXIT**

Business owners should plan their exit a year or two in advance. Being prepared will also help you get things in order including improving your sales, financial records, and customer base, which will make your business more attractive to potential buyers.

The worst mistake you can make is to not have an exit strategy. If you want to get the maximum value for your business, put in place an exit strategy now before an unforeseen situation forces you to sell.

### **STEP 5: FIND A THIRD PARTY BUSINESS BROKER**

Business brokers are the best guide to get you the maximum value for your business and find you the ideal buyer. A business broker can help you with the following:

- Business Valuation, negotiation, and due diligence.
- Helping you to conduct sell-side due diligence to ensure a successful close.
- Marketing and locating potential buyers, including listing your company with various marketplaces to increase the buyer pool and get you the best possible price.
- Help buyers secure funding by tapping into the large network of financial institutions and private lenders they work with.

- Work with a business broker to review your financial statements or tax returns dating back to 3 to 5 years. Create a list of inventory and equipment that you want to sell with the business, including any intellectual property and intangible assets. You should also provide information about how the company is run or present potential buyers with an operating manual to help them understand how you conduct business, buyers are looking for turn-key operations. Make sure that all documents are organized and presented in a way that is useful to the buyers. You shouldn't leave out any important information to negotiate favorable deal terms on the sale.
- Another major duty of a broker is to vet potential buyers and ensure the confidentiality of the process.
- One of the hardest parts of the selling process is conducting due diligence. That's where most deals fall through. Over 50% of deals fall apart during the due diligence process. A good broker will keep you on track and guide you through the entire process so you can focus on running your business.

## STEP 6: QUALIFY POTENTIAL BUYERS

Most new business acquisitions are funded by third-party lenders. One of the reasons that many transactions fall apart is because buyers fail to secure loans after entering into an agreement with the sellers. Thus, it's important to pre-qualify potential buyers before engaging with them.

There are many things you need to consider before entering into a transaction with a potential buyer, including asking the following questions:

- Has the buyer secured funding or does he/she have the necessary capital? Ask potential buyers to submit financial statements showing they have enough resources and means to fund the down payment.
- Is the buyer able to run the business and does he/she have business experience? Though lack of experience shouldn't be a disqualifier, however, most qualified buyers are experts in the industry the business is in.
- Does the buyer have a reasonable timeframe? Ask prospective buyers whether they are ready to purchase immediately or are they still months away from making an offer.

These steps are not necessarily complex but if left unaddressed, you will spend valuable time and resources negotiating with unqualified buyers, increasing the chances of information being disclosed before the sale.

Your business may be your most valuable asset, and building a successful company can take years of time and effort. If you're considering selling your business, this guide can help you make an informed decision – and maximize the price you receive for your business.



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## When the time comes to sell or buy.

**One Source Business Solutions** is committed to providing the highest standards of professional business broker service to all parties involved in the complex process of transferring business ownership. **GET YOUR BUSINESS VALUATION TODAY!**