

# PREPARING YOUR BUSINESS FOR SALE 101

Written by: Louis R. Sauer President [Pro Biz Consulting, Inc](#)

Whether you are considering selling your business now or sometime in the future, the most important thing you can do to ensure a successful and profitable sale is to take steps to properly position your business for the sale. There are hundreds of reasons why a company is difficult or even impossible to sell, most of which can be attributed to a total lack of planning. Selling a business is, in many ways, like selling a house. The better and more salable you make it look, the faster it sells and at a more favorable price. Everyone thinks about selling at some point and reaping the rewards of their time and investment. Some people want to retire at a certain age, while others choose to diversify their investments for other financial planning purposes, while still others may just be tired of the business. Whatever the reason or timing, I strongly suggest that you start preparing your business two to three years before your desired time of sale.

I prefer to call the process of preparing a business for sale "pre-sale positioning" because that is exactly what you are doing, positioning the company, its personnel, you and your family for the eventual sale. All too often, owners come to us wanting to sell their business "yesterday," yet they have done nothing to position themselves or the company for the sale.

Just recently, a company failed to sell because the lease had less than one year to go and the building's owner would not renew or enter into another lease because he had other plans in mind. The prospective buyer would have incurred several hundred thousand dollars to move the operation, which made the sale unattractive to him. There was also an owner who made every decision himself and did not want to remain with the company even one day after the sale. A new owner would be lost for months without assistance from a key employee or secondary manager.

## ✔ Pre-sale planning

The goal of pre-sale positioning is to deal with any negative aspects that might hinder or prevent a sale, as well as to show the business in its best light.

While each situation is unique and there are often many solutions to any one situation, following are some of the major issues an owner must deal with in positioning his business for sale.

(Note: A negative situation for one company may be a positive situation for another.)

## ✔ Making the decision to sell

If a subsidiary of a larger company is being divested, the decision is generally economic or strategic with little emotion entering into it. On the other hand, if you are the owner and/or founder and have worked in the business everyday, the decision to sell becomes a very emotional one. Some questions to consider include: Why do you want to sell? For some, this may be easy, while for others it may reflect such things as family pressure or business problems. What do you plan to do after the sale...retire, travel, buy another business, remain after the sale?

If you have other partners or stockholders, be sure that everyone agrees to offer the business for sale.

## ✔ Management

Do you have secondary management in place that can run the company for an absentee owner or perhaps as a division of another company? Do you have excessive management or supervisory personnel or excessive bonus programs that negatively affect the profitability of the company? Do you have employment agreements or contracts? Will key employees remain after the sale?

## ✔ Facilities

Are existing facilities adequate for future growth, is the building owned by the business owner, is the lease at a favorable or market rate, is the building in good repair, clean and organized? Are there options to renew the lease? Is the facility in compliance with regulatory requirements? Environmental issues are very important today.

## ✔ Balance sheet

Are all assets properly reflected? You must have tight controls on your receivables and payables. Buyers will not pay for receivables over 90 days old and will often discount receivables over 60 days old because of poor chances for collection. We generally suggest that any notes owed to the owners be converted to bank debt, as buyers seldom give consideration to company debts owed to the owners.

Are there assets owned by the owners that really should be assets of the company? Make sure inventory is current and accurate. Excess or unused capital assets should be sold. You should attempt to remove all personal guarantees from company notes or leases.

## ✔ Income Statements

Are all sales recorded, and are they recorded properly? Are any items being expensed that should be capitalized? Are there non-recurring income or expense items that should be explained?

## ✔ Recasting financial statements

Recasting the income statement is probably one of the most important tools to show real income. A balance sheet that shows book values and market values is often used to reflect the real value of the assets.

## ✔ Legal considerations

If the business is a corporation, you must comply with all corporate formalities and deal with any contingent liabilities, unresolved tax problems or audits. Compliance with all local, state and federal agency laws, rules or policies is a must as owners will be asked to represent and warrant that they are in compliance. Also, determine if regulatory approval is required for the sale of the company.

## ✔ Tax planning

Many owners will have a huge capital gains tax upon selling the company. Owners need to plan very carefully to reduce their tax liability and plan how the money should be used to meet financial goals. You need to discuss your situation and options with an experienced and qualified tax accountant. This may not be your existing accountant - it needs to be an accountant experienced in tax planning.

## Selling price

Do you have a realistic expectation of a fair sale price for your business? Has a third party given at least an opinion as to the value of the business?

There can be hundreds of items to take into consideration when positioning your company for sale, but the effort and expense are well worth the reward.

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