remedy
taking care of business

Preparing your business for sale

Before you even think about placing your business for sale there are some things you should do first. The first thing is to gather information about the business, such as:

- Three years' profit and loss statements
- HMRC tax returns for the business
- List of fixtures and equipment
- The lease and lease-related documents
- A list of the loans against the business (amounts and payment schedule)
- Copies of any equipment leases
- A copy of the franchise agreement, if applicable
- An approximate amount of the inventory on hand, if applicable
- The names of any outside advisers

Five top sales tips

• Ensure your business processes and records are in good shape

• Tidy up any potential shareholder issues

• Appoint professional advisers

• Make it competitive to create vital leverage

• Maximise up-front cash

Preparation

If you're like many small business owners, you'll have to search for some of these items. After you gather all of the above, spend some time updating the information and filling in the blanks. You may have forgotten much of this information so it's a good idea to take a hard look at all of this. Have all of the above put in a neat, orderly format as if you were going to present it to a prospective purchaser. Everything starts with this information.

Make sure the financial statements of the business are current and as accurate as you can get them. If you're halfway through the current year, make sure you have last year's figures and tax returns, and also year-to-date figures. Make all of your financial statements presentable. It will pay in the long run to get outside professional help, if necessary, to put the statements in order. You want to present the business well on paper.

As you will see later, pricing a small business is usually based on cash flow. This includes the profit of the business, as well as the owner's salary and benefits, the depreciation, and other non-cash items.

Prospective buyers eventually want to review your financial figures. Buyers want to see income and expenses. They want to know if they can make the payments on the business (more on this later) and still make a living. If your business is not making a living wage for someone, it probably can't be sold. However, you may be able to find a buyer who is willing to take the risk, or an experienced industry professional that only looks for location and feels that he or she can increase business.

The buyer

It is important that the buyer is as serious as the seller when it comes time to purchase a business. If the buyer is not serious, the sale will never close. A few of the reasons that buyers buy businesses:

- Laid-off, fired, being transferred (or about to be any of these)
- Early retirement (forced or not)
- Job dissatisfaction
- Desire for more control over their lives
- Desire to do his or her own thing

A look at the make-up of the average individual buyer looking to replace a lost job or wanting to get out of an uncomfortable job situation:

- He is a male (however, more and more women are going into business for themselves, so this is rapidly changing).
- Almost 50% will have less than £100,000 to invest.
- In many cases the funds, or part of them, will come from personal savings followed by financial assistance from family members.
- The buyer hasn't owned a business before.
- Money is important, but it's not at the top of the list; in fact, it probably is in fourth or fifth place in the overall list.

Buyers who want to go into business strictly for the money usually are not realistic buyers for small businesses. Keep in mind the following traits of a willing buyer:

- The desire to buy a business
- The need and urgency to buy a business
- The financial resources
- The ability to make his or her own decisions
- Reasonable expectations of what business ownership can do for him or her

What do buyers want to know?

It may help in your decision making process to understand not only who the buyer is but also what he/she will want to know in order to buy your business. Some questions that you might be asked and should be prepared to answer:

- How much money is required to buy the business?
- What is the annual increase in sales?
- How much is the inventory?
- What is the debt?
- Will the seller train and stay on for a while?
- What makes the business different/special/unique?

- What further defines the product or service? Bid work? Repeat business?
- What can be done to grow the business?
- What can the buyer do to add value?
- What is the profit picture in bad times as well as good?

Cash flow

The first thing to keep in mind is that the vast majority of buyers want to buy cash flow. Sit down with your accountant and begin to get your financial statements in order, with cash flow the order of business.

Cash flow is not the same thing as profit. Most buyers look at the profit and loss statement or tax return, as well as owner or family compensation. They will consider any excess compensation to employees and family.

Buyers will also look at large, one-time expenses such as a new computer system or remodelling. They will consider non-cash items like depreciation and amortization. Interest expenses will be reviewed, as will owner prerequisites. These are items that a professional business broker considers when advising a selling client on a selling price.

Appearances count

The time to replace that old worn-out piece of equipment is before you decide to sell. Don't assume that a new owner will want to do it or that the price will be slightly lower because you haven't replaced it. The time to spiff up the business is now, even if you aren't selling. Fix the sign, replace the carpet, paint the place - make it look good. Even if you're not selling, it's just plain good for business, and you never know when the time to sell occurs. Keep in mind that anything that increases sales also increases profits and the all-important cash flow!

There are other things that add value to your business. Don't discount the value of customer lists, proprietary products and/or techniques, well-maintained equipment, secret recipes, customized software programs, or good employees. These are termed off-balance sheet items and although not used in most pricing models, they add to value.

Eliminate surprises

Long before you put your business on the market eliminate the surprises! Review every facet of the business and remedy any problems that could appear during the sale process. No one likes surprises - most of all potential buyers. Whether legal, accounting, environmental, or anything else - solve it now.