



5 Selling Mistakes To Avoid

Avoid Barriers Through
Sound Advance Planning

Introduction

According to the latest survey conducted by the Exit Planning Institute, 76% of responding business owners plan to transition out of the business over the next 10 years, with nearly 50% planning to conduct their transition in the next 3 years. However, 83% either do not have a transition plan, or have a plan that has not been documented or communicated (which we essentially view the same as not having a plan). With the improving economy and credit markets, many business sellers who had been sitting on the fence are now thinking it's time to put the business up for sale. If you fall into that category, don't fall into the 83% statistic. Indiana Business Advisors sells more businesses than any firm in Indiana, and we're here to help you avoid 5 primary obstacles that can all be averted with good planning.



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Mistake # 1: Not Showing Revenue

We get it – everybody wants to pay as little as possible in taxes. But here's the reality: you can't sell cash. Buyers want verifiable evidence of assets and cash flow. While the tax strategy deployed by you and your accountant may have served you well while you've been operating the business, it may be time to re-evaluate that strategy now that your objective is to sell. Yes, that may mean sending more to Uncle Sam, but the payoff can be worth it. Showing revenue obviously takes some time, so the earlier you start, the better. Make it a priority to call this week and get on your accountant's calendar.

Mistake #2: No Transition Plan

Make it easy for a buyer to see him/herself taking over the reins. For many, this will mean beginning to systematically remove yourself from being the center of the universe for your business. Some places to start:

- Document operations and employment policies in manual format.

- Formalize and document your business plans.
- Delegate responsibilities to others within your organization.
- Execute employment and non-compete agreements for key personnel.
- Renegotiate any leases that will be expiring within 5 years and ensure transferability of the lease.
- Specify what you want your role and time commitment to look like after the deal closes.

Mistake #3: Guessing At Inventory

Whether on purpose or on accident, the inventory numbers for many businesses are often way off. If you carry inventory for your business, that's a significant asset that a buyer will be evaluating during the due diligence process – and you don't want him or her to find any 'surprises' that late in the game.

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If you haven't done a physical inventory count in a while, add it to your to-do list and get that info reconciled with your financial statements. Once you know how much you actually have, consider how valuable each item really is. For example, your 2013 Widget Mechanisms may be obsolete; realize that a buyer won't value them for what you paid for them.

Mistake #4: Not Offering Financing

About 90% of "main street" deals involve seller financing (i.e. business valued at \$1 million or less). Most business buyers simply do not have enough cash to purchase a business outright and bank financing only bridges part of the gap. Business owners often have a knee-jerk, negative reaction to seller financing, but consider these points:

- You may be able to increase your asking price.
- You will attract more buyers.

- Your sale will close more quickly.
- You'll earn interest (typically 6%-10%).
- You may have some tax advantages.

Anytime seller financing is involved, the buyer should undergo due diligence just as you/your business are. A good business broker will advise you on what to look for. Typically, buyers sign a personal guaranty and offer personal assets as collateral. Remember, this doesn't mean you don't get any cash at closing - you do. Seller financing represents a portion of the proceeds in the form of a note, which supplements the bank financing and buyer cash injection. So, make sure to also make this a topic of discussion when you meet with your accountant.

Mistake #5: Letting Emotion Cloud Your Judgment

The business may be your 'baby'....you've stayed up late nights over it, poured countless hours into it, and believe it is perfect and special. But the truth is, potential buyers really don't care about any of that. To them, it's an investment - and that can be a difficult emotional hurdle to get over.

You need to start detaching yourself emotionally from your business, and begin seeing it as buyers and lenders will. Start understanding and evaluating the following:

- Industry statistics and projections
- The types and levels of competition you face
- Your financial performance metrics and ratios
- Sources of risk for your business and industry
- What could a new owner do better that would increase the profit potential

Conclusion

The bad news: this is just a starting list of pitfalls to avoid when trying to sell your business for an optimal price and with optimal terms.

The good news: these and the others are completely avoidable.

The starting point: take some advice from author Jim Collins and begin by examining the brutal facts, with no rose tinted glasses. Once you can 'see' your business the way an outsider would, you can identify the bright spots better and get a concrete list of areas that need 'polishing' put together. Rely too on your team of trusted advisors: spouse, attorney, accountant, financial planner, business broker. Conceptually, you've all been on this ride to achieve this very moment - when you can sell the business on your terms and move on to the next chapter of your story.

For help preparing your business for sale and finding the right buyer, the experts at Indiana Business Advisors can help. With over 40 years experience buying and selling businesses, we can help find the right buyer for you.

Contact us today for a free consultation at www.indianabusinessadvisors.com