

IRC Investments

Selling Tutorial

Is it time to sell? Selling your business is a major decision! You have devoted your time, money, and energy into building, running, and operating your business. It may well represent your life's work. If you have already decided that now is the right time to sell, you want the very best professional guidance you can get. This is when working in tandem with a professional business broker can make the difference between just getting rid of the business and selling it for the very best price and terms!

Following are some of the most common topics and questions frequently brought up by sellers. If you have any questions that we have not covered, please don't hesitate to contact us.

For Business Sellers

If you've gone this far, then selling your business has aroused enough curiosity that you are taking the first step. You don't have to make a commitment at this point; you are just getting informed about what is necessary to successfully sell your business. This section should answer a lot of your questions and help you through the maze of the process itself.

Question 1

The first question almost every seller asks is: "What is my business worth?" Quite frankly, if we were selling our business, that is the first thing we would want to know. However, we're going to put this very important issue off for a bit and cover some of the things you need to know before you get to that point. Before you ask that question, you have to be ready to sell for what the market is willing to pay. If money is the only reason you want to sell, then you're not really ready to sell.

**Insider Tip:*

It doesn't make any difference what you think your business is worth, or what you want for it. It also doesn't make any difference what your accountant, banker, attorney, or best friend thinks your business is worth. Only the marketplace can decide what the value of your business is.

Question 2

The second question you have to consider is: "Do you really want to sell this business?" If you're really serious and have a solid reason (or reasons) why you want to sell, it will most likely happen. You can increase your chances of selling if you can answer yes to the second part of this question: "Do you have reasonable expectations?" A yes answer to these two questions means you are serious about selling.

The First Steps

Okay, let's assume that you have decided to at least take the first few steps to actually selling your business. Before you even think about placing your business for sale, there are some things you should do first. The first thing you have to do is to gather information about the business.

Here's a checklist of the items you should get together:

- Three years' profit and loss statements
- Federal Income 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 advisors

Notes:

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 items, you should spend some time updating the information and filling in the blanks. You most likely have forgotten much of this information, so it's a good idea to really 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 half way 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 usually is 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. So don't panic because the bottom line isn't what you think it should be. By the time all of the appropriate figures are added to the bottom line, the cash flow may look pretty good.

Prospective buyers eventually will want to review your financial figures. A Balance Sheet is not normally necessary unless the sale price of your business would be well over the \$1 million figure. 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. Let's face it, if your business is not making a living wage for someone, it probably can't be sold. You may be able to find a buyer who is willing to take the risk, or an experienced industry professional who only looks for location, etc. and feels that he or she can increase business.

**Insider Tip:*

The big question is not really how much your business will sell for, but how much of it can you keep? The Federal Tax Laws determine how much money you will actually be able to put in the bank. How your business is legally formed can be important in determining your tax status when selling your business. For example: Is your business a corporation, partnership or proprietorship? If you are incorporated, is the business a C corporation or a sub-chapter S corporation? There are also tax rules that impact certain businesses on seller financing. The point of all of this is that before you consider price or even selling your business, it is important that you discuss the tax implications of a sale of your business with a tax advisor. You don't want to be in the middle of a transaction with a solid buyer and discover that the tax implications of the sale are going to net you much less than you had figured.

Who are the Buyers?

Buyers buy businesses for many of the same reasons that sellers sell businesses. 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. Here are just 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 Buyer Profile

Here is 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. Chances are he is a male (however, more and more women are going into business for themselves, so this is rapidly changing). Almost 50 percent will have less than \$100,000 in which to invest in the purchase of a business. In many cases the funds, or part of them, will come from personal savings followed by financial assistance from family members. The buyer will never have owned a business before, and most likely will buy a business he or she had never considered until being introduced to it.

Their primary reason for going into business is to get out of their present situation, be it unemployment or job disagreement (or discouragement). Prospective buyers want to do their own thing, be in charge of their own destiny, and they don't want to work for anyone. 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. In order to pursue the dream of owning one's own business, the buyer must be able to make that "leap of faith" necessary to take the risk of purchasing and operating a business.

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 Buyers Want

This may be a bit premature if you not have decided to sell, but it may help in your decision-making process to understand not only who the buyer is, but also what he or she will want to know in order to buy your business. Here are 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 awhile?
- 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?

Buyers Want 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 or bookkeeper 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 remodeling. 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.

**Insider Tip*

What about the Internet? The Internet is a real “buzz” word – and if its use is appropriate for your business, then developing a web site is important not only to your on-going business, but also to a buyer. Many buyers are conscious of what the Internet is doing for many businesses. If you have a web site for your business, it could be a big plus.

What Can You Do?

Appearances Do 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 just 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 will occur. Keep in mind that anything that increases sales also increases profits and the all-important cash flow!

Everything Has Value

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. Look at your business very carefully so you don't overlook those items that make your business more attractive to the buyer.

Eliminate the 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.

**Insider Tip*

This may sound like something that should have been done when the business first started, so it may be "after-the-fact". You should create an operations manual. You may already have one, or started one years ago, or simply, have thought of doing one. Now is the time! It may actually create added value to the business. Even if it doesn't, it will impress buyers that you have your business "act" together and should help you sell more quickly and effectively. Preparing a manual on how to operate your business can also be helpful even if you don't want to sell. It doesn't have to be elaborate, just cover the basics. A collection of ads that you have placed in a catalog or sample of products, publications, or menus (if the business is food related) is also impressive. Include anything to do with the business that might be helpful for a new owner. However, don't include anything that is proprietary, such as customer lists, suppliers or secret recipes, etc.

We look forward to working with you in finding a suitable buyer for your business. You, as the seller, are an integral part of the total marketing program. Below you will find a few friendly recommendations that will help in our marketing efforts when you decide you are ready to sell.

- Keep normal operating hours. There may be a tendency to “let down” when you put your business up for sale. However, it’s important that prospective buyers see your business at its best.
- Repair signs, replace outside lights, etc. You don’t want your business to look as if it has been neglected.
- Maintain inventory at a constant level. If you let your inventory slide, your business will look neglected. If anything, increase it so your business will look busy.
- Remove items that are not included in the sale and unnecessary items, especially if inoperative.
- Repair non-operating equipment or remove it if you are not using it.
- Tidy-up outside premises.
- Spruce-up the inside of the business.etc.

It might also be helpful if you took a good look at your business from the perspective of a buyer. Try to put yourself in the place of a prospective purchaser of the business. What would you do to make it more attractive or more saleable? Obviously, the financial records of your business are critical to the sale of your business, but how it looks is also important. First impressions really count! If a potential buyer doesn’t like the appearance of your business, the rest of it may never get a chance. If you have any questions, please don’t hesitate to call us. We look forward to hearing from you!

Do You Have Other Questions?

- How long does it take to sell my business?
- What can business brokers do – and, what can’t they do?
- What can I do to help sell my business?
- What happens when there is a buyer for my business?
- Why is seller financing so important to the sale of my business?