TLC tip

What You Need to Know About Selling Your Business

Selling a closely-held business is often the backup succession plan for most business owners. If they are unable to keep the business in family or pass it on to key employees, they count on being able to sell the business to a third party. However, for a number of reasons, selling a closely-held business is notoriously difficult. Here are the numbers. At any given time, 20% of closely-held businesses are available for sale. Either an owner is actively courting a sale, or will sell if an appropriate offer is made. However, only 1 of every 4 of these businesses will actually be sold. If you are looking to sell your business, here is what you need to know to improve your chances:

Corporate Documentation. Make sure that the business' corporate documents are in order. This includes basic formation documents and bylaws, but is especially true of other agreements and contracts. This will prevent surprises later. A sale will quickly derail when it is discovered that documents are so loosely held as to be a liability, or your ownership of a particular product is questionable because a contract was not properly drafted or reviewed the first time around.

Financial Audit. Tidy up your financial documentation. It is very important that the business' finances are kept in strict form. Entrepreneurs can make great leaders, but are often lackluster accountants. Sloppy accounting can affect both the tax consequences of any sale of the business, as well as the form that the sale takes. Practically speaking, though, a buyer is going to lose interest if revenues, profits, and expenses cannot clearly be discerned from your books. Your general idea of the business' financial health is not going to carry the same weight.

Valuation. You will need to get an idea of what your business is worth. For many owners, book value is the go-to answer to that question. However, book value is not an accurate measure of a business, and usually will not reflect what another party is willing to pay. A formal appraisal will need to be done, and will often set a price at some multiple of earnings.

Stay Focused on the Business. While a potential sale is being nurtured, it is incredibly important that the owner stay on top of the business. A sale will frequently fail to close when earnings slide because an owner is unable to both pursue the sale and also keep a handle on the business. Prioritize keeping the business functioning at peak levels, and if necessary, bring in another party or broker to follow through with the sale.

Invest in Your Key Employees. The sale of a business can be hampered where the owner is the sole foundation for most of the business' relationships. A departing owner can mean departing customers and vendors. Make sure that business relationships encompass several key employees as well. A buyer wants to know that significant customers and vendors will stick around after the owner leaves.

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