

Talking Technology

Considerations to ponder when selling a business

By Steve Burns, Capital News contributor

In previous columns I have provided some suggestions for those thinking of purchasing a business.

However, if you are a business owner, even if you have never thought of selling your business, planning for this critical event can significantly enhance the value of your company.



This week we take a closer look at selling your business in a two part series:

Here are my top five points to consider that will help you to plan for this key event:

1. Determining your objectives for selling.

It is useful to determine what your personal and business objectives would be in the event of the sale of your business.

Often people assume that they will earn enough from the sale of their business in order to retire. However, this may not be realistic.

For example, if you wanted to be in the same after tax position for the next 10 years that you are in now, you will need to look at what the business earns now, what it is projected to earn and what this after tax cash flow means to your family.

This will help you to evaluate what the purchase price would need to be in order for you to meet your financial objectives.

Another key objective in selling your business is determining what you will do after the sale. For instance, most entrepreneurs never really retire so what will you devote your time to after the sale?

Consider whether or not your personal and corporate objectives can be achieved by means other than selling the business.

Perhaps you will want to continue operating the business as a way to provide income and career opportunities to the next generation of family members.

2. Letting go.

Although letting go of your business will not be easy, your primary objective should be to replace yourself now so that the new owners are not highly dependent on your expertise.

While this will cost you to train someone new to replace you or promote someone within the business, this will reduce the risk for the buyer and boost the selling price.

In order for this to work effectively, you must have a transition plan in place that specifically outlines how you will let go.

One of my clients did this a year ago in a very fast growing business. They set clear objectives to be reducing the amount of time that they spent at the business.

Within 18 months they transitioned from being there full time to being on the golf course four days a week.

The next step is for them to get completely out of the business by putting a formal structure with accountabilities in place. It is possible!

Keep in mind that in considering a sale, most entrepreneurs are often not very suitable employees in an acquired company. However, if you must stay, plan to stay less than two years after the closing.

3. Timing and readiness

Important considerations in selling your business are both timing and readiness.

While the business may not be ready for sale today, you may want to plan for the sale of your business three to five years from now.

Ideally you will want to take action now to enable the business to run independent of you, which simply takes hard work. Systematizing your business, which is documenting all of your business processes so that someone with the lowest possible skill level can perform the task, will help to match the timing of the maximum value of the business with your business' readiness.

If you view your business as you would a product for sale, you can increase the value of your business significantly. Identifying areas of weakness in your "product" in areas of strategy, finances, operations, marketing, customer service, human resources, etc. can help you build and action a plan that will minimize these weaknesses and build on your strengths.

4. Valuing your company.

Determining what your company is really worth is a crucial step in the planning process.

Having a formal business valuation done on your business is a proactive step to determining your minimum acceptable price, your asking price and other key terms and conditions of any sale.

5. Seeking out purchasers.

For many business owners, reacting to an inquiry is easier for them than taking the initiative and proactively seeking purchasers.

However, being proactive in identifying and pursuing potential purchasers can often result in a better fit and potentially more than one company interested in purchasing your business.

To be effective, you need to decide ahead of time what information you will give to potential purchasers and at what stages.

Disclosing too little information and requiring purchasers to go through too many hoops to have basic questions answered could result in killing any potential deal from the outset.

It is often a delicate balancing act to consider the purchaser's needs for more information with your need to qualify the purchaser and not to disclose too much information too soon.

Next week we will look at other important considerations in considering the sale of your business.

Steve Burns, CA, CMC, CFP, is the president and CEO of the Burns Innovation Group Inc. (www.burnsinnovation.com), a full service consulting firm. If you have any questions or comments, contact Steve at 763-4716 or e-mail him at:

steve@burnsinnovation.com