

THE EXPERTS

SELLING A BUSINESS

The steps your business broker should take

After reading my article in the Dec. 8 Inside Business, several readers called and said, "I knew ultimately, I would need to exit my business. Now that I am ready, how do I sell it?"



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Here are the steps an experienced broker will take to sell your business:

1. Value the business fairly at an asking price to sell.
2. Confidentially market the business.
3. Thoroughly screen all buyers.

4. Negotiate terms and conditions of the sale with buyer and seller.

5. Assist the buyer with bank or owner financing.

6. Structure a sale considering tax advantages for you and the buyer.

7. Prepare accurate instructions for an escrow attorney to close the transaction.

Let's take a closer look:

The business valuation: For larger businesses this step often is best done by an independent valuation company. The value will be based on the financial records, tempered by the book value of assets, and influenced by the operation of the business against theoretical costs with a pinch of recasting and a dash of multiples for goodwill.

Sellers often fail to realize their poor financial record-keeping. The valuation is a very quick and easy process as long as the financial records are current and they don't require much recasting. Recasting is a method used to examine the real costs of operating your business. Sellers normally will only accept what the financial records indicate.

Typically, buyers won't pay for what they can't see on financial records. Recasting is a process to help explain poor financial results and to show the opportunity for better income by both improved management and financial record-keeping.

Business brokers have access to business sales trends nationally for the various business categories. There are also resale multiples available to brokers that are based on previous sales of businesses in your industry.

Occasionally, trends in the market will also influence valuations. For example, several years ago, convenience stores were hot commodities. Today, convenience

stores have fallen out of favor. The convenience store valuation multiple dropped from 3-5 times cash flow to 1-2 times cash flow today. The broker's value will be based on facts, but ultimately the seller will have the final say on the asking price put on the business.

Confidential marketing: This is an essential consideration. You do not want to risk the possibility of staff or competition learning the business is for sale as a tenured staff is one of the strongest assets of a business. During the selling process, you never want staff to depart. They may if they learn that you are selling your business. They will be concerned about their employment. Keep your staff in place. They will learn when the business is sold and will meet the new owner the day the new owner takes over.

If your competitors learn that you are selling your business, they will use the opportunity to lure your clients away. They will tell your customers and others to create questions in the minds of customers about the future and stability of your business. You never want to lose customers or experience declining revenues when you are trying to sell a business, as declining revenues are a huge red flag to buyers.

Buyer search and screening: Screening is a critical step in the process and another important role of a broker. Sellers are too close to the transaction to be objective. Every buyer inquiry looks good to a seller and sellers typically want to expose buyers to too much information too quickly. They will immediately go into their salesperson mode. It is better to have an intermediary interact initially with potential buyers.

A broker will first require the buyer to sign a confidentiality disclosure followed by an examination of financial statements, which will determine the candidate's financial capability. In an interview, the broker will determine the buyer's experience in the business category. Once qualified, the broker will methodically expose the buyer to the positives of the business.

Additionally, a broker will have a resource of buyers. A broker sells many businesses and has possibly

shown a business similar to yours to other qualified buyers who are still searching for a business.

The ultimate step is the introduction of the buyer to the seller. This is the time for you as the business seller to shine. Make the buyer feel comfortable about the operation of the business, help him project himself into the business owner's role and talk about the plans for the future of the business if you were to continue to own it. During this step the broker will coach the seller.

Structuring the sale: Ideally the seller has made the buyer so eager to own the business that the buyer wants to make an offer immediately. The broker's experience and the seller's confidence in the business are major factors in structuring an offer and the terms of the sale. He will know the financial capabilities of the buyer and the seller's interest in financing a portion of the sale.

This step also requires the bro-

in the analysis of the tax implications of the sale and assist in the negotiations to structure the purchase agreement and the promissory note.

Recently, I met with several Wells Fargo executives who handle SBA loans. We discussed the qualifications for SBA loan candidates. An important factor they consider is if the buyer has experience in the industry. Lenders can tell the broker if a business is qualified for institutional funding, how much funding and typically the financing conditions.

Brokers have more than one source for institutional financing. We tend to use the lenders that have been successful with our past clients and have the most efficient documentation process.

Closing document preparation: The broker can recommend an escrow attorney to handle the closing. Escrow attorneys will draft documents but do not represent either party. They simply facilitate the transaction by conducting lien searches of entities and assets to ensure that the buyer has clear title to the assets. They will also record documents and liens for the seller if seller financing is involved.

There are many points to consider before embarking on the selling process. A broker will facilitate a quicker sale by bringing more qualified and experienced buyers to the negotiating table. The transaction will be less stressful for the seller if handled by a broker.

A large number of businesses fail to sell for many reasons. Sellers are often the reason they don't sell. Owners want to influence the valuation pro-

cess. They want to talk about the potential of the business and the "real sales." Don't!

A business owner not willing to finance a portion of the sale will lose the sale. Even SBA loans will require the seller to hold some financing.

A successful sale is an agreement between the buyer and seller at a fair price for a fair value of the business. The parties must realize that "compromise" is the operative word. The most important question that I ask myself during any negotiations is, "What is the best deal for both parties?"

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