

7 Deadly Mistakes For Sellers

1 Not knowing the true value of the business. It never ceases to amaze us that so many sellers get into the market without taking the time to understand the value of their business. Some sellers seem to think that their business is worth what they want it to be worth, and just “make up” a value based on their needs (“I need ‘X’ to retire”). Others seek opinions from their friends, family, CPA or attorney and latch onto the highest number quoted. And still others go to the worldwide web and run “comps” for businesses based upon the asking price of the business, basing their value opinion on the collective judgment of other uninformed and wishful thinkers like themselves. When their business fails to sell, they wind up scratching their heads and complaining that the “market is soft” while businesses all around them are selling like hot cakes.

2 Trying to sell to just one buyer. Boy, this is a whopper of a mistake that for some inexplicable reason happens frequently. The scenario is something like this: A competitor or friend or private investor calls the business owner and expresses an interest in buying the business. This “buyer” indicates that price isn’t an issue as long as it’s reasonable; that financing will be a breeze because “money is no object;” and, that the deal will happen so quickly that no one will know it’s happening. The Seller, with visions of retirement to a tropic isle just around the corner, rushes to put a deal together. And we usually get the call from the would-be seller after he or she has reached the point of utter exhaustion with a process that has lingered on for months and months – and sometimes more than a year – with no end in sight. The fact is, one buyer is no buyer! And you cannot expect to sell at “market value” if you never go to market.

3 Ignoring the business during a “sale.” Selling a business is a complex and demanding task. There’s advertising, screening, presenting and negotiating that has to occur before any deal can be struck. And, the demands after a deal is made are sometimes even more difficult to handle. These demands can and often do overwhelm business owners, who lack both the time and the knowledge of the process to effectively manage a sale and run their business at the same time. As a consequence, many businesses suffer from a period of poor performance that later causes buyers to try to negotiate a better deal, or worse yet, withdraw from the transaction. Sellers must continue to run their business as if they will own it for the next several years.

4 Not preparing a selling memorandum. To obtain top dollar for your business, it must be presented in its best possible light and in a manner that concisely presents the pertinent information. A buyer must have all of the facts relating to the business at his or her fingertips. There is no shortcut to solving this problem. It can only be solved by preparing a professional selling memorandum, often referred to as a Confidential Business Review (“CBR”). Buyers fear the unknown, and that fear is directly related to what a buyer is willing to pay. A good CBR minimizes this fear by clearly stating all of the relevant facts regarding the business, and typically includes an executive summary “snap shot” of the business, financial highlights, operations overview, significant strengths and weaknesses and much more. The goal of a professional CBR is to make the buyer comfortable enough with the facts of the business to take the next step and write an offer. And further, an offer made by a fully informed buyer has a much greater probability of reaching the closing table.

5 Not preparing the business for sale. Most homeowners would never dream of putting their house on the market without first making sure that buyers will see it in its best light. But incredibly, sellers of businesses often fail to do the simple things that can make or break the sale of a business. Like homebuyers, business buyers love to see neat and tidy work areas. They want to know that the employees are good people, capable of handling their jobs. They want to see a good set of books and records so that they can know that the foundation of the business is strong. It is important to make sure that you have good and accurate records for the past three fiscal years, adjusted for discretionary or one-time expenses. Your balance sheet should be free of non-operating assets, obsolete inventory and very old receivables. And, the processes and procedures that make the business run should be well documented and accessible. A little intelligent preparation goes a very long way in making sure a business sells.

6 Not looking at the business from the buyer's perspective.

It's not really hard to do, but sellers seldom do it. When sellers say the sky is the limit and his or her business can grow by 30% each year, the buyer usually asks, "If it's so easy, why haven't you done it?" When sellers say they could cut several employee's salaries and save tens of thousands each year, buyers ask why they have been paying those unnecessary salaries for years. When a seller says that one big customer is one of the greatest customers they have ever had, buyers want to know what would happen if you lost that one customer which accounts for 64% of your revenue. Buyers are naturally skeptical of anyone selling their business. As a seller, put yourself in their shoes and then look at your business. What you see may surprise you.

7 Not hiring a professional business intermediary. All of the mistakes listed above, plus a whole host of others, can be avoided by hiring a professional intermediary. Selling your business is probably one of the most important decisions of your life. Why would you trust its sale to anyone but the most qualified professional? A professional intermediary, especially one with the Certified Business Intermediary (CBI), The California Certified Business Broker (CBB), or the Merger and Acquisition Master Intermediary (M&AMI) designation, are dealmakers whose sole focus is valuing and selling companies. Professional intermediaries stay abreast of the latest SBA lending trends, stay informed on taxation issues and typically have years of experience negotiating serious issues like covenants not to compete and purchase price allocations. All sellers owe it to themselves to find the most experienced, credentialed and professional intermediary available to them. We think any intermediary you consider should be a member of the California Association of Business Brokers (CABB) and the International Business Brokers Association (IBBA). We believe that only by interviewing intermediaries at their offices can you really make an assessment of their capabilities. We firmly believe that you should not attempt to sell your business without a professional's guidance. And remember, the best intermediary is not necessarily the one that offers the highest opinion of your company's value, or the one that quotes the lowest commission rate. Maybe it's just us, but when we shop for a surgeon, we don't ask the price. We simply want the best! We think you should too.