

Avoiding Hazards When Selling a Business

When selling a business, be aware that the following areas can be hazards to closing a deal:

Price

The asking price must be fair and reasonable to both sides—the most common reason that a business does not sell is because the price is unreasonable. Think of your business as an “investment” for the buyer—there must be a reasonable, economic correlation between the earnings of the business and the asking price. The cash flow of the business must be able to provide: a salary for the owner/manager, debt coverage on financing, set-aside for capital improvements and some return on investment.

Potential

Do not expect a premium to be paid for potential, or “blue sky”. Every business has potential, so with a lot of work, every business could be more valuable. If the potential could be easily attained, the buyer will wonder why the owner has not been able to bring it to reality.

Financing

A good business opportunity must have financing...an all-cash deal is rare in the marketplace. We will assist in getting a business pre-approved for third party financing. Usually the third party requires some seller-financing to insure the smooth transference of ownership.

Bad Records and Books

Having accurate books and records is absolutely essential in a business transfer. Poor record-keeping can jeopardize bank financing. All owner “perks” must be fully documented to be allowed in cash flow. Unreported cash disbursements rob value from the owner’s selling price...sometimes as much as a five-to-one ratio. Year-end adjustments to the books (designed to lower tax liability) play havoc with the consistent flow of business when a buyer analyzes several years of operation.

Continuing the Course of Business

Preparing a business for sale takes skill, time and energy. A firm’s sales and service can suffer if the owner is expending too much of his/her time on selling the business. C. G. Reicher Associates can alleviate this problem by guiding the sale process so the owner can run the business.

Talking Without Doing Your Homework

Some owners believe that a heart-to-heart conversation and a plant tour will convince a potential buyer to purchase the business. Savvy buyers base their decision to buy on a thorough study of written fact, analysis, history, valuation, financial statements and business information. Talk is cheap and rarely sells a business. □

Rigidity

Every deal requires negotiation. While price is typically considered the primary driver in a deal, there are many terms which can also affect a deal. With flexibility in one area, a seller or buyer can achieve their hoped-for target in another area. We will assist you in discerning how you can best negotiate to generate a reasonable and successful deal.