Stumbling Blocks To Avoid When Selling Your Business

by Peter C. King, VR Business Brokers/Mergers & Acquisitions, CEO

From a lack of preparation to proceeding without the help of a skilled intermediary, these are some of the most common mistakes made by sellers.

Selling a business for a satisfactory return and within your preferred timescale can be a challenging prospect. Attracting buyers requires a focused approach, careful groundwork and realistic expectations.

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Here are some common pitfalls you should avoid to boost your chances of a successful outcome.

Lack of preparation

Owners frequently underestimate the time required to prepare for a business sale. Most business brokers advise allowing significant time to thoroughly prepare for a market listing.

This allows you to formulate a viable exit strategy, which should include an effort to make the business more appealing. For example, cutting wasteful costs, putting your financial history in order and tidying or even renovating your premises will positively influence the selling price.

Overconfidence

As elsewhere in your business activities, confidence can be a useful tool – provided it is grounded in reality. Purchasers will generally only pay what your business is worth – and their assessment of that figure will be based on independent valuations based on profit, asset values and other measurable factors, not on your own personal estimate.

Obtaining a professional business valuation at an early stage will keep your expectations realistic and give you an idea of the work required to realize enough cash to fund your next venture or a comfortable retirement. It's also useful to research the online marketplace to check the asking price of similar businesses and to ask your VR Advisor about the current sales climate, prevailing trends and the factors driving prices.

Overvaluation

Any business valuation must be a logical and transparent assessment of the worth of the enterprise. Prospective buyers will inevitably query the figures in order to understand the applied rationale – so any significant overvaluation will soon become apparent.

They will want to examine supporting evidence to verify profitability and things like the value of long-term depreciable assets. To convincingly refute accusations of overvaluation, you should adopt one of the standard business valuation formulas based on assets, income or even a multi-method approach – whichever suits your type of business best.

Misrepresentation

To get a good price you will naturally seek to emphasize the positive attributes of your business. Nevertheless, avoid dubious practices such as producing inflated figures and misleading estimates or concealing flaws. Apart from the ethical considerations, the discovery of such deception will likely prompt the withdrawal of prospective purchasers or maybe, if discovered post-sale, legal action.

Therefore the safest approach is to discuss all forecasts, projections and other sensitive information with your professional adviser before disclosing information to a potential buyer.

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Disclosing sensitive information without a non-disclosure agreement

A breach of confidence during the sales process can be hugely damaging to your business. If details of the sale are leaked it can unsettle key staff and prompt customers and suppliers to defect. If you disclose sensitive information to buyers without asking them to sign a non-disclosure agreement first, you run the risk of that information becoming known to your competitors too.

As with many other aspects of a business sale, a skilled business broker can advise you on screening buyers, when to introduce non-disclosure agreements as well as what information to disclose, and when.

Deal fatigue

Because of the procedures, regulations and time involved, selling your business will always be a marathon rather than a sprint. And to continue the analogy, marathon runners are also more likely to quit the course.

That means patience, stamina, determination and a clear understanding of your identified goals are essential to your cause. Administrative frustrations and sticking points are almost inevitable, and distinguishing between temporary setbacks and non-negotiable, deal-breaking issues may ultimately determine the quality of outcome you achieve.

Refusing to seek the help of a professional

Selling a business is not the same as running a business, so you're probably an amateur in the game. Even so, too many business owners avoid hiring professionals in the belief that the cost-savings achieved will generate a higher return.

Though using a business intermediary obviously incur fees and commissions, having experts to handle financial and legal issues, as well as negotiations, will invariably result in a smoother, more discreet selling process, steering you clear of the most common pitfalls and maximizing your eventual returns.