

Preparing Your Business for Sale - Taking the Necessary Steps to Ensure Success

By JoAnn Lombardi, VR Business Sales/Mergers & Acquisitions, President

Selling a business can be one of the most important events in a business owner's career. This high-stakes transaction has the potential to yield great rewards - both financial and emotional.

But selling a business also can be a complex and mentally draining proposition. Even the most successful and experienced business owners may find themselves unprepared and unequipped. Before you begin the process of selling your company, make sure you're ready. Being prepared can mean the difference between a smooth sale and a bumpy - not to mention costly - ride.



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Preparing for the Sale

Before your business goes on the market, attend to the following checklist of items:

Normalize your financials. To present your financials in the most favorable light to potential buyers, you may want to consider switching from a cash method of accounting to an accrual method. An accrual method reports income when it's earned and expenses when they're incurred. Converting to this method can present buyers with a more appropriate financial image of your company.

Next, think about shifting from an accelerated system of reporting depreciation to one that shows depreciation spread over a longer period of time. Also, eliminate any expenses from your financial statements that could be deemed excessive by a potential buyer. These may include items from owner perks - expensive club memberships and luxury hotels - to paying premium prices to vendors because of family or other personal relationships.

Payroll also should be adjusted, particularly in cases where family businesses employ family members at salaries that are higher than industry norms. Accordingly, extensive insurance coverage for family members should be normalized into a less comprehensive, standard plan.

An accounting professional can help adjust your financial statements to ensure that they're on par with normal business practices and improve your overall financial picture. Clean, professionally audited statements also suggest to buyers that your business is professionally and ethically run.

Ensure contracts and leases are up to date. The terms and conditions of your customer and vendor contracts and equipment leases should be current. If your company assets include real estate, you might want to separate or sell the property before your business goes on the market because it has more favorable tax and liability implications for both you and your company's buyer.

If your company leases real estate from another business you own, the lease may be set at an above-market rate to maximize your real estate earnings. The cost of the lease should be normalized to show that a new owner would likely lease the property at a fair market rate.



Get debtors and creditors in line. Potential buyers use the numbers you provide to calculate their potential future cash flows and working capital. For this reason, a history of slow pays may discourage them from looking seriously at your business. Consider taking payoff settlements on open credit accounts or eliminate open accounts.

Update facilities and equipment. Make sure your workspace is running at optimum efficiency and that you've made necessary repairs in offices, warehouses and factories. A neat, well-maintained appearance - which also includes landscaping around facilities - tells potential buyers that yours is a successful company. Now is also the time to give internal systems a tune-up and invest in technology and other upgrades.

Document your company's policies and procedures. This will help facilitate a smooth transition in day-to-day operations when the sale is complete. If necessary, create a procedure manual that describes best practices in running the business.

Retain key employees. Losing critical employees during a sale can be a deal breaker because they often are integral to the new owner's success. Keep them in place by maintaining the confidentiality of a potential sale until the deal is complete or near completion. This will help to deter panic and sudden turnover. Keep in mind, however, that key employees need to feel they are trusted and in the know.

Increase Value Now

The process of selling your business can be complex and arduous. But taking these steps can help increase the value of your business to potential buyers and even translate into improved profits while you're waiting to sell your company.



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