12 Point Checklist: How to Attract the Right Buyer

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

When considering selling your business, every buyer expects a business of great value as an investment. Depending upon the qualified candidate, it could be an entrepreneur with a specific set of needs that motivates them to invest in an established business or it could be a private equity group that sees the benefit in acquiring a business based on their strategy for future growth. Whatever the reasoning might be, the challenge is what can you do to attract the right buyer?

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Here are 12 steps to take in order to reel in the best buyer during the selling process:

1. **Provable Books and Records** - In the purchase of a business, every buyer expects to verify the information given to them by the seller and the seller's broker. This is done during the due diligence period, after a written contract has been agreed to by both the buyer and seller. Typically this is done by a qualified financial advisor or CPA.

2. **Reasonable Price and Terms** - When a business is to be purchased, a reasonable price at fair market value is determined by other businesses in a similar industry to the one available for sale. The terms, commonly referred to as seller or third-party financing determines the desirability of the business listing. The return on investment (ROI) establishes if the price and terms are reasonable, based on the amount of time it takes to recoup the investment.

3. **Financial Leverage** - The financial leverage it is gained by utilizing the down payment and suitable loan to maximize the investment level of buyers capital. The leverages gained by a formula of borrowing from the seller or third-party lender to maximize the investment potential. Thus a business offer financing is more desirable than a business with the same asking price and does not have terms.

4. **Discretionary Earnings (DE)** - Discretionary Earnings is also referred to as "Owners Benefit" and also "Adjusted Net", which is a term to reflect the salary and net profit of the business. It also contains other items that are at the discretion of the owner to purchase for or not for business purposes. It is also common practice to add back any interest paid and depreciation on the equipment during the period of time being analyzed.

5. **Furniture, Fixtures and Equipment (FF&E)** - FF&E is the value of these items that are included in the purchase on either a Stock Transfer or Asset Purchase agreement. Typically they are valued at today's marketplace conditions and not when they were originally purchased.

6. **Transferable Lease** - In the sale of a business the property leased must have an assignable lease at the current operating cost of the tenant. If this lease is not assignable, then a new lease must be negotiated and typically is at a higher rate than the current lease.

7. **Training After The Acquisition** - In most cases, after the sale occurs, the owner and seller of the business will help to acquaint the buyer with a reasonable time, typically two weeks. During this time period, the seller will train the buyer with all facets of the business, be introduced to employees and vendors as well as customers. This helps to make the transition a smoother period so as to not impact the business in a negative way.

8. **Good Appearance** - The overall appearance of the exterior as well as the interior of any business is a strong selling feature. The curb appeal has a lot to do with the value of the purchase of a business.

9. **Covenant Not To Compete** - It is always desire of a buyer to not have the seller compete for a restricted number of miles surrounding the business and for a stated time period. In this agreement, it helps to ensure the seller will not compete with the buyer and take the customers away from the future.

10. **Sales** - This is very important in a Retail or Restaurant business where the loyalty has been established by the existing business.

11. **Understandable Reason For The Sale** - Knowing why the business is being offered for sale helps to justify the reason for the seller to exit his or her business. Retirement, health, other factors such as relocation, partner and family disputes can also impact on the reason for sale.

12. **Dealing In A Timely Manner** - Every business is a changing picture from week to week and timing is crucial in the purchase of a business. By not being timely, severe changes may occur affecting the value, and profitability of the business. Seasonal changes can also increase or decrease the value based on sales volume fluctuations.

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