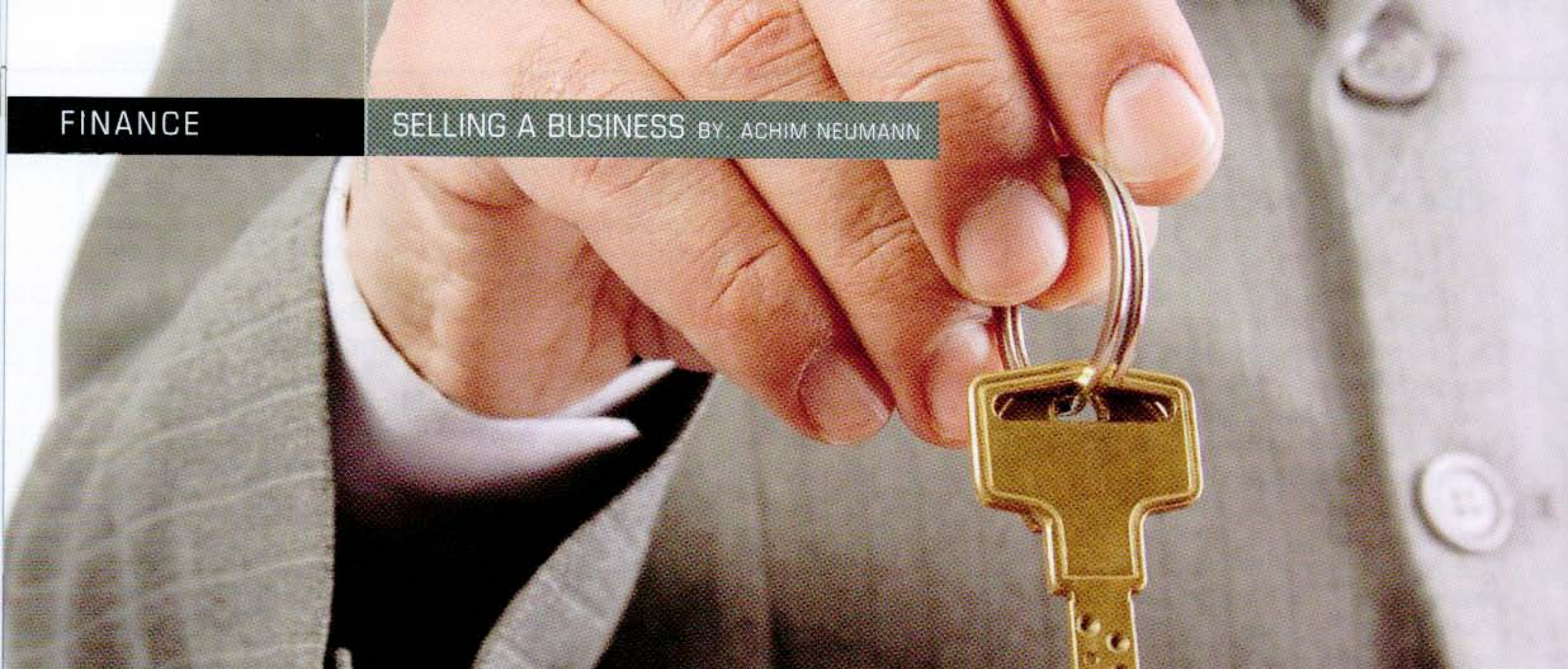

# Focus on Performance

## Financial Aspects of Selling a Business

What are some of the financial aspects of running a business while selling it? After many years of hard work, selling a business is a daunting task, particularly, if one considers that many business owners typically know more about running a business then transferring a business.

A business transfer is complicated with the potential of losing substantial value in the process. Several major concerns are consistent in each transfer—assessment of the business' fair market value and consistent financial performance throughout the transfer process.

First, a fair market value must be determined, typically on the basis of the past three year's tax returns. Too low an asking price will leave "money on the table". An overstated asking price, however, will chase buyers away and the business remains unsold for an extended period of time. Various brokerage companies offer valuation services with fees ranging between $3,950 and $7,500 for businesses with $3-10 million in revenues. A business owner should engage only a national valuation firm with the experience of many valuations each year to secure the most current market trends, and the valuation should have a reputation that is being accepted by buyers.

As important as determining the Fair Market Value is the consistent financial performance throughout the transfer process. Typically, businesses sell over a period of one year depending on general market conditions, the respective market segment, and viability of the business.

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Thus, it is important for a business owner to recognize that any potential buyer will review not only the last three years of the business' performance by way of income tax returns, but the buyer will also review the financial performance of the business subsequent to said period. Consequently, it is very important for an owner to continue focusing on the performance of the business and to manage the business at peak financial performance. All too often, business owners "lean back" once they have made a decision to sell their business and have hired a business broker, only to learn that a sale is not progressing as fast as anticipated. Subsequently, the financial performance of the business suffers and when a buyer is finally introduced, the value of the business has deteriorated (relative to the previous valuation).

Most significant in this context is a deterioration of the cash flow, EBITDA, gross margins or a decline in revenues per se. Some buyers also tend to look at changes in productivity ratios such as sales/employee or operating margin / employee.

This particular situation leaves all parties in a very difficult situation: the owner, insisting on the previously established value by the valuation firm confronted by a buyer insisting on a value based on the current performance of the business. The likely outcome will be that the owner will not sell the business. Good business brokers will try to avert this situation by consistently discussing the business' performance with the owner, by preparing all marketing materials and advising an owner on the best terms and conditions of a sale.

Preferably, a business owner selects a national business brokerage firm that can draw nationwide buyers from many different regions. Selling a business is typically a three part process: the initial preparatory phase for collection of all relevant data, valuation of the business, preparation of a confidential prospectus and development of a marketing plan. During the second phase, the marketing plan is implemented, including financial prequalification of potential buyers, interviewing buyers and discussing specific concerns. In the third phase, an offer to purchase is prepared, terms negotiated, the Due Diligence phase initiated, and a final closing performed.

The most important advice, however, always remains the same: with the transparency of the Internet today and a business valuation comparison only a click away, a business owner should never neglect running the business at peak performance during the sale period. Buyers will detect very fast if a business has been neglected and will substantially adjust the price offered, or simply shy away from a purchase. ■

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