Advice on Selling Your Business

The following excerpt is from the staff of Entrepreneur Media's book Finance Your Business. *Buy it now from* Amazon | Barnes & Noble | iTunes

As glamorous as selling your business may sound, entrepreneurs who've been there will tell you that it's an incredibly stressful, time-consuming process fraught with dozens of moving parts and truckloads of paperwork. If you don't hire the right financial, legal, tax, and business advisors to help shepherd the sale through, you're doing yourself a great disservice.

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"The mistakes you could make just getting the tax part wrong could cost you 50 percent of the proceeds of the sale," says Jack Garson, a business attorney and author of *How to Build a Business and Sell It for Millions*.

Along with an accountant and an attorney well-versed in business sales and acquisitions, plus a personal wealth manager, you'll probably want an experienced professional in your corner who can broker the deal -- namely, a business broker or an investment banker.

"If you're selling the business for $500,000, you're using a business broker. If you're selling the business for $50 million, you're using an investment banker," Garson says, adding that the cutoff point between the two falls in the $5 million to $10 million range.

Besides helping you set a realistic asking price and assembling the necessary marketing materials to entice, sellers, brokers and investment bankers will discreetly contact potential buyers on your behalf.

"In general, sellers don't want anybody to know they're selling the business," says business broker Sally Anne Hughes, a founding partner of Hughes Klaiber, a New York brokerage firm for midsize businesses. "If a client finds out the business is for sale, they might be concerned. Employees might also be concerned. Vendors might be concerned that they won't get paid."

To find a reputable broker or investment banker, get recommendations from your business advisors or entrepreneurs who've sold their business, Garson says. Be sure to vet any brokers or investment bankers you're contemplating working with, as they predominantly work on commission.

"Ask them the average size and price of the businesses they've sold," suggests Vanessa Troyer, co-founder of MailBoxes4Less. "If your company is worth $1 million and most of their sales are $7 million, you're not going to get much attention. You want to be with somebody who's selling businesses right around the price of yours."

Nipping deal-killers in the bud

As with selling a home, the more time you spend getting organized and cleaning up eyesores, the more likely you'll be to sell your business without a hitch. "Think about potential deal-killers," Hughes says. "Before you put the business on the market, evaluate it with a broker, an accountant or an attorney and try to fix any areas that may present problems."

For starters, Garson advises, your financial records and tax returns from the last three to five years must be crystal clear, and your contracts with customers, vendors and employees must be current. Here are some other critical ducks to get in a row before courting buyers:

Financials. It's not enough to have your P&L statements and balance sheets shipshape, says Ted Thomas, former managing partner of Sun Exit Advisors, a business transition planning firm in Chicago. "What's even more important is a cash-flow report -- how much money you have in the bank and what you anticipate coming in the next week to 60 days," he explains.

Expenses. If you've been running personal expenses through the business, it's time to clean up your act, advises Terry Mackin, managing director of mergers and acquisitions at Generational Equity, a Dallas-based firm that helps middle-market companies plan their exit strategy. "We can talk about the legalities all day, but what happens is it depletes your business's value," he says.

Employee classification. Incorrectly classifying employees as independent contractors isn't just a red flag for the IRS; it could scare off potential buyers, Hughes says. If you're unsure whether your people are employees or independent contractors, check with an employment attorney.

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Operations. If you haven't empowered any of your staff to run the show should you miss a month of work, now's the time, Thomas says. Nothing's more dangerous to a business than an operations manual that only exists in the owner's head.

Employee turnover. The last thing you want is for key employees to leave while you're growing the company or negotiating a sale, Thomas says. Incentives like bonuses and stock options can help keep employees loyal.

Lease. "Make sure you have a good relationship with your landlord, especially if it's a retail business or restaurant that's reliant on a particular location," says Hughes, who's seen deals implode when a landlord wouldn't let a buyer assume a lease.

Inventory. If you have too much product, Hughes suggests liquidating it or writing it off and then cleaning up the warehouse before buyers visit.

Facility. Clean, organize and spruce up all your physical locations. "Your books can be spic and span," Thomas says, "but if a person walks into your place and it gives them the creeps, it lowers their trust."

Negotiating like a pro

Another surefire way to kill a sale is to get greedy during the negotiations.

"One of the classic pitfalls is going for more money or more anything because you think you can," says Avi Karnani, cofounder of Thrive, a free personal finance website that launched in 2006 and sold to LendingTree in 2009. To avoid this trap, Karnani suggests identifying the offer terms you need (say, $10 million), want (autonomy within the parent company) and would be nice (a corner office).

"If you don't spend time in the beginning making it clear what your needs, wants, and nice-to-haves are, one of your stakeholders is going to say, 'I really think we can get [more money],'" he says. "You don't want one person to become the holdout."

You also don't want to sell to the first prospect that comes along. "You need to talk to a number of buyers," Garson says. "You want to create a lot of interest in the company."

When it comes to choosing a buyer, "it's not just about the money," Mackin says. "It's about the interaction and the trust factor you have with the buyer. Eight times out of 10, my clients sell for what is not the best offer."

Troyer can relate. She and her partner, Chris Farentinos, received five offers on MailBoxes4Less.com. They didn't go with the buyer who offered the largest sum; they went with the one who paid in cash and had the best business pedigree.

"You'd better believe in the person you're selling to because you'll be working with them during the transition," Troyer says. And depending on your contract terms, some of the sales proceeds could be tied to the business remaining successful.

Keeping your eyes on the prize

Exiting your company may feel more like a marathon than a sprint. In a good economy, experts say selling a business takes an average of nine months. The due diligence alone -- during which the seller combs through all your documentation ("it's almost like an IRS audit or a deposition," Troyer says) -- takes at least six weeks.

While courting buyers, it's imperative that you stick to business as usual. "It's crucial that your sales numbers stay up and that your expense numbers stay down," Troyer says.

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"You have to continue to run the company as if nothing's going to change," Mackin says. "Buyers will want to see that you're running the business well. That's where you get the difference between selling the business and selling it at a premium price."