9 Steps to Prepare Your Business to Sell

Murphy BUSINESS SALES

Excellence in Business Transactions

A solid exit strategy will not only add to the value of the business, it will also increase the marketability of the company.

If you have determined now is not the best time for selling your business, you still can begin to take steps today to prepare for selling now or in the near future. Some of the things you can do before the business goes on the market will take time and can be accomplished over the next year or so.

Step 1. Increase revenue

One of the most important things a buyer of a business looks at is the sales trend. It goes without saying that a growing business is much more desirable than one where the sales seem to decline each year. Also, when a buyer is looking for outside financing it is almost always a major issue with the lender that the revenues are not in decline.

Perhaps a renewed sales effort by the owner and sales team can be done simply by emphasizing to all employees that the goal is to increase sales this year. Do you need additional people to drive this effort, or are the people in place capable of doing more?

It is also extremely important that all of the revenue earned by the business is recorded in the company's sales records. It may come as a total shock to you, but we have seen cases where business owners do not record all of their revenues on their books. Not only is this illegal, but it will decrease the market value of the business. Over the years, many buyers have been heard to say that they will only pay for the revenues that can be clearly verified, usually by seeing it on a tax return. In other words, buyers will only pay for the revenue that is reported and verifiable.

Step 2. Diversify your customer base

While you are attempting to grow your revenues it is equally important to spread that revenue among as many customers as possible. While having only a few customers might make things easy for a business owner, having all of your eggs in one basket could prove to be unsettling for a buyer. It is especially risky to have one or two large customers that make up the bulk of the income stream for the company. Diversifying the customer base will not only make selling the business easier, it will also help stabilize sales in the event the business loses one of its major customers. A good rule of thumb is to never have one customer that makes up more than 20% of the total revenues. There are exceptions to the rule, such as a large customer that has executed contracts for a defined level of business. If you do have what is referred to as a customer concentration issue, you may be offered a lower price for the business or have some portion of the price be contingent on the retention of those large customers.

Step 3. De-emphasize your personal role in the business

In order to maximize the value of the business, the owner must disassociate himself from being the main decision-maker. You must find a way to enable customers, employees and suppliers to begin dealing with other individuals in your company. Many times people automatically take everything to the owner for a decision or approval. Developing a team or a right-hand person allows the owner to step back a little and will, make the business more valuable. Continue to build an infrastructure and reduce the dependence on the owner for all decision-making.

Step 4. Develop a strong management team

Whether you have one manager or several, it is important to guide your management team to take your place when you are gone. A new owner will need to feel as though he will be able to step into your shoes with the help of the employees and managers – and the business will not miss a beat. Buyers often feel that people are the most important asset in a business. Since you will be selling (and most likely leaving) the company, the need for a strong management team is vital to your success in selling.

A buyer will want to know:

How long have the key employees been with the company?
What industry experience they have?
Will the key employees stay on with the business if the owner sells?
Who is the key backup for the functions that are currently

handled by the owner?

Developing a written organizational chart with clear job descriptions would be an added benefit to a prospective buyer.

Step 5. Reduce the amount of family members working in the business

Identify any family members who will be leaving when the company is sold. It is a good idea to replace and train new people to assume these roles before you attempt to market the business. In some cases, a family member may be very important to the business and could be interested in remaining with the company after the sale. It is necessary to determine if that relative can handle working for the new owner and adjust to no longer being part of the family business.

Step 6. Reduce the amount of owner perks

Most small business owners "live" out of their businesses. There are many perks (such as automobiles, life and health insurance, meals, travel, etc.) that can be paid for out of the business, in addition to the owner's salary. When preparing your business for sale, it is best to eliminate these in order to make the records clear for the prospective buyer. Other nonessential salaries, such as family members, should be eliminated if possible. While the business owner's goal is to make a living and enjoy as many tax-free perks as possible, a buyer is looking to identify as much available cash flow as possible. Even though these perks are valid, often an untrained buyer will have trouble identifying them, and will often dismiss them in their cash flow analysis. Keep in mind if a buyer is looking to obtain bank or other outside financing for the business, these perks may present a problem in justifying the true cash flow. The seller is often better served by reducing the perks for a period of time prior to selling the business.

Step 7. Sell or remove unnecessary or personal assets

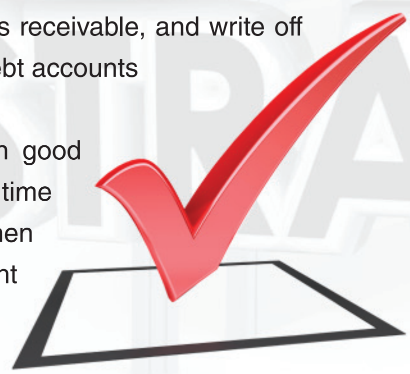
Businesses tend to accumulate obsolete or duplicate assets over time. If the assets are not currently being used in the business, the seller can hardly expect the buyer to pay much for them as part of the purchase price. By selling these assets in advance, the seller may actually gain revenue while reducing clutter in the business. In addition, it is a good idea to remove any personal items that will not be included in the sale prior to showing a buyer the business. For example, personal antiques, family artwork or other personal items should be removed.

Step 8. Reduce inventory to a normal level

Generally, a buyer will not pay for dead or obsolete inventory. It is a good idea to take a physical inventory and analyze the value of each item. Items which no longer have any market value should be disposed of or sold off for their scrap value. Reducing the inventory level at the time of sale to only the amount necessary to run the business during normal times, will help to justify the selling price. This, in turn, will allow you to turn excess inventory to cash. If the inventory is too high, the buyer might not be able to substantiate the price, or it might otherwise result in the need for the seller to provide financing for the extra inventory to the buyer.

Step 9. Additional items that should be considered prior to a sale

- Develop, update, or improve the company's website
- Have a written operations or policy manual
- Make sure that any leases expiring soon have a negotiated renewal in place
- Eliminate unnecessary or unproductive employees
- Collect any old accounts receivable, and write off any uncollectible bad debt accounts



By getting your business in good shape in advance of the time to sell you will be ready when you determine it is the right time. Your business will be more efficient, and you will most likely realize a much higher selling price for it.

For more information on how to engage a personal business advisor please visit www.murphybusiness.com. We can also assist you with a more formalized business valuation report if you should need one. For more information visit www.murphyvaluation.com.

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