

Changing Hands

Know **when** and **how** to sell your business

By *Bonnie Swanson, J.D., Business*

*Intermediary at Premier Sales, Inc. and
Diane Thomas, Designated Broker and
President of Premier Sales, Inc.*

According to a recent study, Arizona ranks among the top 10 states with the fastest growth rates for women-owned businesses, and Phoenix is tied for fifth on the national list of the top 10 cities for growth in women-operated businesses (2006 SRP Arizona Business Study Focus on Women-Owned Business). On a national scale, majority owned and privately held women-owned firms account for 30% of all businesses. In addition to sustained growth and increased size of businesses owned by women, women-owned firms accounted for 55% of new start up firms between 1997 and 2002. Clearly, women will continue to be an important contributing factor in privately held businesses and the economic growth of our region.

Benefits of Business Ownership

The benefits of business ownership are attractive to individuals who seek an alternative to employment in the traditional corporate world. Most entrepreneurs have common objectives of wanting to generate wealth, promote self-expression, and to be in the “driver’s seat” of their own future. Current tax laws benefit businesses and investors by allowing the use of pre-tax dollars for certain types of expenses. Additionally, there is the benefit of cash flow for the duration of business operations, and eventually, cash realized by an owner at the sale of a business. In addition to the financial benefits, business ownership can provide an owner with an outlet for self-expression and a venue to utilize talent and skills. For example, an individual may see an existing business that could be improved through a marketing campaign, expanding business systems, or through better expense controls. Purchasing a business and implementing these improvements using personal skills and talent can lead to increased business worth.

How to Realize the most Value from a Privately Held Company

Once a business has been operating profitably for a term of years, an owner may want to consider realizing on the time and effort they’ve put into the investment by selling the business. Determining the best time to sell a business can be market driven or may be necessitated by personal circumstances. Over a period of years, an owner’s interest and talent may have been expended to the extent that the business’s life cycle, relative to that owner, has run its course. It may be time for a new owner, with new or additional skills, to purchase the business and move it forward to another level of financial success in the marketplace. A business may also reach its limits of capacity within an existing framework of systems or within the limits of existing working capital and require an infusion of capital and/or reorganization in order to move it to a place of higher capital returns. While it is better to sell a business when it has reached peak performance under existing ownership to maximize sale’s price, sometimes personal considerations dictate that a sale must take place. These considerations could include owner health issues, family circumstances, or retirement.

What the Marketplace is Like

On a national scale, only 18% of the businesses listed actually result in a final sale. In Maricopa County, that percentage is slightly higher (20% to 30%); however, a business owner can increase those odds by choosing a business broker with experience who is willing to advise the owner on how the business should be priced in light of historical earnings and has the ability to launch a successful marketing campaign. The good news for existing business owners is that the demand for viable businesses by qualified buyers far exceeds the supply of businesses for sale in the market place. Arizona continues to be a “destination state,” and often newcomers to the state wish to buy an existing business venture rather than start a new business.



What Buyers Value

Most buyers have invested time and effort into assessing their financial needs and the strengths and individualized skills they will bring into any business they purchase. In general, they are looking for businesses with systems and people in place so that business performance can be replicated without the seller. Other items of importance in a business are whether the industry has a future and whether there is “room for improvement” by a new owner. Most potential buyers (and their lenders) will require financial records and documents that support the determination of sales value and demonstrate the company’s adherence to standardized accounting principles. Good financial records lend business credibility and show accountability with the management team. Most buyers will need to obtain some type of third party financing; good financial records will help facilitate financing and a sale.

Preparing a Business for Sale

In positioning a business for sale, an owner should consult with trusted advisors such as a CPA, CFO, attorney, banker, business consultant or financial planner in order to understand the implications of selling the business. In addition to tax considerations, there are other areas of concern such as cash flow, risk, time and lifestyle changes. The owner should also make sure that all financial reports, taxes, permits, leases and licenses are current. Documentation for all processes and systems should be in place so that a new owner can “step into the shoes” of the exiting owner and run the business with as little disruption as possible.

Consult with a Business Broker or Intermediary

An experienced business broker or intermediary can provide a selling owner valuable upfront and ongoing professional guidance throughout the sales process. The broker will help an owner assess the value of the business



through analysis of financial records (usually the past three year’s tax returns and/or current year Profit and Loss Statement). The business baseline market valuation will give the owner a tool to assess whether to sell, hold or grow the business. Often, the business broker can identify areas to improve or modify the business based on the historical financials and in light of market conditions, which will eventually result in an increased list price for that business. A broker can also provide an owner with information on the state of the current market for the particular type of business that is going to be sold and provide comparable and historical sales data. Many brokerage offices do not charge upfront fees for their services, and an owner may only be responsible for the broker commission on a listing that results in a business sale. Business owners should interview brokers carefully and ask about the closing ratio (percentage of listed businesses that actually sell) and fees charged up front. Since the broker will be working directly with an owner and the owner’s trusted advisers throughout the sales process, a broker with an educational background in accounting, finance or law is a bonus.

Plan Now for Your Future

The average timeframe for a business to sell after the business is listed for sale is about nine months. Business owners should plan ahead by maintaining good books and records, as well as developing a relationship with a qualified business broker well in advance of the time the owner wants to exit the business. With proper planning, a business owner can obtain the best financial result for years invested in their business. ■

*Premier Sales, Inc.
14901 N. Scottsdale Road, Suite 305, Scottsdale
www.premiersalesaz.com, 480.905.903*