Close the Deal

7 steps to **selling your small business**

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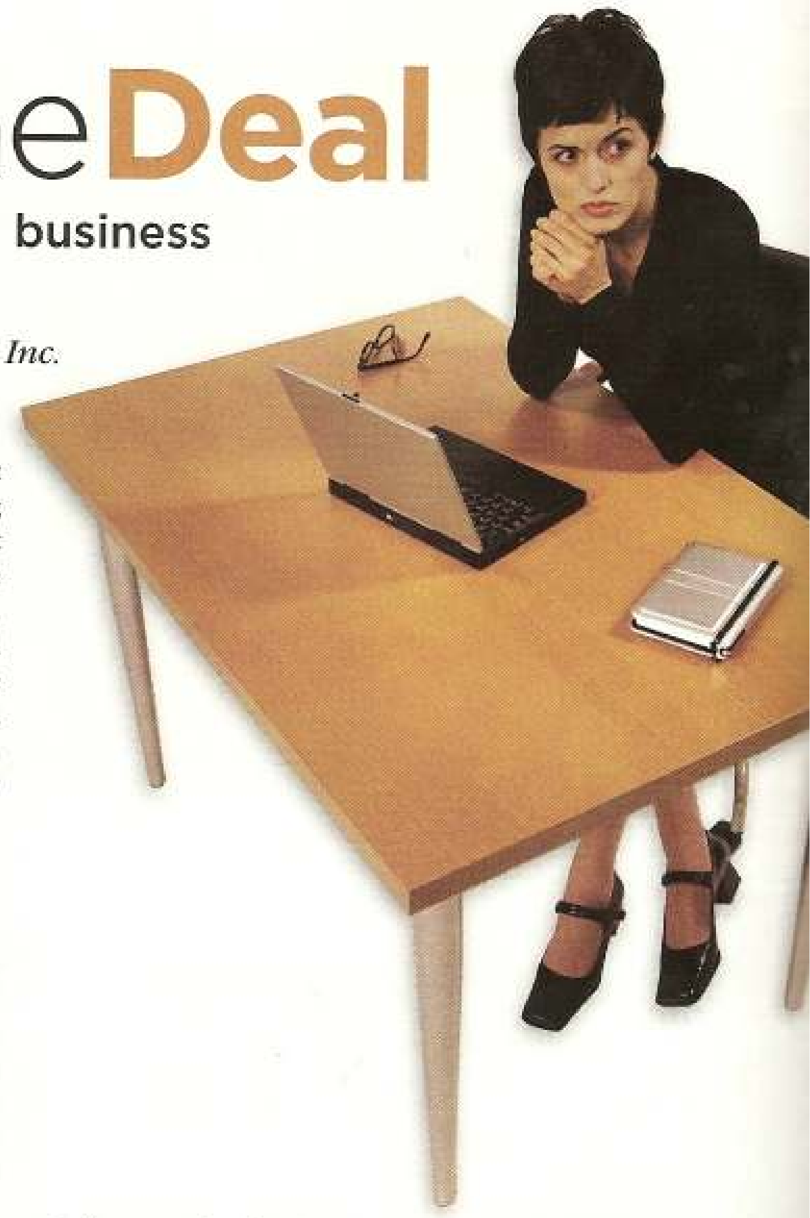

Deciding when to sell your business is a difficult decision. Selling at the right time can mean getting the best possible price. In order to make that decision, you need to know the market conditions and the relative financial strength of your own particular business. Consultation with trusted advisors such as a CPA, Financial Consultant and Attorney will assist you in planning for the tax and legal effects of a sale. However, consultation with an experienced business broker or intermediary will help you determine business value on the open market and whether it is advisable to sell, hold or grow your business.

1 | Interview Business Brokers & Assess Value of Business

If you already have a purchaser for your business, you may only need brokerage services to structure and close the sale. However, if you do not bring a buyer to the table, you will need the services of a business broker to value, list and market the business to potential qualified buyers. An experienced business broker or intermediary can provide you with valuable upfront and ongoing professional guidance throughout the sales process.

Initially, a qualified broker should help you assess the value of your business through analysis of financial records (usually the past three years' tax returns and/or current year Profit and Loss Statement). You can then review the business baseline market valuation and assess whether an immediate sale would result in the return you expect, or whether you should hold the business and implement changes that yield a greater return and higher sales price.

Many brokers are more than happy to list your business for sale. However, there are some considerations you should understand prior to selecting your broker. If you are serious about selling your business in the shortest period of time, the sales price and terms you request make a difference in the time required to sell your business. Too stringent or unrealistic terms and prices will delay the sale of your business and consume much of your time. A qualified broker will understand this and provide guidance on pricing based on financial analysis and market tolerance.

Further, you should ask what the broker's success ratio is relative to the number of listings they have. This ratio will indicate to you if the broker is effective in actually selling the businesses they represent. You can make this assessment by asking the broker how many businesses their firm sold in the past year and matching this to the number of listings they have. For example, if the firm has 100 listings and only 25 of the businesses sold, this means the brokerage firm is effective in selling 25% of the time. In order to maximize your chance for a successful and timely sale, choose a brokerage firm with a higher list to sale ratio.

Many brokers do not charge upfront fees for their services; but rather, they earn their commissions at the conclusion of a successful sale. Be sure to ask about fees up front and assess whether the broker has an educational or professional background (Accounting, Finance, Business, Law or Business Owner), which will enhance their ability to successfully transact the sale.

2 | Execute Listing Agreement & Approve Marketing Plan

If the market valuation indicates that a sale is advisable, you will want to execute a Listing Agreement with a Business Broker and provide information about your business to help that broker "showcase" and market to potential buyers. In general, most business sales take about nine months to close from the time they are listed for sale. During this time, you should focus your energies on your business operations and allow the broker to implement an approved confidential marketing plan. Marketing tools can include multiple internet listings, newspaper advertising, or targeted mailings designed to reach a pool of potential buyers. Similar to the multiple listing for home sales, the business listing sites on the internet provide potential buyers access to generic information about businesses listed for sale and direct buyers to the listing broker in order to obtain more detail. Once contacted, your broker should put these interested buyers through a screening process, so that only "qualified" buyers with the "ability" to purchase are given access to further information on the business.

3 | Maintain Confidentiality & Screen Buyers

In most businesses listed for sale, confidentiality is of paramount importance for several reasons: 1) to provide security to workers and key employees; 2) to promote "normal," undisrupted business operations; and 3) to protect the business reputation and market share from competitors who might use the sale as a means to divert customers from the selling business. Consequently, most business listing information and any confidential prospectus will only reference a selling business in generic terms, i.e. a glass company, a repair shop, a landscape company. Most brokerage offices require that interested potential buyers sign a confidentiality agreement and personal financial statement prior to obtaining any financial or other more detailed information on a business. In some instances, a seller may request further assurance prior to disclosing information on its business to a competitor who has expressed an interest in acquiring the business.

4 | Meet with Qualified Buyers

If an approved and qualified buyer has reviewed your business prospectus and wishes to find out more about the business, a personal meeting is usually arranged by the broker. At that meeting, the potential buyer will ask you questions about the business, and you can assess whether the potential buyer has the qualifications necessary to successfully complete the sale and run your business. After that meeting, if there is a strong interest in purchasing the business, an offer may be submitted by the potential buyer to you for review, counteroffer, rejection or acceptance. If you choose to accept the offer, both parties then enter the due diligence phase.

5 | Execute Purchase Contract & Perform Due Diligence

During due diligence, further access will be given to the potential buyer to all accounts and records of the business, and the buyer will proceed to obtain financing to purchase the business according to the purchase contract terms. If all terms outlined in the purchase contract are satisfied during the due diligence period, the parties can proceed to close the sale. Most business sales are "asset" based, where the new purchaser agrees to purchase the assets of the business free and clear of all liabilities. In some instances, there is a stock sale, whereby each party agrees to a sales price for the sale of the shares of the existing corporation subject to the liabilities in existence.

6 | Close the Sale

At closing, both parties will execute documents necessary to effectuate the sale. These may include but are not limited to the following: Corporate Resolutions Authorizing the Sale, Corporate Certificate of Good Standing, Tax Clearance Certificate, Bill of Sale, Promissory Note, Security Agreement, UCC Financing Statement, UCC Search Verification, Certificates of Title (vehicles and other licensed items), Employment Agreements with Key Employees, and Confidentiality and/or Non-Complete Agreements.

After closing, you may still be required to provide consultation with the new purchaser for a period of time in order to train the new owner and to facilitate the continuity of business succession.

7 | Perform on Post-Closing Obligations & Move On to the Next Venture

Once you've completed the sale, you'll want to be sure and perform on any agreements you've made with the new buyer. Many buyers require ongoing training for several weeks to several months after the sale and require the former owner to be "on call" for services for a period of up to a year. Your agreements with the new buyer should clearly delineate what services you will provide for a fixed term and whether those services will be compensated or included in the sales price. You will also need to adhere to the terms of any confidentiality or non-compete agreements you execute with the buyer when making plans for your next business venture. Most business owners experience a greater satisfaction from selling a business when they have a clear plan for their professional life after the sale.

Whether your plans to sell are based on retirement, funding for a new business or some other life goal, make sure you have a roadmap to follow and experts to help you on the journey. ■