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6 Questions To Ask Yourself Before You Sell Your Business

By Jeffrey Elder

Selling a business is a major decision requiring care and skill. You didn't throw your business together overnight, so you shouldn't toss the keys to the first bidder. It requires an orderly sequence of preparation, execution and dedication, and it's never too early to start asking the big questions.

1. Where do I start?

Obviously it's best to sell any business while it's doing well—but you may have no control over the economic circumstances surrounding your sale. Since it takes an average of one year to sell a business, you should probably begin planning at least two years in advance to maximize your chances of receiving the highest fair market value for your business. You also want to time the sale so that your major leases or other key contracts are not about to expire when the new owner takes the helm, because those kinds of loose ends create extra risks for the buyer.

2. How much do I reveal about selling my business?

Generally, the less said about your upcoming sale, the better. Sending out too many signals can potentially hurt you, and there are no benefits from telling your employees that you're about to become a "lame-duck" boss. Similarly, you're better off not revealing your plans to customers or suppliers, lest they decide to turn their loyalties elsewhere too. And rumors may fly as people start speculating on what circumstances might be driving you to sell. You don't need these headaches and a business broker can protect your plans while still carrying them out.

3. How can a business broker help?

Business brokers can connect you with potential buyers while retaining your confidentiality. They screen potential buyers to make sure they're financially qualified to purchase your business, and they can advertise your business for sale in local and national publications—but they'll do so under the brokerage's name, not yours. Best of all, since they specialize in buying and selling businesses, they can supply you with expert guidance every step of the way, ensuring that your business sells for its maximum value.

4. What is my business's maximum value?

The value of a business is hard to define because it is made up of both tangible and intangible elements. Company pride, public standing or community service may be important to you, but not to your buyers who are concerned primarily with the financial bottom line. They will want to see steady, healthy earnings and cash flow. You'll have to make your business look as profitable as possible, while providing projections that show steady future growth. Verifiable assets, such as real estate, customer lists or contractual relationships, help to reassure the buyer of an existing tangible value. You'll also want to take steps to add value and improve income before the sale, which may involve staying open more hours per day, advertising more aggressively, or other actions to accelerate profits in this final stage of ownership.

5. How Do I Look?

Beyond the bottom line value, you must also look at the perceived value of your business. If you were selling your home, you'd clean it up first – new paint or new fixtures for example. In selling a business, the same rule applies. You need to “dress up” your business before the sale, both in the showroom and on paper. In the showroom, make sure all the fixtures, machinery and utility functions are in top condition, so that it's ready for its next owner. On paper, you need to show a clean balance sheet with low debt, and you need to provide as much documentation as possible (sales reports, operations manuals, job descriptions, etc.) to show that you've followed the business's day-to-day status closely. And, increasing your bottom line to emphasize profitability may increase your tax bill, but it will also make your business more attractive to potential buyers.

6. What Are My Terms?

What kind of sale do you want to make? Do you want to hand the business over unconditionally, or do you want to make sure certain staff or traditions are retained? Are you willing to finance the buyer, or are you willing to give up some cash for a total payoff at close? Your business broker can provide you with invaluable advice on how to get what you want, but only you can decide what you value most when it comes time to sell

your business.

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