



Preparing Your Company for Sale

By Paul Gurrola

If you're thinking about selling your business in the next few years you should start preparing now. **The biggest reasons why businesses sell at lower than expected prices or never get sold are:**

- Poor financial recordkeeping
- Surprises in due diligence
- Unrealistic price expectations
- Ill-conceived marketing plan
- Failure of owners to continue to be engaged in the active management of their business

All of these problems can and should be addressed prior to your company being put up for sale. Buyers want to buy a well run business with up to date and accurate records. They do not want to inherit personnel problems, poor recordkeeping, obsolete inventories or disputes. A seller greatly enhances their chances of completing a sale and at the price they want if business problems have already been addressed and solutions are in place.

And once you put your business on the market for sale, timeliness of execution will increase your selling price and reduce your risk. Why is this? Because companies that are on the market for too long get classified as "dogs." Whether this is fair or not, companies that are mass marketed to potential buyers and are on the market for long periods of time get a bad stigma.

Successful sales start with these steps:

- Define your objectives
- Get organized
- Develop a marketing program
- Resolve conflicts
- Run your business "well"

Define Your Objectives

The first and most important step in selling your business is defining your objectives. What end result do you want and is it reasonable? This includes not only how much money you want for the business, but also lifestyle objectives:

- How long do you want to stay with the business?
- What kind of role do you want to play after the sale?
- Are you going to retire or find another job?
- Are there family members or employees to whom you have obligations?

Get Organized

Many deals that fail, do so because the buyer discovers one or more unexpected problems during due diligence. Incomplete accounting, poor record keeping and lingering liabilities can take the momentum out of a deal. Before starting the sales process some internal due diligence needs to be done:

1. Accounting
 - Physical inventory
 - Service contracts
 - Warranty obligations
 - Vacation pay
 - Other accruals

2. General Housekeeping
 - Verbal contracts/Written contracts/Expired contracts
 - Licenses
 - Trademarks/Patents
 - Tax returns
 - Environmental compliance

Develop a Marketing Program

To successfully sell your business, it needs to be packaged and marketed like a product. As part of the process of preparing to take a company to market for sale, BCC prepares the following:

1. Buyers List - A list of possible strategic and financial buyers are identified and researched to determine their likely needs and motivations, and ability to do the desired transaction.
2. Confidential Business Profile - This is a two to three page summary that allows a potential buyer to quickly surmise the opportunity and determine a level of interest.
3. Offering Memorandum – This document describes in detail the nature of the business, areas of expertise, financial history, financial projections, proprietary assets and customer relationships. It also identifies where the “hockey stick” is – meaning, how will the new owners make money?

“There is a direct correlation between how you package your business and the price you receive for that business” Inc. Magazine

Resolve Conflicts

If possible, lawsuits, vendor disputes, customer billing and other conflicts should be resolved. With that said, no business is entirely free of defects. Our experience is that **problems that are disclosed early-on in the sales process can be explained and overcome**. However, those that are uncovered later in the sales process can significantly slow or even stop the sale.

Run Your Business “Well”

The one to two years leading up to a sale is **perhaps the most important time in your business career** to effectively manage and direct the operations of your company for profitability and growth.

Conclusion

The sales process can take months to complete and will consume a substantial amount of time and energy. Most companies that are serious about selling their business hire a mergers and acquisitions professional with experience and expertise in completing such a transaction. This allows the owner time to continue to run the business “well” which only enhances the value of the company. **It also enables professionals with significant deal experience to make sure that you get the best agreement that meets your objectives in a timely and confidential manner.**

Paul Gurrola is the Managing Director at BCC CAPITAL in Irvine and can be reached at PGurrola@BccCapital.com