

ALLEN BUSINESS ADVISOR'S

Top 10 Mistakes to Avoid

WHEN SELLING YOUR BUSINESS



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1 Reveal your Plans

When you are selling a business, you do not want your employees to know your plans, as they may decide to take control of their job future and leave. If this happens, your potential clients might use this as an opportunity to shop around, which could result in a lost sale. Additionally, your competition could use this as leverage and your vendors might spread the word even further.

2 Wait Too Long to

Some business owners watch their sales and profitability decline every year. Other owners purposely slow down their workflow and do less business. To compensate for lower sales, they reduce their staff to increase profitability. This is typically due to the owners not having the energy to maintain the current rate of business. However, it's important to know that fewer employees, lower sales, and less profitability, will erode the overall value of the business.

3 Sell at the Wrong Time

You want to sell your business at the "right" time, just as if you were selling real estate or stocks. Nobody expects to sell at the perfect time, but it does make sense to be aware of the country's economic cycle (expansion, peak, contraction, and recession) This is particularly true for engineers, which may be tied closely to the real estate and construction cycle. In a down cycle, banks will lend less, which impacts the amount of cash received by the seller. The amount of work in the pipeline may also be slim, which increases the buyer's risk, resulting in a lower sales price.

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4

Ignore Preparations for the Sale

Selling a business is a process, not a one-time event. Just as there is a process of selling a home by painting, decluttering, improving the landscaping, and more, there is also a process for preparing a business for sale. A prospective buyer will either gain or lose confidence in the seller based on the condition of the books and records, the time it takes to receive the information requested, and the physical appearance of the office when they visit.



5

Underestimate Time Required to Sell

It's important to be patient when approaching the sale of your business, as it takes time to sell a business, both in terms of actual hours invested in the sale and the number of calendar days. Most of your time invested in the sale will be spent meeting with potential buyers, answering and responding to questions, and providing requested documentation. The time required to complete a sale will be filled with a number of different items, including:

- Coordinating schedules
- Holidays
- Vacations of attorneys, CPAs, and other key team members
- Demands on the CPAs during tax season
- Time for attorneys to paper the transaction
- Time for the bank to complete underwriting and approve the loan
- And more!

Some steps in buying a business are sequential and cannot be done simultaneously, which will extend the number of days required to complete the sale.





6 Unrealistic Expectations About Sale Price

Most people tend to have unrealistic expectations regarding the value of their business. This is understandable, as the sale price of closely held businesses are not published, as opposed to real estate and stock prices. As a result, sellers frequently ask more than a buyer is willing to pay. You can gain a better understanding of the right sale price to set when you speak with an experienced business broker.

7 Unrealistic Sales Terms

Although each business sale is customized, there are typical sales terms that will apply depending on the specific industry, the number of employees, and the financial statements of the business. The amount that the bank will consider lending may unduly inflate the sales terms and price. For engineering businesses, most banks will require the seller to give the buyer a loan. This requirement is intended to reduce the bank's risk, and to motivate the former owner to help the new owner should a problem arise.

8

Walk Away From the Business After the Sale

As the seller, you are the largest asset of any healthcare practice or engineering business. The seller is the person who has developed and maintained relationships with clients, and other centers of influence that refer business. The buyer will not be satisfied if the largest asset of the business leaves without first ensuring that all important relationships have been securely transferred to them. The time frame for the completion of this transition may vary based on the size and type of business. Typically, a minimum commitment of six months is what buyers will expect.

9

Neglect the Business

Typically, a significant amount of time passes in the process of selling a business. Sometimes, an owner will slowly begin to do less work, and will neglect the business as the end is in sight. It's important to resist the urge to neglect the business as the buyer or buyer's CPA will request a year-to-date income statement to evaluate the consistency of performance. If there is a significant decline between historical performance and recent performance, then the buyer may question the seller's commitment to ensuring that relationships will be handed over securely. The buyer may also question the seller's commitment to the success of the buyer, which could cause a breakdown in the working relationship and eventual sale of the business.

10

Sell Without a Business Broker

Sellers not only need to maintain confidentiality when selling their business, but they also need to ensure that the operating performance of the business is comparable to prior years. These two needs are incredibly difficult to achieve, if not virtually impossible, without the help of an experienced business broker. A business broker will be able to screen the buyers to ensure that you are investing your time meeting with only the most qualified and interested buyers. A business broker will also be able to help you determine a realistic sales price and terms, which will reduce the amount of time required to find a buyer. Getting these pieces in place at the start will help with structuring the transaction to meet the bank's requirements to provide the buyer with a loan.

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allenbusinessadvisors.com

Massachusetts Office

P: 781-443-4873

New York Office

P: 781-443-4873

Maryland Office

P: 301-502-1375

