

Organizing your business for sale

It's important to start organizing your business for sale as early as possible. Business owners often think about selling during a downward trend but the best time to sell is when your business is in good shape. If you plan ahead, you'll be readier when the time comes.

Decide whether you'll continue to help the business through its transition. Consider whether you need to sell by a certain date, for a minimum price or prefer to wait for a higher price.

Seek expert advice

It's essential to get expert advice from your lawyer, accountant, and broker. Talk to your lawyer as they can protect any trade secrets by writing up a confidentiality agreement. This will help safeguard your intellectual property (IP).

Your accountant can help calculate your business's goodwill, give advice to determine the optimal price to sell, and make sure that your financial records are organized. By providing accurate sales figures, you'll reduce the element of risk for potential buyers.

Hiring a broker will assist to smooth negotiations with prospective buyers, can help keep your identity confidential so suppliers and customers don't get concerned, and will allow you to focus on running your business while they look for buyers.

Ask your experts to note any weaknesses they see in your business. Address any problems by doing your own due diligence before offering your business for sale.

Identify potential buyers

What kind of person would be interested in your business? Will you be able to find them locally or have to advertise elsewhere?

A potential buyer needs correct and comprehensive information to make an informed decision on whether your business is suitable for them. You can help this process by understanding who your potential buyer is, and what they may want to know about your business.

Questions that buyers may ask include:

- What makes your business unique?
- How profitable is your business in good and bad times?
- What has been the annual increase in sales?
- What are the levels of stock and investment required in the foreseeable future?

It's likely that potential buyers will want to view at least three years of financial statements, including income statements and balance sheets. They'll be buying into your business's profitability, so you'll need to identify any non-operating expenses like interest.

Get your business into top shape

Potential buyers are searching for businesses that are in top working order. It's critical you work through a process of getting every aspect of your business in the best possible shape to attract the right buyer. Make sure you:

- Tidy up your financial records. Taxes should be paid.
- Have optimal levels of staff and inventory, which shows your business operates efficiently.
- Tighten control over debtors. You want them paying on time, or early if possible, to help show that the business's cash flow is under control.
- Resolve any legal issues. A new owner doesn't want to walk in on any legal problems.
- Replace or repair faulty fixed assets.
- Have set processes. A potential buyer will want to see clearly defined processes for daily operations.

If you run a service business, speak to your most valued customers about what they want to be improved and what they like about your business. Don't assume you already know. Use this information to enhance certain features of service to your customers. Keeping them content may be a useful bargaining tool with potential buyers.

Decide on your objectives

After gaining some expert advice, figuring out who'll potentially buy your business, and getting your business in the best shape possible, there are a few questions you'll need to answer:

- Do you have to sell by a certain date?
- Will you take your business to auction?
- What price range will you be satisfied with?
- Will you still work in your business in some form to help with the transition?

What do prospective buyers want?

Each potential buyer has some key conditions they need to be met, to be persuaded that your business is the one for them.

Make a great first impression when buyers come to see your business. Your premises should be immaculate and orderly. Friendly staff and lively activity will help project a place of efficient work.

If a potential buyer asks for more information, make it available quickly and guarantee its accuracy. Demonstrating how sharp your internal processes are will show buyers that your business is functioning capably.

One question a buyer might ask is your reason for selling – have an honest response that doesn't suggest the need for urgency.

They'll probably also be interested in your relationships with customers and suppliers. Buyers will be aware that there's a risk of customers leaving after you sell. You'll need to reassure them that your customers are loyal to the business rather than just to you.

Evaluate any weaknesses

Create an action plan for any weaknesses in your business that you want to try to resolve. Outline the steps you'll take, timeline you'll follow and resources you'll allocate. Then assign tasks to gain improvements before advertising your business for sale.

Potential buyers might feel locked in a direction they don't want to take if you've invested in long-term projects. Cut back to short-term spending to reduce the financial burden on whoever acquires your business. Be realistic when providing for bad debt, old stock, and depreciation amounts.

Buyers prefer low risk with high reward when they consider investing in a small business. Ultimately, buyers will look for good cash flow and solid systems with the potential for further growth. They want to make money so get your financial position in excellent shape.