Chapter 1

So You Want Out of Your Business? Your Options and the Process

In This Chapter

- Understanding business exit options
- Knowing what's involved in a business sale
- Gauging your sale readiness

Owning a business is like running a marathon, and selling a business is like crossing the finish line. Getting paid to turn your business over to a new owner is the final reward for years of business creation and good management. It's also — just like finishing a marathon — hardly a decide-today-do-it-tomorrow proposition.

That you're holding this book proves you're pretty serious about harvesting sale value from your business-building efforts. That you opened to the first page instead of darting straight to a chapter on finding buyers or structuring deals indicates you're starting at square one and seeking all the information you can about the selling process in front of you, including whether a sale is your best business-exit plan or whether you should consider another way to leave the stage.

Chances are good that you're wrestling with some alligator-sized questions, such as whether you should choose to leave your business right now or ease yourself away over a longer time frame — or whether it's even possible to sell your business. You may also be wondering whether you're better off selling to business insiders — such as family members, employees, or associates — or some outsider who may actually step in to buy the enterprise you've built.

Many small business sales are driven by life-changing events such as illness, divorce, or retirement. Sometimes those circumstances force immediate sale plans, but other times, and hopefully in your situation, there's some breathing room that allows time for the steps necessary to arrive at the best sale outcome. Regardless, this chapter orients you to the range of options for exiting your business. Then it helps you assess whether a sale is your best exit route, what's involved in selling a business, and what steps lie between now and when you hand your business over to a new owner.

Much as you may want to discuss your to-sell-or-not-to-sell dilemma with friends, family, and associates, try your best to make the decision with only a few advisors, each signed to secrecy. Letting the word leak out that your business is for sale is dangerous on many fronts, especially the home front, where your sale plans may cause employee and customer concerns or defections, and the marketing front, where competing businesses may use your sale news against you as they talk with your clients or suppliers. So until you're ready to announce that a sale deal is done, plan to keep your lips sealed.

The Various Ways to Sell Your Business: Yes, You Have Options!

The number of business owners who think their businesses have no salable value — that they have no choice but to liquidate assets and close up shop — is simply staggering. Sure, if your business is located in the corner of your bedroom, you offer the same exact service or product as a list of other businesses, your sales are faltering, you keep your finances and business processes in your head, you have only a handful of customers, and hardly anyone knows your business name, selling your business will, in fact, be a very difficult task.

But if you have a business location that a buyer can take over, and if you add a valuable difference to your product or service, build solid sales, create impressive systems and marketing materials, gain name familiarity in your marketplace, and build earnings that are downright impressive, suddenly your back-bedroom operation becomes an attractive, salable asset.

To paraphrase Paul Simon, you have nearly fifty ways to leave your business, and selling comprises six of them. Your selling options range from the obvious cut-all-the-strings approach by selling your business outright to selling off a portion of your business, ridding yourself of some of your responsibilities while staying involved for some time into the future. Before you slip out the back, Jack, or make a new plan, Stan, it's worth knowing the lineup of options you can explore in your effort to get yourself free.

Selling outright and being done with it

Selling your business once and for all is probably the exit option you had in mind when you picked up this book. It's also the hope of the vast majority of entrepreneurs seeking a business exit now or in the near future, and it's the business exit option detailed in the rest of this book. After years of hard work, someone else takes over your business, it lives into the future, and you reap value that can fund either your retirement or the next chapter of your entrepreneurial life.

Who's likely to make an outright purchase of your business? Any one of the people described in the following sections.

Selling your portion to a current partner

Many business owners sell their portion of the business to a current partner, especially in professional practices where partnerships are formed around the idea that, in time, one partner will transition his or her ownership to the other partner or partners. Partnerships should always be launched with buy-sell agreements that define the terms of how one partner sells to another. If you're in a partnership, your sale game plan is set by this buy-sell agreement.

Selling to another business

If you sell your business to another business (or the owner of another business) that's engaged in the same or a similar line of business as yours (though usually in a different market), that buyer is known as a *strategic buyer.* Strategic buyers seek to expand the capabilities, breadth, profitability, and competitiveness of their existing businesses by acquiring the strengths of a business such as yours. They aren't looking to buy your business for its ability to fund a good owner salary or to build up equity for a possible future sale (that's more like a buyer with financial objectives, which is the topic of the next section). They're looking to blend or integrate your business into their own.

The way in which strategic buyers calculate what they'll pay for your business is different from the methods used by buyers with financial objectives. The businesses owned by the majority of strategic buyers fit some, if not most, of the following characteristics:

- A business that's larger and financially stronger than yours
- A business with long-range plans that would benefit from the strengths of your business — strengths the business would otherwise have to develop on its own
- A business that bases its purchase price on an estimation of how much value your business will add to the buyer's existing business over the next few years

- A business that will purchase your business only if it determines that the purchase price is less than the cost of creating the advantages of your business from scratch
- A business that's able to pay cash or obtain financing to purchase your business

WARNING!

Don't enter the business sale process thinking that a buyer with strategic interests will pay considerably more than a buyer with financial objectives. Most studies show that the difference between what businesses or individuals pay to purchase a business is minimal.

Selling to an individual with financial objectives

If you want to lay a bet, bet that if and when your business sells, it will sell to a buyer with financial objectives. What's more, bet that the buyer lives in or has already decided to move to your home area.

The vast majority of small business sales are to financially motivated individuals who participate in what the business sale industry calls *intramarket transactions*, which is another way of saying that all the players — the buyer, seller, and broker, if one's involved — are in the same market area. The typical small business buyer is motivated by some (if not all) of the following benefits:

- **A business purchase allows the buyer to be in business from Day One.** Instead of going through all the steps of starting up a business, the buyer of an established business essentially steps onto a moving train. A business that's already established has cash flow that can pay bills from the get-go. Plus, by buying a healthy enterprise, the buyer acquires an established job that can quickly fund a respectable lifestyle.
- **Buying a business is less risky than starting one.** Most business buyers have never owned a business before, so the fact that established businesses have a lower failure rate than business start-ups has strong appeal. Many buyers have quit or retired early from corporate careers but aren't yet ready to leave the business world. By purchasing a business they can experience ownership without the turmoil of the start-up process.
- **It's easier to borrow funds to buy a business than to start one.** A healthy business has established products, customers, suppliers, and employees; a proven reputation; and — most important to lenders — existing sales, profits, and cash flow. While the cost of acquiring a business, especially a healthy one, is almost always higher than the cost of starting a similar business, financing is more accessible because the risk is lower and the immediate income potential is higher. In nearly all business purchases, the buyer combines personal funds with some degree of financing — obtained either from the seller of the business, a bank, or in the form of a Small Business Administration (SBA) loan — to make the deal possible.

- **Buying a business delivers a three-pronged return on the investment.** When purchasing your business, the buyer is motivated by the fact that business ownership delivers more money, even after paying all expenses, than most people can make working for someone else. What's more, most buyers only consider purchases that deliver a good return on the purchase price investment. Here's what your buyer will likely want out of the deal:
  - A good income ($100,000 a year seems to be the current magic number)
  - A decent to downright good return on the purchase price investment
  - A future payoff when the business is developed into a great success that can be sold to a new round of owners

Smart buyers (the kind you're looking for if you want your business to succeed in the future, and especially if you finance any part of the deal) only invest in businesses with strong and climbing sales, good earnings, a unique and valued product or service, a healthy marketplace, proven operations, and customers who are likely to migrate with the business under new ownership. In Chapter 2, I help you get a good feel for what buyers are looking for so you can plan your sale process accordingly. Chapter 2 also shows you how to assess how desirable your business is as a sale prospect, as well as how to improve the condition of your business in areas where it's currently weak.

Transitioning to next-generation family

One out of three small businesses transfer to next-generation family instead of being sold to outsiders. That's why you see so many businesses with names like Smith and Sons. But *sons* don't usually take over a business; instead, *one* son or daughter emerges as the controlling heir.

WARNING!

This book focuses on business sales rather than family transitions. If you plan to transfer your business within your family, seek legal and accounting advice on how to deal with the following issues:

- If you have more than one able and interested heir, determine which will assume control of your business before the transfer begins (don't leave the decision to your kids — that's a formula for a family feud). You need to develop a succession plan, groom your successor, and determine how to transfer ownership and receive compensation. Will you give or sell the business to this family member? And how will you personally reap value from the deal?
- Determine how the heir who takes over your business can begin to buy you out even before he or she is financially able to do so independently.

- Develop a means for transferring some of your business's value to your other heirs so they receive a portion of your wealth even though they don't receive business ownership or a leadership role. One way to do this is to assess your business's value at the time of its transfer to the controlling heir. That way you can allocate a portion of the value you created to other heirs (either at the time of business transfer or through estate planning) while allowing your controlling heir to benefit personally from the additional value that he or she generates after the business transfer.

Selling but staying involved

Not every owner who wants to sell also wants out of the business — at least, not right away. Many still want the sense of involvement, the security of an ongoing paycheck and benefits, and a role in the business world. In this section you find out how you can sell but stay involved in your business.

Selling part to a key employee

This approach relies on the fact that you've found an employee who has a desire to take over your business and an entrepreneurial spirit and expertise that matches or exceeds your own. What's more, the person should be one you admire, trust, and are willing to invest in, because in most cases the chosen employee won't be in a financial position to purchase all or part of your business, and you'll essentially make the person your partner until the handoff is complete.

After you identify the right person, you can begin to share ownership by selling him or her a portion of your business for cash or by transferring a share of your business in lieu of salary increases or cash bonuses with the agreement that this key employee will be your successor at some point in the future and will then fully buy you out of your business.

This approach isn't one to take lightly or without legal advice. You need to hammer out all the details, including what to do if the employee quits, dies, or is fired; what to do if you have serious disagreements; and what to do if, in the future, you want to sell your shares in the business to someone else.

One other word of warning: If you have family members with aspirations to take over your business, be upfront about your sale plans. Perhaps your desired timeline necessitates a sale to an employee rather than to a family member who may not be ready to assume the responsibility. Or perhaps an outside-the-family sale to a proven manager will result in a surer business transition and therefore greater sale proceeds to you. Whatever your reasons, know them and explain them to the affected family members, especially if the family member works in your business.

Selling part to another business

You may choose to sell a portion of your business to another business for one of these reasons:

- Your business would benefit from a strategic partnership with a key business partner who could lend financial, operational, distribution, production, or marketing strength to your business
- You're beginning a succession plan that will sell your business gradually to another business in a transition that avoids the disruption of an immediate business takeover

Taking on a co-owner or partner

Under this scenario, you value your business, determine what percentage you want to sell (and your new partner wants to buy), draw up a legally binding partnership agreement, and begin to work as one of the partners in your business rather than as the sole owner. The essential component in your partnership is a *buy-sell agreement* — a statement of the terms you'll follow if one partner buys the other out.

Do not — I repeat, do not — enter a partnership without a buy-sell agreement prepared by an attorney. When meeting with your attorney, also discuss how to protect yourself in the event of your partner's death or disability. Most partnership agreements are accompanied by life and disability insurance policies for this purpose.

Selling to employees through an Employee Stock Ownership Plan (ESOP)

An ESOP is a tax-qualified, defined-contribution employee benefit plan through which employees accumulate shares of the business. Through an ESOP, an owner can sell stock quickly or over years, and the stock sale proceeds may be tax-free. An ESOP provides tax advantages if you're planning to sell to a key employee or a group of employees.

Before considering an ESOP, decide whether:

- You're willing to invest the time and effort required to set up a plan
- You're willing to remain involved with your business over the significant transition period — usually years — between your sole ownership and assumption of ownership by one or more employees
- You have employees with the ability to take over your business, both from a managerial and a financial standpoint

If you decide an ESOP is a good route for your business, be aware that you're venturing way out of do-it-yourself territory.

This book is about selling your business to another individual or business. If you plan to sell your business through an ESOP, plan to work with an experienced ESOP attorney and to devote the time it'll take to plan your ESOP, value your business, obtain funding for your plan, and make your plan operational.

Other ways to leave the business life behind you

Get a few business owners together and it won't take long for the term *exit plan* to arise. Business sales top most exit plan wish lists, but other options exist. Here are a few:

- **Liquidating and going out of business** takes little planning. It's probably the quickest form of business exit. Basically, you inventory your merchandise, make a list of your assets, put prices on everything, and hold a sale. If your inventory is large, you probably want to seek expert assistance on pricing and conducting the sale. You also want to collect all outstanding receivables, pay off all debts, address all contractual obligations, formally release employees, and make sure all legal and financial i's are dotted and t's are crossed. If the value of the physical assets and inventory of your business exceeds the price you're likely to get from a business sale, liquidating is the way to go. It's also the way to go if you're in a tremendous hurry and your business needs time-consuming enhancements before you can sell it to a new owner. Chapter 2 helps you determine whether your business is ready for a sale, and Chapter 6 helps you with pricing formulas so you can determine whether asset liquidation or a business sale is to your financial benefit.
- **Mergers** are like marriages, but the players are businesses instead of people, and the baggage is emotional, financial, structural, and organizational to boot. Usually, at least one of the companies in a merger is facing some sort of struggle, and because you're the one seeking to sell, it's likely that you have issues you're hoping a merger will address. In a true merger, either both companies are dissolved and assets are folded into a new entity owned by the principals of the merged companies, or the stronger company survives and absorbs the weaker company, which essentially disappears. In many cases, mergers require owner involvement after the deal is done, so weigh this option only if you have the time and money to invest in getting the deal done and the desire to stay involved through the merger and for a transition period thereafter.
- ***Going public*** is the term used when a privately held business becomes publicly held by offering its stock for sale to investors through a process known as an *initial public offering,* or IPO. The most frequent reason, among many, that companies go public is to raise capital. The process is carefully overseen by the U.S. Securities and Exchange Commission, or SEC, which requires you to comply with a host of regulations and to fill out a mind-numbing pile of registration and reporting forms.

  Warning: If you're thinking about going public, you need to seek guidance from legal, financial, and valuation professionals experienced in the public investment arena. For an overview of what's involved, read the SEC advice to small businesses considering going public, available online at `http://www.sec.gov/info/smallbus/qasbsec.htm/`.

A Helicopter View of the Business Sale Process

The business sale process is the same whether you sell to an individual, another business, or a strategic or financial buyer. The process is outlined in this section and detailed in the rest of this book.

What's less clear than the business sale process is the timeline involved. If you want an answer to the question of how long it takes to sell your business, you may as well ask yourself, "How long is a string?" The answer is, it depends. It depends on whether your business is ready for sale right now or whether you need time (a lot or little) to strengthen marketing, build revenues, cut costs, improve operating efficiency, firm up systems and management, update leases and contracts, and deal with all the other business-improvement issues I outline in Chapter 3.

TIP

Although you won't find a one-size-fits-all timing answer, you can arrive at a rough estimate. Plan on a year or more of preparation if your business isn't currently in prime condition, plus four to six months to market your business for sale and find a buyer. If you need to move faster, you'll probably sacrifice sale proceeds as a result. Turn to Chapter 2 for more on the time and price balance.

Step 1: Preparing your business for sale

Before offering your business, you want to get it in the best possible shape. That means you want it to be financially healthy and on a good growth track, with few weaknesses and many strengths, and with operations that are likely to continue almost seamlessly upon an ownership change.

To optimize your success in selling your business, I strongly suggest that you heed two points of advice, both of which I expand on in Chapter 2:

- **Know what makes a business attractive to buyers.** If you started your business from scratch, you may wonder why someone wanting to jump into the business ownership arena wouldn't want to do the same. If you understand *why* a person would want to buy an existing business, you can more effectively market right to your target audience. For instance, if you think your business will be purchased by a buyer with strategic interests, you can prepare to emphasize the capabilities your business will bring to the buyer's business. Or, if your business is likely to be purchased by someone with financial interests (as is the case in most small business sales), you can get your books in great shape for the buyer's financial review.

- **Assess where your business lies on the sale-readiness continuum and identify what you need to do to get it in ship-shape. Then, do it.** Most professionals advise allocating up to a year or even more to get the business into prime condition for sale. Chapter 3 helps you enhance the sale readiness of your business.

You can't keep word of your intention to sell your business close enough to your vest. Until you're certain that your business has sold and that it will continue under the careful management of a new owner, don't let word get to employees (other than the few you bring into your confidence), or especially to clients, suppliers, distributors, or lenders. Think of it this way: If you can't keep it secret, what makes you think they can? The dangers of telling employees too soon are many:

- Employees can become demoralized if the sale seems to drag on or stagnate and they become uncertain about the future of the business.
- Employees may not like the buyer at first glance and may subconsciously work against the deal as a result.
- Employees may leak information outside the business.

The biggest problem with letting the news out before your sale's a done deal is that it puts your business on a slippery slope that could greatly diminish its eventual value. If you tell employees and then an employee tells a friend, and the friend mentions it to someone else, and that someone else is married to one of your big clients, then your client finds out and all kinds of bad things can result; the very assets and capabilities that you're trying to sell — such as client rosters, employee team, distribution networks, and production partners — are potentially in jeopardy. For one thing, the client may feel (rightly) that you should have told clients before letting the word out in the community. For another, the client may feel (understandably) the need to protect her company by holding off on new commitments to your business until things feel more certain. Even if you request otherwise, expect your employees to share the news of the impending sale — regardless of whether they're enthusiastic or concerned — with spouses, best friends, or (your nightmare) employment recruiters or headhunters.

Step 2: Assembling your business sale team

A business sale involves a buyer and a seller, obviously. Additionally, no sale should occur without input from an accountant and an attorney. If you don't already have a business accountant and lawyer, then after you get your business ready to sell, you need to hire some pros to help you throughout the selling process.

Many business owners also involve a sale intermediary, usually a business broker. Depending on the complexity of your financial situation, you may want to bring an appraiser and a tax expert on board as well, especially if your business assets are complicated and your business value is high, resulting in a significant tax impact. Chapter 4 helps you assess your need for outside assistance and helps you figure out how to hire help where you need it most.

Step 3: Pricing your business

How to price your business depends on a long list of factors, including the size of your business and its earnings, what you intend to sell, the value of your assets, the strength of your market and industry, recent sale prices of similar businesses, and on and on.

REMEMBER

When pricing your business, make sure you're realistic about what kind of financial outcome you can expect from the sale. Anyone who reads business articles knows about companies that were purchased at figures like 15 times earnings or other high-roller stakes, and those stories whet the sale interests and fuel the hopes of small business owners. The following fact may hit like a bucket of cold water, but it contains a healthy dose of realism: Most small businesses sell for prices that range from one to four times seller's discretionary earnings, with an average sale price of two to three times average annual earnings. Chapter 5 helps you calculate your earnings, and Chapter 6 offers all kinds of pricing advice and formulas, but for now, if you adjust your early expectations to a two- or three-times-earnings price (providing all aspects of your business make it an attractive, low-risk prospect), you probably won't face disappointment later.

Step 4: Assembling sale materials

Whether you do it yourself or rely on a business broker to help with this step, your business needs to be summarized in a document that allows prospective buyers to see what you're selling and why your business is valuable. This document should include operational, financial, and marketing information that backs up your claims with facts. Chapter 7 helps you update and summarize your business and marketing plans, and Chapter 8 shows you how to assemble your business offering into a sale memorandum for prospective buyers.

Step 5: Finding and working with buyer prospects

You have to get the word that your business is for sale out to the right people, either on your own or through a business sale broker. Either way, you need to proceed on the super-QT. Otherwise, you'll alarm and possibly scare away clients and employees, tip off competitors, and eliminate the exclusive deal you want prospective buyers to feel they're gaining access to. Chapter 9 helps you define and target your prospect, communicate your offer, and pre-screen respondents. Chapter 10 guides you through the process of receiving and evaluating offers and — if all goes well — Chapter 11 helps you move the prospect to sign a letter of intent and deposit good-faith earnest money to buy your business.

Step 6: Doing due diligence

Due diligence is the business sale term for the homework the buyer and seller need to complete to be sure that promises made on both sides of the deal hold up under examination. At this stage, the buyer will likely request information in order to learn answers to the following two major questions:

- Is your business in good financial condition and working order?
- Does your business face any problems — such as financial, legal, or marketing issues — that could threaten the future of the business?

At the same time that your buyer is determining that your business is in the condition you've represented it to be, you'll want to do some research to confirm that the buyer has the financial capability and business expertise required to purchase and run your business to a successful future. This research is especially important if you'll be providing seller financing or accepting deferred payments. Your investigation will focus on a few key areas:

- The buyer's financial condition and creditworthiness
- The buyer's business history, including the types of positions the buyer has held, the size budgets and staff the buyer has managed, and the buyer's ability to develop business, manage growth, and fulfill business commitments

Chapter 12 tells you what to expect and what steps you take during the due diligence process.

Step 7: Structuring and negotiating the deal

Business sale payment plans take many forms, from all cash (rare!) to down payments with financing ranging from seller notes to SBA loans to traditional bank loans, or even loans from lenders who specialize in helping businesses in certain industries. In addition to the buyer's cash and borrowed funds, some deals also include earn-out clauses where the seller gets paid over time based on the future performance of the business under the new owner's leadership. The structure options are myriad, and the only constant is that every arrangement comes with tax consequences that sometimes benefit the seller and sometimes benefit the buyer (but rarely both). Count on Chapter 13 to show you the structuring options and to guide you through the buyer-seller negotiation. For a one-stop financial planning resource, go to Chapter 14 for information on the implications and advantages of payment approaches, along with advice on how to proceed when you're the banker for part of the deal.

Step 8: Closing the sale

After negotiations are complete, the sale moves to the closing stage. This is the point where final price adjustments take place to account for last-minute valuation of inventory, accounts receivable, pro-rated operating costs, and other variables. It's also where the purchase and sale agreement and all loan documents are signed; business leases, contracts, and titles are transferred; and agreements ranging from covenants not to compete to such things as profit sharing plan succession agreements are executed. Chapter 15 shows you what to expect, what each closing form means, and how to participate in a closing session that gets signatures in all the right places.

The final step: Passing the baton

The sale process isn't over until the last dollar is in your pocket, which usually means that how you pass the baton matters not just to the new owner, but also to your own financial future. How you tell employees, clients, business suppliers, and others about your sale can have a big impact on how well the news is accepted and how the business prospers as a result.

Chapter 16 provides a game plan for announcing the sale and paving the way for the new owner's success. It also includes information on the legal steps you need to take to transfer the reins of your business to the new owner, along with tips for information you need to provide to the new owner before you formally exit the business scene.

Selling a franchise: A whole different ballgame

Selling a franchise (called a *franchise resale*) is only a little like selling any other business. The common features are getting your business in good financial and operating condition and gathering all the paperwork so prospective buyers can get a quick, accurate, truthful look at the condition of the business. When it's time to actually find a buyer, though, the owner of a franchised business takes a very different path from the one taken by any other business owner. If you're selling a franchise, follow these steps as you seek your buyer:

1. **First things first — review your franchise agreement, which does the following:**

   Defines whether and how you can sell your franchise. It will state whether you're required to offer your franchise first to the franchisor as part of your agreement's buy-back or first-right-of-refusal clauses. A *buy-back clause* means that the franchisor has the right to buy your franchise back before you can sell it to other buyers. A *first-right-of-refusal clause* means that you must allow the franchisor the right to match the offer from a third party before you can sell your franchise to an outsider.

   Confirms the length of time until your agreement expires. A new buyer may be able to discuss new terms with the franchisor, but the terms of your agreement will be the starting point for negotiations, and of great interest to a buyer.

   Describes whether a transfer fee will be involved if you sell and, if so, what the fee is and what services it covers.

2. **Notify your franchise organization that you want to sell.** This step is probably required by your franchise agreement. It's also to your benefit, as the franchisor will probably respond with information on how to proceed. During this step, do the following:

   Ask for information regarding how much other franchises have sold for over recent months. Especially if your franchisor has a first-right-of-refusal to buy your franchise, you can be sure that the organization watches the price of every resale transaction. It may even have a preset pricing formula, like pricing set by a percentage of sales, that you can follow as you price your business.

   Learn whether the franchisor will require upgrades to bring your franchise current with the franchisor's latest brand, marketing, and operation requirements. This is information you can't wink and walk away from. Either you or the new buyer will need to make the required changes, if any, so find out what's involved. You'll probably have to either pony up before the sale or adjust your asking price downward to account for the expenses that await the next owner.

   Clarify the franchisor's buyer qualification process. Your franchisor almost certainly has a current set of capital and credit requirements, which you need to know so you can find a buyer that will meet the franchisor's standards.

   Determine whether changes have been made to the franchise agreement that will affect a new buyer.

3. **Request buyer referrals from your franchisor.** Before you begin advertising that your franchise is for sale, find out whether leads are available through the franchisor. Your franchisor may want to buy back your franchise, or it may have a list of interested buyers to tell you about.

Remember: After you sell, take great care to follow the non-compete agreement you signed as part of your franchise purchase agreement. Franchisors aggressively protect their interests, so work with an attorney to know what you can and can't do after the sale to stay within the confines of your purchase agreement.

Putting Yourself through a Quick Pre-Sale Self-Assessment

A business sale starts with some pretty serious navel-gazing. It takes soul-searching to decide that you're ready to shed the title of business owner, and after that decision's behind you, a long string of deliberations awaits. After you decide what you want for your future, you have to take an unvarnished look at whether the business you've built is ready for a sale. Setting your biases aside, you have to consider whether your business is an attractive purchase prospect. Would someone (or a group of someones) want to buy your business to add strategic strength to some other business? Or, does your business earn enough profit to make it an attractive opportunity for a buyer shopping for a financial investment? After you've weighed those questions, you have to weigh your priorities to decide how to move forward.

Unfortunately, business sales aren't split-second events. I hate to break it to you, but if you need out the day after tomorrow and your business isn't in good financial and marketing condition, a business sale probably isn't in the cards — in which case you'd be better off simply selling off physical assets and closing up shop. A sale may also not be in the cards if, after some serious thought, you've decided that you'd rather close than undertake the steps (and spend the time) required to transition your business into someone else's hands. This section helps you make the starting-gate decisions that focus on *you* and what you're trying to achieve.

ON THE CD

Figure 1-1 (shown as Form 1-1 on the CD-ROM) helps you wade through the considerations that lead to your business sale goal and objectives. Then, Chapter 2 gets you peering into the depths of your business, so you can decide whether all is where you need or want it to be before offering it for sale.

SETTING YOUR BUSINESS SALE GOAL AND OBJECTIVES

SETTING YOUR GOAL

State your desired outcome in a single sentence. *What do you want for your post-sale life? Do you want to remain involved in your business after your sale? If so, how — as the leader, as a mentor during the buyer transition period only, or as a consultant?*

SETTING YOUR OBJECTIVES

Timeline: *By what date do you want or need to sell?*

Financial: *How much money do you want to receive from selling your business? (Keep in mind that most businesses sell for 2–4 times earnings.) How do you want to receive payment — are you willing to offer a seller-financed loan? If so, what terms are you willing to offer? (Remember: You have a much higher chance of selling if you offer seller financing.)*

Buyer: *What are your priorities regarding the nature of your buyer? Do you feel strongly about selling to a partner, key employee, employee group, or another business? Or are you open to selling to an outsider who has the financial and business capability to successfully own and run the business?*

Business Continuity: *Is it important to you to ensure employment continuity for your staff, so they don't have to move or undergo personal disruption as a result of your sale decision? Do you want to ensure customer continuity, so they don't have to undergo disruption in the way they do business?*

Figure 1-1: Determining your business sale goal and objectives.

Pinpointing your business-exit motivation

You may be sick of your partner, tired of feeding the kitty to keep your business in the black, fed up with fighting new competition, or exasperated from a long effort to keep your business from what feels like an ever-threatening downhill slide.

On the flip side, you may be highly successful but bored with the same old routine. Or maybe you're burned out after years spent getting your business into its amazingly healthy marketplace position. Or, if you're like the 750,000 baby boomers who are selling businesses now and for the foreseeable future, you may be just plain ready for a nonstop string of days in the sun.

ON THE CD

Before proceeding with business sale planning, spend some time focusing on why you want to leave your business. By getting clear about your exit motivators, you'll be in a better position to consider how fast you want or need to move and how to plan the most reasonable next steps. To help focus your thoughts, consider this list of the most typical situations that motivate business exits:

- Boredom
- Burnout
- Desire or need to move to a new location
- Health challenges that make running the business difficult or impossible
- A divorce that's forcing the need to sell the business and move on
- Family obligations that require a larger income and more certain benefits than the business can deliver
- A lack of energy or resources to address the opportunities the business faces
- A desire to diversify finances so all assets aren't tied up in the business
- Conflict with partners
- Fierce competition
- Business financial troubles
- A desire to retire with money from the enterprise you've built

Before you move on to specifics, you need to determine what you ultimately want for yourself. Do you want out of the business altogether, or do you want to stay involved to some degree? What do you want to do with your time after you sell, and how much money will doing so require? Use these questions to create your goal, a statement of what you want to achieve. In one sentence, put your goal into words. Want an example? How about, "I want to sell my business, retire, and move to a golf course community in Arizona."

Weighing your priorities and setting objectives

Your objectives define how you plan to achieve your goal. Give thought to the specifics now, before you launch the sale process, and your odds of reaching a happy outcome go up dramatically. Your objectives group somewhat nicely into four main areas: money, timing, type of business owner, and business continuity. By considering these crucial decision-making aspects of selling a business, you create a clear path from which you can devise your plan of action.

Money versus time

If your business has some weak areas (as many do), selecting your sale approach is largely a matter of weighing money versus time. Is it necessary for you to launch your sale process now, or are you willing to delay while you get your business into stronger shape for a sale? In short, do you want to obtain the highest possible price for your business, or do you place higher value on getting out as quickly as possible?

Unless your business is in great financial, marketing, and operating condition, if you want out immediately, you can be sure you'll at least need to discount the price you ask, though even that may not be enough to seal a deal. Realize that many small businesses never sell, largely because they never appeal to a buyer's interests. If you can't dedicate the time it takes to get your business into the kind of financial, marketing, and operational shape that causes a buyer to see it as a good deal, you may be better off selling assets and closing up shop.

On the other hand, if you're willing to commit time to the sale process (up to a year or more), you're more apt to realize a better price when you do sell. If you're personally ready for a sale but your business isn't, the next step is to figure out what it takes to make your business salable (and how long you need). That's what Chapter 3 is all about. Realize, though, that the more revamping you need to do to get your business into attractive, salable shape, the longer the process will take.

Buyer type and business continuity

What's most important to you? If you can establish your personal priorities, setting your business sale strategy gets easier. For instance:

- **Do you feel strongly about whom you sell to?** For example, do you prefer to sell to an heir-apparent or key employee, or are you fine selling to a total stranger? If you can't stand the thought of placing your business in the hands of an outsider, or if you aren't ready to give up involvement with your business, you may want to sell to a partner or employee group and then stay on with a reduced role in your business. Or you could merge your business with another, or sell to a new owner and negotiate a consulting agreement that keeps you involved for a specified period into the future.

- **Do you care what happens to the business after the sale?** For instance, do you want to ensure — as much as possible — that business goes on as usual for both clients and employees by keeping your business in its current location? If so, you want to limit buyer prospects to those who are committed to running your business as it now exists, rather than to someone who wants to move purchased assets to a new, distant location from which clients are served. (Realize, though, that all bets are off when your business transfers hands, after which time the new owner has free reign to take your business in any direction not limited by specifics in the formal sale agreement.)

REAL WORLD

Get what you want — trust me, you can

Setting your business sale goals and objectives is a personal process that results in a statement of exactly what you want to achieve through the process you're about to launch. To share an example, I'll pick the most personal one I can think of: my own.

When my husband and I decided to sell our advertising agency, we sat down and wrote out our sale goal and set of objectives following the sequence outlined in Form 1-1.

First, we decided that we definitely wanted to sell our business. That was our goal.

Then came our objectives.

- **Regarding ongoing involvement,** we decided we wanted to exit our business without any employment commitments. We wanted to leave the business as soon as the new owner was ready to take it over as his own. We wanted to structure the legal documents, however, to leave us each free to continue to consult in the field of marketing and advertising, and I knew I wanted to write books on the topic. (I wrote *Small Business Marketing For Dummies* as my first post-sale venture.) We both agreed to remain close to the agency for up to a year after the sale in order to help transition the agency to the new owner.
- **Regarding a timeline,** we agreed that we wanted to sell our business within the upcoming 12 to 18 months.
- **Regarding financials,** our agency was healthy and had strong tangible assets. We wanted to be paid the fair market value of our assets, and we felt a fair way to pay for the momentum of our company (its brand and goodwill value) was to structure a sale agreement that ensured us a portion of the agency's sales for each of the first three years following the sale. We were willing to self-finance part of the deal.
- **Regarding continuity for our employees and clients,** we decided this was an aspect of the sale that was very important to us. More than two dozen bright people worked for our business, and nearly two dozen clients nationwide counted on our agency to handle their marketing programs. We decided to rule out the idea of a merger or a sale to another agency, feeling that the other agency would likely want to serve our clients with staff working under its own roof, leaving our staff high and dry. We set as our objective to seek an individual buyer who wanted to purchase our business, move to our location, serve our stable of clients, and keep our employee team intact.

And guess what? When you're clear about what you want, you'll likely achieve your objectives. That's what happened for us, so it's a truth I can personally vouch for.

Form on the CD-ROM

Form 1-1	**Setting Your Business Sale Goal and Objectives**	A form to help clarify what you personally want out of a business sale