

## **Preparing your business for sale**

Eastside Business

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Have you thought about selling your business? If so, then why would a buyer buy?

Buyers always have a choice: should they start a business from scratch or purchase an existing business? Start-ups are risky, and they consume an owner's time, energy and creativity. Existing businesses have lower perceived risk, already have procedures, processes and tools in place, and have a performance track record.

Small Business: If your business is small (generating revenues under \$2 million), then it is likely that an individual will purchase your company. Larger businesses tend to be purchased by companies rather than individuals. The selling process, targeting and preparations are different depending upon the probable buyer.

If the buyer is apt to be an individual, then what will make your business attractive to them? Is the business clean, brightly lit, strategically located and well organized? Are the policies, procedures and tracking tools in tip-top shape? Have you thought through a plan for training the new owner and transitioning the business? Most importantly, is the business generating enough net income to pay off a business loan and provide for an adequate living wage?

Why do people buy businesses? While some want to buy a lifestyle, most simply want to buy a job. My company helps a lot of "corporate refugees" who are tired of the travel, hours or environment at their current jobs. Successful sellers understand buyers' motivations, and they do all they can to make it easy for a new owner to purchase the business, learn the ropes, and step into their new roles.

Individuals will buy your company if it meets their needs for income and if they can visualize themselves being successful and happy. Consider, for example, buying a winter coat. A buyer may analyze whether a particular coat fits their needs for warmth, color, and style, but until they actually try the coat on and look in the mirror, they can't feel what it would be like to own it.

Buying a business is similar. A buyer can analyze your business's profits, markets and performance, but until the buyer tours your place of business, until they see how bright, organized and attractive the workplace is, they won't know if your business is the right "fit" for them.

Mid-size Business: If your business is larger (generating revenues well over \$2 million), then it is likely to be another company that buys your firm. When

companies buy other businesses, they always know exactly what they want to buy and it is always something of strategic value to the company. It may be clientele, products, location, territory, intellectual property, employees, capacity or even purchase discounts on material both firms already use. Your business broker can help you to assess what may be of strategic value in your company, and he or she can design a marketing campaign to target prospective buyers.

Documentation: Whether the buyer is an individual or a corporation, a substantial amount of documentation will be required. Most business brokers do not share this information with buyers until after a purchase and sale agreement has been endorsed. However, I strongly encourage you to collect this documentation right away and to share it with your business broker at the onset.

At a minimum, these documents should contain up to five years of income statements, balance sheets (if available) and tax returns. You should also copy your articles of incorporation (or other business organization documents), and provide a list of current inventory, fixed assets, and your top customers.

The business broker can package the information into marketing documents including a Blind Summary and a Comprehensive Business Review (CBR). A Blind Summary is a marketing "teaser", designed to share enough data to entice a buyer without revealing the seller. A professionally prepared CBR provides just about all of the information a buyer and their banker need to know in order to reach the purchase and funding decisions. It is shared only after a buyer is screened and a stringent confidentiality agreement is in place.

Conclusion: How do you prepare your business for sale? First, plan a few years ahead to give yourself enough time to prepare and to effect change. Second, make sure your financial documents prove your company makes enough income to pay for a business loan and enables the buyer to make a good wage or return on investment. Then clean the place from top to bottom, add fresh paint or carpeting where needed, and make certain it appears organized, well lit and attractive.

Remember, a winter coat may have the features a buyer wants, but it won't sell until that buyer tries it on to ensure the "fit." Do everything you can to make it easy for that buyer to reach a purchase decision!