

## **Selling Process**

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In last month's article I talked about business buyers who are escaping corporate America in droves. This month I want to talk directly to business sellers, or rather those business owners who think they would like to sell their business in the coming year or two. What should you expect, and what can you do to begin preparing your business for sale?

At Washington BBI we talk about the eight "P's" of selling businesses.

Selling mid-sized businesses - the eight P's of brokering a business:

- Process: proven sales processes
- Preparation: advice preparing business for sale
- Packaging: compilation of your company's information
- Promotion: market your firm nationally and internationally
- Prospects: actively target prospective buyers
- Purge: screen out unqualified buyers
- Parley: effective negotiations on your behalf
- Price: help you obtain the highest value for your firm

**Process:** Look for a business intermediary that has a written selling process. Many brokers simply "wing it," believing that every sale is different. That's partly true – each sale is different. However, experienced brokers know how critical it is to do the right things in the right order and at the right time. Process matters!

**Preparation:** Is your company generating enough cash flow to make it attractive to acquire? Your business intermediary, along with your accountant, can help you to answer this question. If the answer is no, then you need to work on the financial fundamentals to get the business into salable shape. Sprucing up the place won't hurt, either!

**Packaging:** Your business intermediary should "package" your financial, market and product information into one or more marketing documents. Often there are two types: the Blind Summary and the Comprehensive Business Report. The former is a teaser that is designed to garner interest. The latter is provided once a confidentiality agreement has been signed by the buyer. It is also a marketing document, and it contains a broad disclosure of the business's financial performance, tax reports, products and markets.

**Promotion:** Who is the target? If your company's annual revenues are small, say under \$1 million, it is likely the buyer will be an individual. If the revenues are over \$2 million, a corporation is most likely to pay the highest price for your business. Thus the method of promotion depends upon the target buyer. Whether the target is an individual or a corporation, the business intermediary must take care to ensure the seller's confidentiality.

**Prospects:** Business intermediaries will gather and encourage as many buying prospects as possible, hoping that potential buyers will become active bidders. The broker will screen prospective buyers for their ability, authority, and urgency to buy. If the target buyer is an individual, then the prospects usually come from web-based multiple listing services. If the target buyer is another business, then this requires a far more strategic approach to marketing and attracting prospects.

**Purge:** In the purging process, the intermediary will remove those prospects who refuse to endorse confidentiality agreements, cannot afford to purchase the business, have no sense of urgency, or are just too cranky or ornery to deal with. This purging or screening process is an invaluable service as "tire-kickers" can consume inordinate amounts of a seller's time and resources. One of the traits my company looks for is a commitment to a win-win scenario. Oddly, many buyers (and sellers) seem to believe that they cannot win unless they make someone else lose. This is called zero-sum gaming, and those people are lawsuits waiting to happen.

**Parley:** Once the buyer is screened and nondisclosure agreements are endorsed, then the selling company's detailed financial, tax, market and other information are provided to the buyer. Usually this is the phase when the buyer and seller meet and the facilities are toured. The chemistry between the two parties is critical. If the two groups can't get along in this stage, surely it won't get any better. Terms, conditions, concerns, training, transitioning and growing the business are often topics of the Parley phase.

**Price:** There are two prices involved in a sale. Oddly, the purchase price is the easiest to negotiate and the simplest to adjust following the due diligence. Often the tough nut is to gain consensus on the allocation of the selling price to the purchased assets. The allocation of assets is a tax issue, and in some instances it can raise the hackles on the napes of both the buyer and seller. Sellers need to discuss this allocation issue with their tax advisors before agreeing to a price. If you understand the tax issues up-front, then the tax impact can be offset by adjusting the selling price.

The final sales stages, due diligence and closing, will usually be overseen by your CPA and transaction attorney. The broker is only involved in coordinating the activities, or in renegotiating the terms should some surprise be revealed during due diligence.

No one likes surprises! Not brokers and not buyers! Our clients submit their financial reports, tax statements and an encyclopedic amount of other documentation before we agree to represent them. So a re-negotiation has never happened for us. Why not? Those who provide the documentation at the onset create transparent transactions. Those who hide documentation end up getting sued by the buyer.

What do I recommend to business sellers? Prepare early, and think about ways to make it as easy as possible for the buyer to buy. Your business broker can help.

Selling a business is a very complex process. There are over 200 distinct steps in the sale of a typical business. Your professional business intermediary will guide you through these steps and will help you obtain the highest possible value for company.

Will your broker be able to advise you on tax, accounting, investment, or legal issues? If they are a lawyer, a CPA, or an SEC-licensed securities dealer, perhaps, but most brokers will refer you to professional advisors for these issues. Next month I'll discuss the importance of assembling a team of professional advisors.

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