

# TODAY'S Business Scene

THE NEWSLETTER FOR PRIVATELY HELD BUSINESSES



**Mountain States  
Business Brokers**

## The Helping Hand

One thing the "experts" all agree on: when selling a business- Hire a professional.

Buying or selling a business is a complex process full of hidden risks. That's why experience counts. In selecting a broker ask how long they have been in business, how they market their listings, how many businesses they have sold and whether they act as a seller's agent or transaction broker. Only a transaction broker can truly act as an "intermediary" during negotiations to create a successful transaction.

It may take several months to find the right buyer. Only about 2% of initial inquiries ever turn into completed transactions. It's the broker's job to sort through 40 or 50 tire kickers, dreamers and fast-talkers to find your buyer. Your broker will talk extensively with 10 prospects for every 1 you meet. The broker will also help find the right financing for your business- which I will talk about in the next newsletter.

**Ben Mahrle, CBI  
Managing Broker**

## IN THIS ISSUE

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WHAT HAPPENS IF?  
QUESTIONS BUSINESS BUYERS WANT ANSWERS TO  
SELLING PRICE DEFINED**

### Increasing the Value of Your Business

Considering selling your business? Just want to increase the value of your business? Here are some areas to look at that can fairly quickly increase profits, which are, after all, a main building block in creating value.

- **PRICING:** Are the prices of the products or services set too low? Owners too often continue with the same prices year after year without revisiting their pricing structure.
- **CUSTOMER SERVICE:** Elevating the quality or amount of customer service may not only increase business and support the higher prices suggested above, but also encourage customers to pay more promptly, increasing cash flow.
- **EXPENSES:** Owners should review what they pay for inventory, supplies, utilities, insurance, technology and any other expenses. Are you getting the lowest price possible? Are you taking advantage of all available discounts, etc.? It may pay to check pricing from other suppliers and vendors. Every savings increases profits and, subsequently, value.
- **INVENTORY:** In some cases inventory levels may be higher than necessary. Retail operations want their stores to look "busy," but they don't need a basement or warehouse full of inventory. In today's fast-moving economy, inventory can be supplied almost on demand - in most cases. This should be balanced by still taking advantage of special pricing on certain items or stockpiling hard-to-get inventory.
- **OUTSOURCING:** Some services, especially in today's environment of the self-employed, can be outsourced. While replacing workers is not pleasant, and should only be done if substantial savings can be realized, outsourcing is often worth investigating.
- **EMPLOYEES:** Now may be the time to get rid of any disgruntled employees. Happy and contented employees make for a profitable business.

These are just a few areas to consider to help increase profits and, subsequently, increase value.

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## What Happens If?

You may not have any intention of selling your business today. But, what happens to your business if you get hit by a truck, fall ill or are injured in some other way making you unable to operate your business for a fairly long period of time? Will your spouse step in? Do you have a trusted employee that can run things? Now might be a good time to give this some thought and discuss it with family and advisors.

You have spent time, effort and money building your business. Your business is probably your and your family's biggest asset. So, what happens to this asset if one of the unfortunate events mentioned above actually occurs? Without some strategies to deal with the unexpected, your business could be in serious trouble by the time you recover and return to work. Or worse, if you fail to survive an illness or injury, your family/heirs will be forced to create a plan of action to run the business or, at least, operate it until it can be sold. The obvious time to come up with a plan for the unexpected is before it happens.

This type of plan is different than an exit strategy. An exit strategy provides a plan that can be followed for a planned retirement or cut-back. Illness, accidents and death are seldom planned events. They are sudden events where the owner and operator of a business becomes incapacitated and, if there is not a written plan of action, the business could find itself in jeopardy.

This written plan of action should outline your wishes in the event of illness, injury or death. Is there someone who can run things until your business is sold? If you are the main cog in the company's success and you are not able to be there, how will your customers and suppliers feel about doing business with your company? Maybe now would be a good time to get key person insurance, increasing your own life insurance to cover taxes in case of death.

It may also be a good time to pick a successor - just in case. If there isn't someone who could take over, is there someone who could at least keep things operative until the business is sold? Maybe it's time to have your spouse or one of your children learn something about the business - again, just in case. Maybe you have an employee who could keep things running until the business is sold or until you are able to return to work.

In addition to your family and advisors, it might also pay to talk to a professional business intermediary. You may not be ready to sell, but if selling becomes a necessity in the future, a consultation with a business intermediary can provide you with a lot of valuable information about the sales process to help you plan now.



## Questions Business Buyers Want Answers To

If you are even thinking about selling your business, it's important to know the questions that buyers generally want answers to. For example, the first question almost always asked by buyers is: If this is such a good business, why is it for sale? How you answer this question can make or break a sale. A vague answer can discourage buyers from further consideration of your business, as they may assume the worst.

If you say you are "burned out" or just ready to try something new – that's fine. If you've owned and operated the business for 10 to 15 years, buyers will most likely accept your reason for sale and continue their investigation. However, if you've only owned and operated the business for two years or less, a prospective buyer may find it concerning that you are already burned out or ready for something new.

If you're sick, be open about what the problem is; otherwise buyers will think you are just sick of the business. The worst thing a seller can do is to fudge an answer or not provide a completely honest answer. Buyers will, most likely, see right through the given reason for sale and walk away. So, even if you really are tired of, or just plain hate, running your own business, be up front and explain why. Honesty is always the best policy.

It is also a good policy to engage the services of a professional business broker. Brokers have been through many transactions and can help a prospective seller deal with the reason for sale as well as the other questions a buyer may have. Here is a brief list of other questions buyers often ask and business brokers deal with all of the time:

- Why should I buy an existing business rather than start one myself?
- How are businesses priced?
- What should I look for?
- What does it take to be successful?
- What happens if I find a business I want to buy?
- Do I need outside advisors?

In addition, buyers often want answers to some more specific questions such as:

- How long has the business been in business?
- How long has the present owner owned the business?
- How much money is the business making?
- Are the books and records readily available?
- Will the new owner help me learn the business?

These and many other questions are ones that business brokers deal with every day, equipping them to help you prepare honest and useful answers.



### One way to handle the "underground" economy!

#### *Greek tax collector tries creative approach.*

Athens, Greece – Greeks hoping to unwind at bars, restaurants and massage parlors could save money under a new tax code which declares spending on entertainment – including for alcohol and strip clubs – to be tax deductible.

Baptisms and wedding receptions are on the rebate list too, as part of the conservative government's bid to crack down on the country's vast underground economy. So are karate lessons, visits to the hairdresser and popular treatments for weight loss and baldness.

The ministry published details Thursday of the new system, aimed at forcing more small businesses to issue receipts and reveal income. Greece's black market is widely estimated as being worth about 30 percent of the country's gross domestic product.

Source: Wire Service Reports, August 3, 2007



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## Selling Price Defined

When the time comes to sell your business, just what makes up the selling price? What is it that you are selling and the buyer is buying? It is important that the selling price be defined in such a way as to avoid any confusion. Below you will find some sample wording used by business intermediaries to define the selling price. Keep in mind that this is sample wording only and is presented here merely for informational purposes.

- The term "selling price" shall include (a) the selling price of the assets acquired plus any obligations assumed by the purchaser, (b) if the sale becomes one of stock, then the selling price will be all of the assets plus all of the liabilities of the corporation plus the value of any covenants not to compete, employment and/or consulting agreements plus the value of any allocations for goodwill and/or intangible assets.
- The total sale price shall consist of all consideration received by the owner and/or the company including the sum of the following:
  - (a) The total amount of cash received by the company and/or owner in connection with the sale, lease, or other transfer of the company, or any interest therein. Such cash consideration shall include but not be limited to purchase price, lease consideration, non-competition payments, consulting payments, license fees, royalties, retained cash, and other consideration received at or subsequent to the consummation of the sale transaction.
  - (b) All future, contingent or undetermined amounts in whole, such as an "earnout." The commission shall be based on the actual amount of such future or contingent payments as and when they are received.
  - (c) The current fair market value of all non-cash items such as securities, notes or other property.
  - (d) Any amounts retained by the company for ultimate distribution to the owner, including any salaries, bonuses, deferred compensation, liquidation proceeds, or other amounts (in excess of the owner's historic salary) received, retained or withdrawn by or for the benefit of the owner (including profits generated prior to closing) from and after the date of execution of this Listing Contract.
  - (e) The amount of any liabilities assumed by a purchaser (except for unsecured liabilities shown on the company's financial statement or unsecured liabilities which arise hereafter in the ordinary course of the company's business; i.e., any secured debt assumed by a purchaser shall be part of the sale price.)

