

TODAY'S Business Scene

THE NEWSLETTER FOR PRIVATELY HELD BUSINESSES



**Mountain States
Business Brokers**

Blowing the Deal 101

Most small business owners are not familiar with the process of selling a company, because they have never done it before. There are many mistakes they can make but the following 10 are high on the "deal killer" list.

1. Neglect Running Your Business
2. Over Pricing the Business
3. Not Keeping it Confidential
4. Not Preparing Well in Advance
5. Not Anticipating Buyer and Bank Requests
6. Negotiating With Only One Buyer
7. Unwillingness to Adequately Train Buyers
8. Be Inflexible in Your Terms
9. Negotiate for the Last Nickel on Everything
10. Too Much Time Allocated to Selling Process (See #1 Above)

Experience has taught us that not only are no two businesses or deals the same, you have to prepare yourself and your financial records well in advance and be flexible. With the few remaining banks left in the business acquisition market tightening their requirements it is only going to get tougher. Call one of our brokers for Course 102- Saving the Deal.

**Ben Mahrle, CBI
Managing Broker**

IN THIS ISSUE

WHY YOUR BUSINESS WON'T SELL

THE HIDDEN VALUES IN YOUR BUSINESS

ARE YOU GETTING READY TO SELL?

ONE MORE REASON TO USE A BUSINESS BROKER PROFESSIONAL

Why Your Business Won't Sell

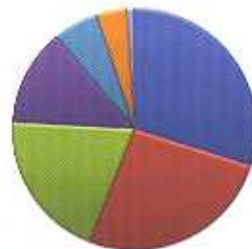
The prevailing theory suggests that with many small business owners hitting retirement age, a number of businesses will be on the market sooner rather than later. So, what can you do to make sure your business will be "sale-ready" when your time to sell comes? The time to make your business sale-ready is not the day before (or after) you make that decision to sell; the time to get it ready is at least a year or more ahead of that decision. In a recent survey of business brokerage professionals, conducted by Business Brokerage Press, the biggest reason why the sale of a business did not close was financing. The second biggest reason was seller issues. These reasons were followed by buyer issues, landlord/lease issues, legal issues and governmental issues (environmental, inspections, etc.), with the proverbial "other" consisting of the last six percent. Many of these areas can be addressed by the business owner prior to selling.

While financing may not be an area that the seller of a business has any control over, there are quite a few things that a business owner can do to make his or her business more financially attractive. In fact, many of the seller issues (to be discussed later) can help make a business easier to finance when the time comes. For example, improving profitability by cutting costs makes the profit and loss statement more attractive – and the sooner you can make these cuts, the better. The main thing that lenders look at is the profit picture, coupled with a look at whether sales are increasing. In other words, lenders want to know if the business is growing and if it is profitable.

Continued on Pg. 2

What was the main obstacle that caused pending sales from closing?

Financing	30%
Seller Issues	26%
Buyer Issues	20%
Landlord/Lease	13%
Other	06%
Legal Issues	04%
Government Issues (inspections/ environmental, etc.)	01%



Why Your Business Won't Sell (continued from cover)

Landlord/lease issues, governmental issues and, obviously, seller issues can be addressed by the business owner long before the decision to sell is made. Buyers (and lenders) want a long lease – certainly one long enough to cover the monthly payments. This lease coverage is critical in location-sensitive businesses such as retail and in most food-related businesses as well. Business owners have to understand that good landlord relations are important. At some point, the landlord will be asked to transfer the lease, extend it or grant a new one. This process is a lot easier with a happy landlord. Most legal and governmental issues can be resolved prior to putting the business on the market. Completing inspections and resolving code issues should be taken care of long before the business goes up for sale. Buyers want to buy a "clean" business.

Unfortunately, some seller issues are personal and occur during the sale process. Too many sellers put their business up for sale before realizing that they're really not quite ready to sell. The first issue that business owners have to face when considering

selling is: Are they really serious? Are they willing to accept the price that the marketplace ultimately dictates? Are they prepared to be reasonable in the seller-buyer negotiations – and do they understand that there will be negotiations? Most businesses sell for about 15 percent less than the original asking price.

Many of the issues referred to in the survey, such as legal, governmental and even landlord issues, are really seller issues that have not been resolved or corrected by the business owner. However, financing is the biggest obstacle to the sale of a business according to the survey. Seller financing is still a mainstay of privately-held business sales. Sellers should be prepared to finance the sale of their business. Aside from making the sale work, seller financing has an important psychological effect on the buyer; it gives the buyer some level of assurance that the seller is confident that the business can make the payment and also provide a living.

The Hidden Values in Your Business

Surveys have shown that a majority of business owners have no idea what their business is worth, that they have a majority of their net worth tied up in their business, and that they do not have an exit strategy. A business broker professional is a good person to call on to get an idea of what the business might sell for in the marketplace. Certainly, the financials carry a lot of weight in figuring what a particular business will bring in the marketplace. However, a professional business broker can also tell you about those hidden values your business most likely possesses. It's these hidden values that often capture the interest of buyers and make a business more valuable than what the numbers suggest. Keep them in mind when placing a price on your business, and make sure that a prospective buyer is made aware of them. They might be called the non-financial value of the business.

Many business owners may take the following hidden values for granted, but they definitely add value to the business.

- **Trained/Experienced employees:** It's much easier – and better – to take over a business that already has experienced workers rather than having to hire them from scratch.
- **Unique products or services:** Is the business known for something special? "They have everything!" "They have the best pizza in town." "They have quick delivery." "If they don't have it, they'll get it." What do people say about your business?

- **Repeat customers or clients:** Many businesses have to continually look for new customers or clients. A real estate firm sells a house and, in most cases, that customer stays there for years. A sale might lead to referrals, but barring something unusual, most people aren't going to buy a second house very soon. A convenience store, however, hopes to keep customers coming through the door on a regular basis. That repeat business has a value. It is one of the selling points in buying an existing business rather than starting one from scratch.
- **Long-term agreements or contracts:** For example, value is added by a three-year contract to maintain the landscaping for a large customer; a written agreement to maintain machinery and equipment for a set period of time; or a written agreement to be able to sell or represent a popular brand or product or service. For these to count, they obviously have to be transferrable to the new owner.

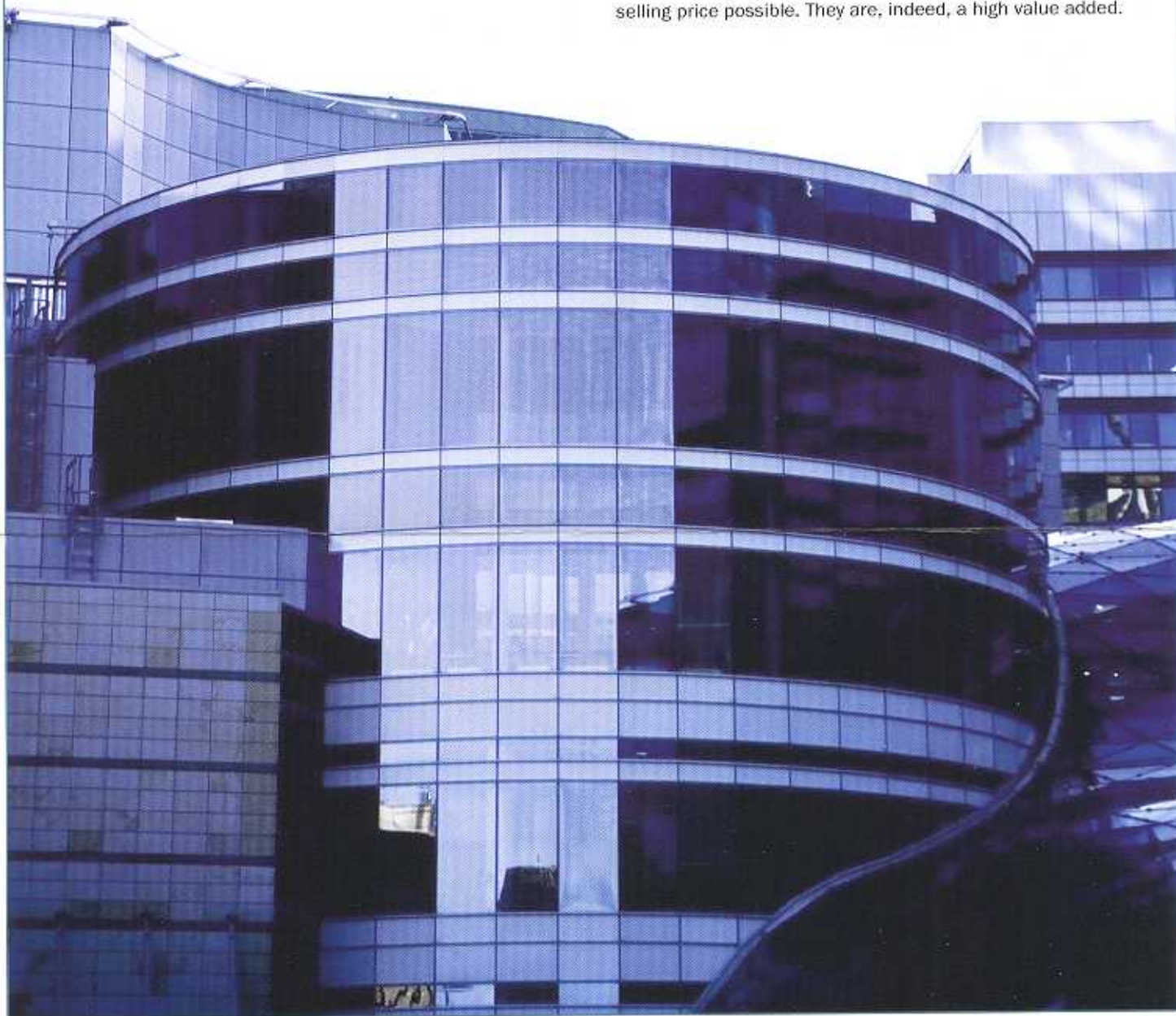
These are just a few of what might be termed the hidden values of a business. Others could be: well-maintained records, operating manuals and procedures, attractive and well-kept premises, secret recipes, mailing lists, etc. Hidden assets are what buyers really look for. Your business broker professional not only knows local market conditions, but can advise you on those hidden assets that just might catch a buyer's eye.

Are You Getting Ready to Sell?

The most important question to ask yourself at the very beginning of the selling process is: Are you really serious about selling now? The next step is to tell your employees why there may be strangers entering the business and even looking around. You might explain that you are considering selling and promise them a bonus if and when it sells. If it is true, you could explain that you have put such a high price on the business that it is doubtful that anyone will actually buy it; or that if some big publicly-held company wants to pay a fortune for it, you'll listen. Obviously, the majority of business owners don't want their employees to know that they are considering selling the business. They insist on complete confidentiality; however, this is a "Catch-22." In order to get the highest possible price, potential buyers have to be contacted. And, if buyers are interested, they will want to visit the business. Work this issue out ahead of time.

A seller will also want to create a place, perhaps in a home office, or a separate file drawer, in which to gather all of the necessary documentation that a prospective buyer will want to see from the very beginning all the way through the due diligence process. This should include, but certainly not be limited to, legal documents, contracts, leases, financial statements and tax returns for three years, intellectual property such as patents, copyrights, etc. A seller should have all of this set aside prior to going to market, possibly kept together and organized in a 3-ring binder or in appropriate files.

Finally, retain the services of a business broker so you have someone representing you and channeling information between you and the buyer. This reduces the potential of a confidentiality breach. Just as importantly, a broker can guide you through the selling process maze. However, their biggest value is that they know how to properly market the business to obtain the highest selling price possible. They are, indeed, a high value added.





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One More Reason to Use a Business Broker Professional

Surveys reveal that more and more buyers are coming from the various Internet web sites that advertise and promote the sale of businesses. These sites have allowed buyers from all over the world to see what businesses are for sale and where they are located, whether next door or across the globe. Business brokers report that 22 percent of their buyers now come from all over the United States and 8 percent come from overseas. It wasn't so long ago that the sale of a business could only be promoted locally or within a state. The use of Internet web sites allows business brokers to promote the sale of a business world-wide.

The trick is to know what sites to use for different types and sizes of businesses. There are sites for almost every kind of business. For example, some deal primarily in larger businesses. There are over 40 different sites with new ones popping up all the time. This does not include the various business brokers' sites themselves. A business broker professional knows which sites do what, which ones are best for specific businesses, how to list businesses for sale for the best exposure and, best of all, the broker professional generally pays for placing the listings. They can take the confusion out of all of these sites and make sure a business for sale gets listed on all of the right ones.

Business broker professionals also do one more important thing related to web sites; they keep up to date on the many new features these sites are constantly introducing and take advantage of them.

