

Selling a Business

When it's time to sell the business

The sale of a small, private business, is usually a unique event in the life of a business owner. Selling a company built on hope and hard work can create a strong sense of loss. Therefore, it is not always easy for the owner to decide whether a sale is the correct course. A methodical analysis can help you reach a decision. The process should begin with an overview of the most common reasons why businesses are sold. The primary motivations for sale are:

- **Desire for personal liquidity:** When almost all of your personal wealth is tied up in the business, the prospect of a sale offers an opportunity to convert the holdings into cash and diversify your investments.
- **Need of expansion capital:** High growth companies often exceed their financial capabilities and commercial lines of credit. In this situation, a sale can offer the expansion capital needed to exploit growth opportunities. In such circumstances, you can retain a minority share of the business or a percentage of earnings. Although these arrangements involve immediate loss of control and the end of your managerial role, you might find them preferable to seeing your business wither for lack of capital.
- **Partial sale:** You may decide to sell part of the business rather than all of it. If one segment of your operation is growing much more quickly than another, you may consider selling the less successful portion. If you are able to sell it, you will have more time and money to invest in the growing remainder of your company. Note: in order to do so, you will have to break out the financial information and prepare different statements for the separate business segment you are selling.
- **Anxiety caused by personal liability and unreasonable risks:** Personal guarantees such as tax obligations (employee withholding taxes), product liability, personal damages, personal guarantees of the company's debts. In general, these personal guarantees originated in the early, risky days of the business and were never removed.
- **Age and health:** This is by far the most common reason for selling a business. Many entrepreneurs never consider this possibility, and when the inevitable problems of age and health emerge, they must face the prospect of cashing in.
- **Need for a change:** This is another common reason for selling a business. After living on the edge for many years, many entrepreneurs look forward to reducing the incessant pressure so they can pursue other interests. Selling their business can pave the way to new professional and personal opportunities.

Will anyone buy your business?

The only way to find out is to place your company on the market. A small business that is relatively new, unprofitable or has a sharply declining sales history will be difficult to sell. The higher the growth potential of your business, the more chances you have to find a buyer. A larger corporation that is active in the same business area may be able to improve on your profit margins by making your business one of their business units. Also a larger corporation trying to grow quickly in a new strategic area may be willing to pay a premium to quickly acquire market share.

Valuation

The selling prices of similar businesses in your area should provide you with an indication of what you can expect to receive. Do note that we are talking selling price not asking price: typically, small businesses sell for significantly less than the asking price. Sophisticated buyers might evaluate your business on the basis of projected cash flow for the next few years. They will then discount the value of that cash flow to reflect the amount of risk inherent in the business and the importance of their personal efforts in maintaining the success of the business.

10 steps to the business sale

- **Have a valid reason to sell.** It's probably the first question a potential buyer will ask you. The more valid your reason is, the more serious the buyer will be. However, avoid to disclose personal information: it would give the buyer leverage on you during the negotiations.
- **Do not wait until you have to sell for economic or emotional reasons.** Anxiety can force you to accept an offer than is not good for you.
- Once you made your decision, **gather the information needed** to market and sell your business:
 - ✓ Three year's financial statements;
 - ✓ Tax returns for three years;
 - ✓ List of fixtures and equipment;
 - ✓ Approximate value of inventory;
 - ✓ List of employees;
 - ✓ Customer lists;
 - ✓ Copies of the lease;
 - ✓ The franchise agreement (if applicable);
 - ✓ List of loans with balance and payment schedule;
 - ✓ Copies of equipment leases;
 - ✓ Names of outside advisors (business broker, lawyer, accountant...).

Even if you have prepared your own financial statements in the past, you should consider having an outside firm prepare or review them for the sale. This will increase the value of the business in the eyes of potential buyers and the likelihood of making a sale.

- **Be a part of the marketing team.** Meet the broker's staff to tell them about your business and follow their advice about dealing with prospective buyers.
- **Maintain confidentiality** in your day to day business activities. To avoid giving away information that can be used to compete against you, provide financial information only to serious potential buyers against a deposit. You can also ask a potential buyer to sign a non-disclosure agreement.
- **Think like a potential buyer.** Suppose you are visiting your company for the first time, how impressed are you? During the course of selling a business you will get a lot of prospects who are not really interested and can waste a lot of your time. You need to be able to quickly judge the seriousness of a prospect so that the energy you put into discussing the business is not entirely fruitless.
- **Do not let things slip because you are selling.** Keep normal hours, maintain the inventory, paint or fix the premises if needed.
- **Engage professionals who understand the sales process.** A business broker can act as an agent for entrepreneurs looking to sell a business. They can be found through the business pages listings, advertisements in local newspapers or trade magazines or referrals. They typically charge a percentage of the final sales price, payable at closing.
 - ✓ There are several advantages in hiring a business broker:
 - The broker will allow you to maintain confidentiality;
 - It saves you the time of dealing with potential buyers;
 - Some prospects may be more comfortable, at least initially, talking to an intermediary;

- A broker specialized in a particular industry may have excellent contacts at larger corporations that might be interested in buying out your company. Nonetheless, a broker's fee is substantial and you will have to weigh the expense before you decide to hire one.
- ✓ Lawyers can also be helpful. There are two areas where it is strongly suggested that you consult a lawyer when selling a business:
 - When you prepare a document summarizing your business for potential buyers - If the business turns out to be less successful or easy to run than anticipated, the new buyer may assume that the business was fraudulently represented. A lawyer can review your document to avoid the risk of litigation;
 - When you prepare a purchase and sales agreement - You should have a lawyer review, if not actually prepare the purchase and sales agreement.
- **Be patient and study carefully every offer** then make a counter offer.
- **Help create a win-win situation** for everybody involved.

Employees

Make sure that your employees hear about a potential sale of the business from you and not a third party. Rumors breed nervousness, some of your staff might decide to seek employment elsewhere and leave immediately. If you decide to advertise the sale of your business openly, tell your employees before the advertisements run. Explain that the sale could take a long time to happen, and unless you plan to close down if no sale occurs, may not happen at all. Remain truthful but emphasize the positive. If you decide to advertise the business confidentially make a concerted effort to avoid any leaks to employees. Consider using a business broker and have any interested buyer sign a nondisclosure agreement. Potential buyers should also visit your facilities during off hours. Finally, you may decide that one or more employees is the best potential buyer for your business. Employees know the business better than outsiders and may be able to persuade investors or lending institutions to finance the buyout.

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