You only sell your business once.
That thought alone may be enough to keep you up at night when you decide it's time to cash in on your years of hard work — as if there isn't enough pressure associated with every step of the sale of a business. But there's much you can do to prepare for the sale, and it's not a bad idea to start thinking about it long before the day arrives.

While every transfer of business ownership is unique, there are some important questions that sellers should ask themselves and there is a common process that is used for the sale of most small businesses. The more you prepare, the more successful the outcome is likely to be. What follows is a brief outline of the process for small, closely held companies. Many of these principles apply to larger transactions as well. First, ask yourself three questions:

Can Your Business Be Sold?
Many elements of a business make it attractive to buyers. For example, does it have a solid history of profitability, a large and loyal base of customers, a competitive advantage (intellectual property rights, long-term contracts with clients, exclusive distributorships), opportunities for growth, a desirable location and a skilled work force?

Are You Ready to Sell?
Make sure you are ready, both financially and emotionally. Think about what life will be like after the sale. What will you do — not just for money but also with your time? Many business owners suffer real remorse after handing over their business to a new owner.

Here are a few indicators that it may be time to move on:
It's not fun anymore. Burnout is a very real issue for business owners, and an entirely legitimate reason to sell.

You're not inclined to invest in growth. You may be comfortable with the current size and profitability of your business and have no desire to make the capital expenditures necessary to take it to the next level. You feel your management skills are overmatched. It is not uncommon for business owners to build their business to a certain point and then realize they lack the skill set required to go further.

What's Your Business Worth?
Many owners have no idea. On one end of the spectrum, for example, was a client who owned a professional services firm. She felt the firm was worth more than $1 million. After a lengthy search, a buyer paid her less than half that amount. Then there was a client who was about to sell his I.T. company to an employee for $200,000. After advertising the business for sale nationwide, he sold it for one dollar shy of $1 million.

Selling a business is both art and science, and in no other area is this more evident than the valuation. While every seller wants to achieve maximum value, setting an asking price that is too high signals to buyers that you may not be serious about selling.

While there are a number of methods used to value a business, the most common formula for smaller transactions is a multiple of seller's discretionary earnings (S.D.E.). This type of market-based valuation involves recasting profit-and-loss statements — adding back owner's salary, perks and nonrecurring expenses — to find the S.D.E. of the business and then using comparable data for similar businesses to arrive at an appropriate multiple.

Prepare Your Business for Sale (Now!)

Another client owned a popular sports bar and grill. He'd made repairs to some of his kitchen equipment, brought his books current and determined a reasonable asking price. He got an inquiry from a serious buyer — an industry veteran on a nationwide buying spree with his partner. The buyer liked everything about the business, and asked for data from his point-of-sale system, which my client was unable to produce quickly. By the time he assembled the information, the buyer had made an offer on a similar business in another state.

There is no way to overstate the intensity with which buyers will scrutinize your business. But here are things you can do to put your best foot forward.

First, get your books in order.

Not being able to provide accurate financial statements in a timely manner can cause a deal to unravel in short order. Be sure to have the following on hand before you go to market:

- Last three years' profit-and-loss statements.
- Last three years' balance sheets.
- Year-to-date profit-and-loss statement.
- Current balance sheet.
- Last three years' full tax returns.
- List of furniture, fixtures and equipment.
- List of inventories.

Commercial property appraisal or lease agreement.

Be ready to furnish other documentation — particularly during the due diligence phase — when you will probably be asked to produce insurance policies, employment agreements, customer contracts, lists of patents issued, equipment leases and bank statements.

Spread the Word

Not surprisingly, most savvy buyers use the Internet to research available businesses for sale. Some sites specialize in selling certain kinds of businesses like manufacturing, distribution, wholesale, franchises, Internet properties, retail, service businesses or restaurants. Most of these sites charge a monthly subscription fee to advertise your business for sale.

There are two primary marketing materials that are typically used to describe your business to potential buyers. The first is a one-page document that offers highlights of the business without revealing its identity and is sometimes referred to as a “blind profile.” The second is a comprehensive selling memorandum or prospectus to be sent to serious buyers who have signed a confidentiality agreement.

Make Sure Potential Buyers Are Qualified

There’s no bigger waste of time than working with a buyer who will not be able to complete a transaction. Ideally, you will want all interested buyers to sign a confidentiality agreement before sending out anything other than the “blind profile” for your business. In addition, you should require buyers to submit some basic information:

- Name and all contact information.
- Previous employment and business ownership.
- Educational background.
- Funds available to invest and sources of financing.
- Minimum monthly income requirement.
- Intended timeframe for completing a transaction.
- Reason for interest in your business.

Negotiating the Deal

You will also want to spruce up your business to make it attractive to buyers. Make any needed cosmetic improvements to the premises, get rid of outdated inventory and make sure that equipment is in good working order

After you’ve found a qualified buyer, provided a selling memorandum and had an initial meeting, it will be time to stop the flow of information and ask that an offer be presented. This can take the form of a nonbinding letter of intent (LOI) or a term sheet. It should spell out the primary terms of a deal so that all parties can move forward in good faith.

My client ended up receiving three offers on her professional services firm. One was from a competitor, one was from an industry expert residing out of the country and one was from a regional firm looking to extend its geographic footprint. While that last offer was the weakest from a financial standpoint, we knew that this buyer would be able to complete a seamless transition and build her business. We decided to negotiate with the regional firm.

The asking price was $500,000. The regional firm offered a disappointing $400,000, with $50,000 down and the balance financed by the seller over five years at 6 percent interest. My client planned to stay with the firm under new ownership and was relatively certain that gross sales would increase substantially when her company became part of a regional brand. She offered a counter proposal: In lieu of financing the balance of $350,000, she asked to receive 10 percent of gross monthly sales for five years. She conservatively estimated that she would realize an additional $108,000 — over and above the selling price of $400,000 — at the end of the five-year period using this deal structure. Both parties accepted.

All sellers hope to get a full-price cash offer for their business. But in the real world this rarely happens. More often buyers will make a down payment and then pay some or all of the remainder in installments to either you or a lender. Don't be dismayed by an offer that doesn't meet your original expectations. As this case illustrates, a willingness to be creative with the terms of a transaction can go a long way toward a successful sale. Be sure to enlist an accountant and a lawyer to help you assess the tax consequences of the terms you suggest or accept. Be sure the accountant and you agree to the "market value" of the business. You can obtain a valuation through a professional consultant.

Selling a business is largely about setting realistic expectations, avoiding surprises and just plain hanging in there. It can be an arduous journey, but one with a very tangible (and rewarding) light at the end of the tunnel. Once you've successfully sold your business, savor an accomplishment that not every entrepreneur gets to enjoy. Whether you're lying on the beach, retiring by the lake or starting your next venture, you did it!

Quick Tips:

- Put yourself in the buyer's shoes.
- Don't go it alone. Assemble a team of professionals, most importantly a business broker, a legal advisor and an accountant that you trust.
- Get a professional valuation of your business.
- Make sure your financial house is in order prior to sale.

Let us help you to value and conduct a professional business offering. Contact us.