

The Truth About Buying and Selling a Business

One of the most difficult activities in business is buying or selling a business. Whether you're looking to buy or to sell, the following bullet points provide an overview of the process and key points to remember before you embark on the challenge of buying or selling a business:

- ▶ Buying or selling a business consumes a lot of time & money.
- ▶ Have realistic expectations – ask yourself, if I was in the other party's position, would I do this deal?
- ▶ No matter how confidential the transaction, be prepared for someone to find out.
- ▶ Having a strong acquisition team is vital for both parties.
- ▶ The small things always kill a deal.
- ▶ Look at the deal you are offered, not the deal you want.
- ▶ Always know when to walk away. Sometimes the best deals are the ones you don't do.

Selling a Business

The most difficult decision a business owner will make is the decision to sell his or her business. Very likely, the owner started the family business and invested countless hours of his or her life in the business. Selling is akin to giving away a child—for many owners there is no way to place a value on what the business is worth. If you are getting ready to sell a business, the following are the steps to take:

- ▶ **Make the emotional decision.** Be prepared for life without the business and be prepared to hear horrible things about your business.
- ▶ **Determine the valuation.** A professional business valuation expert will provide you with the most realistic range and help you establish expectations
- ▶ **Determine if the return is sufficient to meet your financial goals.** Remember the business is only worth what someone is willing to pay for it. If the valuation and your expectations don't jive, you may need to reconsider.
- ▶ **Prepare the business for sale.** Make sure financial statements are accurate and professionally prepared, leases are in place, and key personnel issues are resolved, etc.
- ▶ **Hire a professional intermediary.** Selling a business is emotional, a professional intermediary will ensure that the process doesn't get personal.
- ▶ **Market the business.** Determine the level of confidentiality you require and look to market the business to the communities who will most likely acquire a business like yours.
- ▶ **Meet with buyers.** Always accentuate the positive about the business. New buyers do not want to hear about labor problems, difficult customers, etc.
- ▶ **Negotiate with realistic expectations.** Ask yourself, if I was on the other side of the table, would I do this deal.

- ▶ **Close the deal.** Make sure the deal is structured in a manner that maximizes your value after tax dollars and minimizes your level of future risk.

Not everyone who expresses interest in your business is a true buyer. Beware of the following types:

- ▶ **The lifelong corporate/employee.** There is a reason why he hasn't started a business in the past—he's not a risk taker and is now looking to buy a business because something went wrong in his career.
- ▶ **The tire kicker.** He is the worst kind of prospective buyer as he loves to window shop but never buys a business. You know you've got a tire kicker when he wants to spend hours upon hours asking senseless questions.
- ▶ **The "I don't know what type of business I want" buyer.** He is almost as bad as the tire kicker—if he can't make a decision as to what type of business he wants, how is he ever going to make the decision to buy.

Buying a Business

Congratulations, you've just decided to engage in the most difficult transaction of your life. Buying a business is a unique undertaking because the process isn't clearly defined like buying a house or a car. Negotiations are emotional, personalities come into play, and value is in the eye of the beholder. Assuming you're ready, you should take the following steps:

- ▶ **Make the emotional decision.** Buying a business will likely be the biggest and riskiest purchase you'll ever make in your life. Make sure you are ready to take the risk.
- ▶ **Make sure your family is committed.** If you are married or in a relationship, ensure that your spouse is as committed to the business as you are. Owning a business is not always profitable—there are no paycheck guarantees and 40 hour work weeks don't exist.
- ▶ **Determine what type of business you want to buy.** The unfocused buyer never finds what he or she wants.
- ▶ **Identify your skill set.** Know what you are good at and what aspects of the business you will require help with. If you've never been involved in manufacturing, perhaps a manufacturing company isn't the place for you.
- ▶ **Determine what you can afford to buy.** If you have \$50,000 to invest, it's unlikely you are going to be able to buy a million dollar company.
- ▶ **Be realistic about your salary expectations.** Owning a business doesn't mean you're entitled to make \$100,000 a year right off the bat. It takes time to get there.
- ▶ **Assemble a team of professionals.** Get a good business accountant, an attorney with commercial experience, and a banker who understands your personal financial state and the business you are going to acquire.
- ▶ **Identify the businesses you want and contact them.** You can use an intermediary to do this, or you can contact the business directly via a letter or a telephone call.
- ▶ **Meet with the seller.** Always listen more than you talk—this is just like a job interview—also keep your questions focused and don't overwhelm the seller with a thousand questions.
- ▶ **Negotiate with realistic expectations.** Ask yourself, if I was on the other side of the table, would I do this deal.

▶ **Do your due diligence:**

- Always prove the cash flow, especially if it's not all on the books.
- Know what you are getting. Make sure the equipment functions, the inventory is saleable and the customers are real.
- Conduct a careful review of the industry to ensure that it is desirable. Benchmark the financial performance against other companies.

▶ **Close the deal.** Make sure the deal is structured in a manner that provides you flexibility if something goes wrong and minimizes your level of future risk.

If you enter into negotiations with a business owner to buy his or her business, **be on the lookout for these types of sellers:**

- ▶ **Those that are under forty and over seventy.** If they are under forty they are too young to be selling, something is wrong. If they are over seventy, they probably aren't really going to sell—too stuck.
- ▶ **Those with vague reasons for selling.** If they can't easily communicate why they are getting out, be prepared for surprises.
- ▶ **The business appears too good to be true.** Nine times out of ten, this adage proves to be correct.