WINNINGHAND
A Financial Representation Corporation

5 Selling Mistakes to Avoid When Preparing Your Business For Sale

How Planning Ahead Helps Your Business Avoid Hurdles

Introduction

So you're thinking about purchasing a business, likely for the first time-- congratulations! We are here to help you as you look for guidance on what to expect.

This document includes the 5 major phases of the discovery process involved in bringing together buyers and sellers of existing, privately held businesses.

Selling Mistake 1: Not Recording All Revenue

Of course all business owners want to make money, and everyone wants to pay as little in taxes as possible. But your potential buyers want to see evidence of your assets and cash flow, so all of your revenue needs to be recorded.

The tax strategy you've used as the operator of the business may have worked well for you. However, you may need to reassess and reevaluate this strategy now that your objective is to sell. You can't sell cash, but you can sell your business. This may mean you've got to give the government a little more of your money, but it also may mean you're able to sell for a higher price.

Showing revenue takes time-- so start early, have a plan in place. Call your accountant ASAP to set up an appointment.

Selling Mistake 2:
Not Having A Transition Plan In Place

A transition plan makes it easy for your buyer to imagine taking over the business. This type of planning may involve you systematically removing yourself from the center of your business. There are a few ways to begin doing this.

- Prepare/polish documents/manuals outlining operations and employment policies.
- Formalize and document your business plans.
- Entrust others within your organization with new responsibilities.
- Renegotiate leases that will expire within 5 years. Make sure they are transferable, as well.
- Carry out employment and non compete agreements for essential employees.
- Know and specify what your role and time commitment will look like after the sale of the business.

Selling Mistake 3:
Recording Inventory Inaccurately

If your business carries inventory, it needs to be in order. Inventory numbers are commonly incorrect, and this is a critical error.

Potential buyers will see your inventory as an asset, and they will be evaluating it as such. You don't want them to find any surprises.

Take the time to do a physical inventory count to make sure everything is up to date and accurate. Get that reconciled with your financial statements. Assess how valuable every item is-- not everything you have on hand will be worth what you paid for it, perhaps especially to the new buyer.

Selling Mistake 4: Failing to Offer Financing

Most business buyers aren't financially able to purchase a business outright in cash. Bank financing is helpful, but often isn't enough to fully fund the purchase. A large majority of business sales involve some sort of seller financing.

Seller financing is often off-putting to business owners, at least initially. A negative reaction is understandable, but there are some things to consider.

By offering financing:

- Your asking price may be able to increase.
- More buyers will be attracted to your sales offer.
- Closing will happen more expediently.
- You may be eligible for some tax advantages.
- You will earn interest.

Your business broker will advise you on what to look for in a buyer. Just as you will be undergoing due diligence, so should your buyer. Buyers signing a personal guaranty and offering personal assets as collateral is standard.

This doesn't mean you won't get paid at closing. Seller financing only makes up a portion of the proceeds. You are supplementing the bank financing and buyer's cash. You'll still receive cash at closing.
Set up a meeting with your accountant to discuss setting up seller financing options.

Selling Mistake 5:
Being Too Emotionally Involved

No doubt there is emotion involved in the sale of a business. This business has been the reward for late nights, immeasurable time, and is the product of your sweat and tears. To you, it is special in a way it can never be to anyone else, because it’s yours! You built it.

But you have to remember, most buyers aren’t going to care about that. Your business is an investment to them. You can’t get your feelings hurt over that. Be prepared to begin to detach yourself emotionally from your business. Try to look at it as a buyer or lender might.

Here are some tips to help:

- Evaluate industry statistics and projections
- Assess the competition you face
- Understand your financial performance metrics and ratios
- Know the sources of risk for your industry (and your particular business)
- Gauge what a new owner might be able to do better that could increase the potential for profit

Conclusion

This isn’t an exhaustive list of potential selling mistakes. But these, and all of the other selling mistakes, are completely avoidable. In every situation, most of these barriers can be avoided or broken down by *having a plan.*

Look at your business as an outsider will. Not only will this help you see where things need to be tidied up, but it will also help you see some bright spots you may have overlooked!

Consider everyone who has been on this journey with you and don't hesitate to involve them in the process. Selling your business was the eventual end goal. Just as you all worked together to achieve your business dreams, you can now work together to move on to whatever comes next for you.

The experts at Winning Hand Corp are ready to help you prepare your business for sale and find the right buyer. With over 40 years of experience, we’re here for you. Contact us today for a free consultation.