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Are You Ready to Sell Your Business?
Is Your Business Ready to be Sold?

Reprint

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A common mistake that many business owners make is that when they are ready to sell their business, the business is not ready to be sold, at least not at its maximum value.

The key to a successful transition for your business is to have an exit plan, whether it is in the near future or many years away.

You are likely to spend twenty years planning and investing for your retirement. The same care needs to be given to planning what will happen to your company when you decide to leave it. This could include plans to turn the business over to a son or daughter, selling the business to employees, or to a third party. In each case, the transaction value, structure and tax consequences will all be different.

The exit strategy must take into account these differences, the desires of the owner and the inclinations and capabilities of the potential buyer pool. The next generation may or may not be interested in ownership. Moreover, the owner may feel that the next generation isn't capable of continuing the business on their own.

There may or may not be a capable management team in place that could execute a management buyout.

You might want to reward your employees by setting up an ESOP (Employee Stock Ownership Plan) and enjoy the tax advantages that this approach offers. However, this option has its pitfalls as well. In many cases, the best option is an external sale to another company, private equity firm or a high net worth entrepreneur.

The importance of having a well thought out exit strategy is that you will be able to position the company to be sold on your terms, at a time and to a buyer of your choosing.

So what are some of the factors that you might want to consider in developing an exit plan for your business:

▪ When would you like to exit the company?

▪ Do you want to sell internally or to a third party?

▪ What is the current value of your company and property?

▪ Do you have the right advisors (accountant, lawyer, financial planner, M&A advisor, etc.) to assist you?

▪ How important are you to the success of the business?

▪ What are the opportunities for growth?

▪ Is your company positioned to maximize these opportunities?

▪ How can the company's weaknesses be eliminated?

▪ What specific steps can be taken to increase the value of the business?

Investing the time to establish an effective exit strategy requires discipline when confronted with the day to day challenges of operating your business. However, a long term strategy that includes contingency plans and periodic monitoring will result in a smooth and lucrative passing of the business torch.

There are many things that can be done to ready the business for sale. If you're the key customer contact, then you need to begin to turn this over to someone else.

If you have a large percentage of your revenues with one or a few customers, you will need to eliminate or minimize this concentration. If you do not have a good management team, personnel changes may be required. How current is your equipment? The list goes on and on, but attention to these value drivers is important.

Your business is likely your biggest single asset. There will be a time when you will want to transition your life and your business. A thoughtful exit strategy can provide the framework to insure both transitions are successful and rewarding.

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