GETTING YOUR BUSINESS READY FOR SALE
By Robert S. Halagan, Halagan Law Firm, Ltd.

As we crawl out of the wreckage of this last recession and look around, we can see the world will in fact survive. While we have lost many businesses in our communities in the past two years, the survivors are likely to have significant opportunities as our economy recovers. If you are one of the survivors and are looking to sell your business when the economy gets stronger, here are a few things you should be doing right now in order to increase your sales price in the future.

Take off the rose colored glasses ... and then put them back on

Like our children, our businesses often look much more dynamic, interesting and successful to us than they might to other people. Take the time now to take a critical look at the things that a potential buyer would not like about your business. What are your product line short-comings? Is your marketing program cutting edge or plain vanilla? Who are your customers and how strong is your relationship? What is your competition going to be in five years? What is the growth potential for profits and profitability? Take the time to step back from the day-to-day life of your business to think about the big issues. Then develop a plan to take the steps necessary to make that big picture story the key to your future sale. You want to be selling not just a business, but a vision of a business that is compelling to future potential buyers.

Simplify your financial picture

Take the time to look at the financial picture your company presents and what you can do to make it more attractive. Ask yourself these questions. Are you current with your suppliers? Are you getting the best pricing and terms available from them? What is your minimum monthly cash-flow requirement and what percentage of your average monthly revenues does that take? How can you reduce those fixed monthly costs so as to increase gross profitability? Do you budget for profit and meet that budget? What is the long-term debt associated with the business and how will that impact the ability for the seller to get financing from sources other than you? Consider the use of ownership making loans currently to reduce potential future tax obligations on the sale. What do your collectibles look like and how can you get them reduced by the time you are ready to sell?

Where are the potential buyers

One of the most expensive parts of a sale can be the use of a broker to find a potential seller. If you can locate a buyer without the use of a broker, you will have significantly increased your potential for profit. Buyers typically come from one of three areas: (1) current employees or shareholders, (2) competitors who would like to absorb your business, or (3) independent investors who have no current connection to your business or perhaps even your industry. The first two types of buyers are easy to locate without a broker. If you determine that you need to look to outside investors, consider whether there are options to put your company in front of those investors through other contacts such as bankers, accountants or lawyers who can potentially make that introduction with the off the top cost of a broker. Researching your potential buyers can make a big difference in your net sales price.

Secure your key employees

Most businesses have certain critical human capital that is the key to the continued success of the business. A smart buyer will want to make sure they have those key employees as a part of what they are buying. Consider how you could secure those employees to be a part of the sale (employment agreement, non-compete, minor ownership interest). If you can't secure them, can you identify how to easily replace them? Alternatively, can you restructure their position so that the functions are more dispersed and more easily replaced? If your business is overly dependent on one or two key employees, your business is much less attractive to a potential buyer.

Get your legal house in order

Make sure you have the legal ability to do what you want to do. Review any corporate organizational documents such as shareholder agreements or buy-sells so you have a clear understanding of how you may need to proceed. Who has the decision-making authority and how broad is that discretion? Do you understand what happens with the interests of minority partners if you do sell? Are there mortgages or other liens associated with assets that will need to be addressed and satisfied as part of the sale? Are there any benefit obligations to your employees that may have a carry-over after the sale?

These are a few of the things to consider now as you look to a future sale. Like most things in life, planning is the key to success.