

# Will 2012 Be the Year to Sell Your Small Business?

By Mike Handelsman, December 19, 2011 in "Small Business Advice"

For a few years now, small business owners have been waiting for the long-discussed economic recovery to finally happen. While these owners certainly look forward to the uptick in business, stronger top-line revenues and improved profitability could also spur them to finally consider selling their businesses. The fact remains that many proprietors still see their business's current value as too low to plan a financially successful exit.

We've seen some slight improvements in the business-for-sale market recently, but not enough to cause a significant jump in the number of businesses for sale. Many sellers who've been waiting for the right time to exit have weathered the downturn and are now ready to sell.

## ***Will 2012 be the year to do it?***

The short answer is "perhaps." *BizBuySell's quarterly insights data* <sup>[1]</sup> continues to show year-over-year increases in the number of closed transactions reported (although these are still down 30 to 40 percent compared to the boom in late 2007 and early 2008). Banks continue to slowly improve lending options, and both sellers and buyers are more aware of financing solutions to help close a deal. So with some optimism ahead, what should potential sellers be doing to prepare?

## **Start Planning Now**

Business buyers are going to do their research before signing off on a sale. That means as the seller, you need to prove your business is valued correctly. First on the list is to review and set straight all your financial records. Be able to provide at least three years of documents, including tax returns, expense records and key data like customer lists and lease agreements. These will not only support your asking price, but also help bolster the buyer's confidence that you, the current owner, have operated a well-managed business. Eliminating any ongoing business concerns will also help build this confidence. Issues like short-term leases, a reliance on one or a few key customers, and pending legal issues can endanger the sale; they should be resolved before listing your business for sale.

Remember to keep up the physical elements of your business as well. When a potential buyer visits, the physical appearance of your building or equipment will make a big impression. If it appears that the business assets need updating, the buyer will likely use that as a reason to lower the offer. So make sure to clean up, upgrade inside and out, and invest in any building or equipment improvements you've been considering. The less work a new buyer has to put in, the more you can expect from your final selling price.

## **Research the Market**

Knowing where your business stands in the market will be the key to setting an effective asking price. No one wants to undervalue their business and end up netting less money than it is really worth. On the other hand, being too confident and asking for a price well above the actual value (or the value of comparable businesses) will result in a long, drawn out sales process. The economy is showing signs of improvement, a 0.4 percent decrease in unemployment for November 2011, and business values are beginning to rise, but don't make the mistake of asking pre-recession prices. Buyers will often have no problem paying for a strong business, but they will still scoff at overvalued listings.

So how do you find the right price? The best way is to simply compare your business to others. Do some research for similar businesses for sale. Business-for-sale marketplaces allow you to search businesses by industry, size and location. Finding what comparable business are listed and have sold for recently will be a good starting point in setting the price of your business. You can also purchase a low-cost valuation report from BizBuySell (Disclosure: I am the Group General Manager of BizBuySell) which will allow you to see the results (selling price and multiples of cash flow and revenue that the businesses sold for) of recently sold businesses in your industry and location. These can provide great insight into the best estimated value of your small business.

Bottom line, be honest with yourself. Go over financials and determine what buyers will notice. If revenue or profits are down, take that into consideration. Your overall pricing goal should be to attract multiple buyers, creating maximum demand and an auction-like atmosphere. Overpricing your business will kill any chances of that happening.

## **Spread the Word**

After you determine a fair listing price, the next step is to find potential buyers. As the economy improves, this will prove even more essential. With more business owners looking to sell and more buyers on the market due to ongoing high unemployment and increased bank lending, grabbing the attention of potential buyers will be tougher than ever. Business owners who can show buyers that their business is superior to the competition should enjoy a successful sales process and outcome.

The best way to do that is to hire an experienced business broker to help you market the business. Check references to make sure the broker is accomplished in selling businesses in the area and in your industry. Also, make sure to investigate references outside of the ones he or she provides.

If you choose not to hire a broker, be aggressive with your marketing plans. Post your listing on websites to reach buyers actively searching for businesses to buy. Also utilize your trade association and appropriate trade publications who might run the information. And finally, don't forget to reach out to your network of family, friends and work contacts who might know of interested buyers. If maintaining confidentiality about your potential business sale is important to you, then a business broker may be your best option to successfully market your business while keeping the sale under wraps.

## **Expect to Offer Financing**

We've noted that the economy is improving but banks still almost always require seller financing as part of any deal they fund. This means you won't simply be handed a large check and be done with the sale. Most likely, you'll get some portion of the sale amount upfront and the rest (likely 20 to 40 percent) will be paid over time, with interest. The upshot is that you will remain connected to your business after sale helping to ensure a smooth transition. This is usually a three- to 12-month period where you effectively transition the operations to the new owner and help train him or her how to be successful managing the business. Potential buyers will also be encouraged to hear you're willing to stay on. They'll be more likely to make an offer, and you'll be able to make sure the buyer continues to turn a profit, ensuring they can make the long-term payments.

If you've been considering a sale in 2012, take your time and do it right. Plan ahead, research your market and stand out from the competition. Knowing the sales process is half the battle. With proper preparation, you can ensure a stress free transition and a financially successful exit from your business.

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