Selling a Business: A One Minute Primer

PBN Consulting, LLC (718) 703.1425 *New York*

The Two Most Common Types of Buyers

Financial buyers are driven by making deals and realizing financial returns. They often use debt financing covered by cash flow of the acquired business. There may be few if any synergies such as combining your sales force with the buyer's to reach new markets. Financial buyers may overlook some weaknesses, however, since they are deal driven and often buy with a view to selling.

Strategic buyers are interested in synergies between your company and their other holdings, e.g. how your product complements a services company they own. If they've sought you out, may be in a strong position to negotiate selling your company. Strategic buyers may take a more active role in your company, however, thereby potentially reducing your role.

Professional Financial Statements Make a Difference

Audited financial statements help reassure buyers and bankers who provide debt for purchases. Audited financials will likely strengthen your negotiating position and be viewed as the best predictors of your future. A lower cost alternative is to have an outside accounting firm simply review your statements, although this may not be as reassuring to prospective buyers.

Stability and Redundancy in Senior Management Count

Dependency on one owner is risky for prospective buyers. Having one or more executives already prepared to take the leadership role is likely to enhance your company's value. Also, a senior management team that has worked together for some time is more apt to be viewed favorably than a set of new relationships among top management.

Focused Businesses Win Over Diversified

Buyer's are often uninterested in diversified businesses. If you're considering selling, eliminating unfocused product lines and concentrating resources on your strongest activities should improve margins. Disposing of idle assets such as land should improve other financial ratios such as return on assets. Land could be transferred to the owner or to a separate corporation.

A Business Plan is the Ideal Selling Tool

Intermediaries such as a business brokers can arrange to prepare your business plan, however, you can compile it independently to ensure due emphasis on selling your story. Accentuating positives is expected as long as facts are not misrepresented. A business plan is the ideal tool to show prospective buyers, and reflects well on management provided the plan is well done. Since planning is often routine, the exercise of preparing a business plan should not be interpreted by employees, customers, and others that the company's only intent is to be sold.

It's a Sellers Market, but...

Buyers and brokers aggressively pursue prospective sellers. Once you sign up to actively seek prospective buyers, however, there are implications. Study the implications of what may happen if customers, employees, and competitors learn that the business is for sale, especially if the deal eventually collapses.

Openness about Selling Can Work Best

Once a sale is pending, it is unrealistic to expect employees not to know. As buyers perform due diligence–the 2-3 months of digging into the facts of your business vis-a-vis how you portrayed them in the business plan, the increased activity at your offices will likely be noticed. Sellers often find that disturbances can be alleviated by openly discussing the potential for sale or merger once this decision has been made.