Plan ahead when selling your business to get the best price

Small business owners generally fail to plan ahead when they think they might have an interest in selling their business and consequently fail to achieve the best price. When a person sells a house, they normally redo the kitchen or bathrooms, change the carpet, or revamp the landscaping in order to achieve their top dollar for the eventual sale of the home. When selling a small business, the owner of the business rarely looks at the concerns that a buyer might have in determining the price that buyer might offer to buy the business.

Many small business owners do not think that they have anything to sell or only think to sell their business when they are in trouble financially, which is the worst time to sell. Others do not think that they will ever sell, but leave their families in the lurch when they die and no provision has been made to provide for an eventual sale or succession plan.

A business should always be run as if it is for sale. This means that the owner should be mindful of what a buyer in their industry would value and pay a higher price for at the time of any sale. While assets and liabilities are used to calculate a company's fair market value, that is only the starting point for such valuation. A buyer will also look at cash flow of the business to determine what cash would be available to the buyer, especially if they are incurring debt to buy such a business. A potential buyer will also be interested in whether the business is growing in its industry or if the current owner is using the business as a "cash cow" that the owner is "milking" instead of reinvesting the profits into new technology or additional infrastructure.

If the business has a lease that is crucial to the success of the business, a buyer would be interested in the length of the existing lease and favorable terms contained in the lease, such as below market rent or options to renew. The current owner can look to negotiate better terms with his or her landlord, especially if the lease is coming up for potential renewal. If the company owns its own building, a potential buyer might show more interest if the building is well maintained and the work flow within the facility is laid out in a way that is cost effective. If there are environmental issues that need to be dealt with, it is important to deal with these issues well in advance of placing the business on the market. If there are contracts with union workers or vendors which do not have favorable terms to the business, the small business owner should attempt to renegotiate such terms to be more favorable to the business.

Another issue often overlooked by a small business owner is whether he or she is reliant on sales from one big customer. Having one big customer may seem like a good idea at the time, but could result in financial ruin for the small business owner if that customer falls on financial hard times. A potential buyer will look at a business with only one big customer as more of a risky business even if the customer gives a good boost to the bottom line as reflected in the income statement.

A buyer is also interested in knowing that there are "people infrastructure" in the business that will handle the day to day once the small business owner is no longer running the business. If there is no one else, a potential buyer will assume that customers may leave or a lot of the knowledge about the customers and the business that the small business owner has will leave with them.

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