So You Want To Sell Your Business… PART 2 of 4 – Preparing for the Sale

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In our last installment we focused on the reasons why a business owner might wish to undertake a sale of a closely held business. Assuming that those reasons have been determined with ample time to prepare for a sale of the business, we will discuss here best practices to undertake as you prepare your business for sale.

You know your business inside and out; all of its quirks, strengths, challenges and procedures have become second nature to you. But potential buyers are reviewing your business with a fresh eye, and often a jaundiced one as well. So it is important that you create a clear and concise picture of the financial value and operations of your business. Here are some tips for doing just that:

- Do you have audited financial statements for at least 3-5 years and corresponding tax returns? A potential buyer's analysis of such data is a priority for determining whether it wishes to pursue purchasing your business. Many smaller companies do not wish to take on the cost of audits. In such cases, the next best alternative is to have financial statements that are reviewed by independent accountants, coupled with internal accounting policies that have been reviewed and approved by those accountants.
- Are your internal accounting and control procedures comprehensive? Review them to make sure they pass the "smell test." Do you have a family of companies? If so, do your records clearly present the relationship among them and the financial status of each entity? Is overhead properly allocated among the entities? Are there intra-company transfers and, if so, are they properly documented? If funds are co-mingled, establish methods to separate them appropriately.
- Do you have a 5-year plan? Many smaller companies do not, but such plans demonstrate that you have a focus regarding your operations that may be reassuring to buyers.
- Do you have a succession plan in place? This is particularly important if the business is highly reliant on one or just a few individuals who may not be staying with the business long-term following the sale. Your buyer will have its own views about managing the business after the sale, but having available the option of continuing to employ experienced individuals who have been trained to take on more responsibility with respect to business operations can be very valuable.
- Do you have complete, dated and signed copies of all your contracts? If you have verbal contracts with any third parties, do you have a memorandum or other record of key terms of these arrangements? Do you have a list of your top customers and key vendors?
- Is your inventory in acceptable condition? If not, start disposing of and replacing obsolete inventory.
- How do your receivables look? Are your older receivables increasing or out of line with industry norms? Consider altering your collection policies to improve your cash flow.
- Do you have written policies and procedures? If not, work with a human resources advisor to create an employee handbook. Make sure all employees have reviewed and understand the policies and procedures. Provide periodic training and document that you have done so.
- Do you have confidentiality, work-for-hire and non-compete agreements in place to protect your business and its assets? Make sure such agreements are enforceable and have been signed by all relevant employees and, if appropriate, consultants.
- Know the business' financial and operational details. Be prepared to answer a potential buyer's questions about sales, profits, depreciation, expenses, inventory, employee relations, lawsuits and investigations, growth strategy and even projections. As part of the due diligence process that

precedes a sale, your business will be put "under the microscope," so be prepared to answer many tough questions.
- It is best to prepare for a potential sale years in advance. This will allow you to present to a potential buyer a multi-year, detailed picture of the business that is clear and will inspire confidence. It will also give you the flexibility to take advantage of unexpected opportunities. None of us can control when the market will be best suited for a sale, so it is prudent to be prepared either to accelerate or delay your entry into the sales process depending upon the financial condition of your business and economic indicators in general.

Remember, what strikes you as a "small glitch" or a normal operating procedure may be seen by a potential buyer as a minefield of risk. By having independent advisors assist you in putting proper controls and procedures in place, and by having records that demonstrate your business as being run both efficiently and professionally, you increase the chances of locating more interested buyers and achieving a higher purchase price.

Next we will discuss factors that affect valuation of your business.