

Enhancing Business Value

James M. Harley – The Business Exchange

If you are considering a sale of your business – either now or in the future – it is vital that you begin to orient your business toward a transition well in advance of any formal solicitation of buyers. The earlier you start the better – even starting a year in advance of a sale is recommended. Here are some steps you can take in advance to help insure that your business will realize its maximum potential on the open market.

Financial Issues

✓ Your income statements need to be restructured in order to maximize the return on the “bottom line”. In other words, if your intent here-to-fore has been to minimize the impact of taxation on your business by claiming any and all legal deductions possible, you now need to have a reliable third-party recast your financials to reflect the cash flow available to new ownership. Talk to your accountant about possible modifications or alterations of your financial statements. You should attempt to have at least three years of operating data for a potential buyer to analyze.

✓ Have a business valuation done to determine the value of your business in today’s economic climate. This should aid you in pricing your business against the market.

Employee Issues

✓ If you have trusted key employees who are vital to the on-going operation of your business, talk with them about your plans. Make it plain however, that word of a potential sale is not to leak to other employees. This will avoid hard feelings when (as is inevitable) they discover that a sale is in progress. If they are willing to stay with the company through transition, fine. If they are not, the sooner you know the better and take action accordingly. Buyers are always nervous about the status of key employees and the business is more attractive to them if they can be

assured that key employees will remain in place if desired.

Contractual Issues

✓ Examine contracts with suppliers and customers. Evaluate them as if you were new coming into the business. Modify or discontinue those that might be onerous and extend those with favorable terms.

✓ Review your real estate lease. If your location is a good one and would be beneficial to new ownership, renew or modify the term of the lease. You want to assure the buyer that a favorable lease will not be set to expire either during or shortly after the sale. If your location is not favorable, consider moving now.

✓ Review equipment leases to make sure that terms and interest rates fairly reflect the current market conditions. Your accountant can advise you here.

Structural Issues

✓ Formalize your method of doing business. We all sometimes make concessions to friends, family, or favored clients. It is best to discontinue those business practices and treat all customers equally according to company policy. At the very least, document such exceptions so that the buyer is not “blindsided” after the sale.

✓ If you operate your business by “rote” because you’re so accustomed to the operation, take steps now to formalize and document business procedures. Get it out of your head and into a procedure manual to create a system that is easily understood and followed. Your objective here is to ease the transition process to a new operator.

✓ If you own your building or plant, consider separating out the real estate from the business. Such a separation will make your business more attractive to a wider audience of buyers. Also, if the real estate is separate and a regular line item expense for the company, the buyer

will be more likely to assume the on-going expense.

✓ Update all corporate records, filings, and documents. Again, consult your attorney.

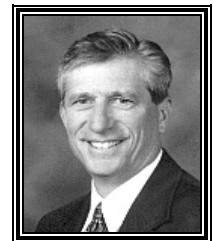
✓ Advise your banker of your intentions. They hate to be surprised and may have leads on potential buyers.

✓ Consider seller-financing options. All cash sales are rare and this will open the sale to a wider audience of buyers. Generally, the more attractive your terms, the greater the likelihood of meeting your pricing objectives.

✓ Begin to assemble your sales team. Your accountant, attorney, banker, and business broker should all be brought on-board as early as possible.

Good Luck!

The sale of a business is oftentimes very personal and represents a milestone in the owner’s life. Needless to say, it must not be entered into haphazardly or blindly. Preplanning, an understanding of the process, and knowledge of the marketplace are the keys to a successful transaction. Planning well in advance for an eventual sale will ease the process and will ultimately result in more profit for the seller and a smoother transition to the buyer.



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