# MYTHS WHEN MARKETING A BUSINESS FOR SALE

ENLIGN ADVISORS
MERGER AND ACQUISITION SPECIALISTS

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## MYTH #1 I know what my business is worth and what it should sell for

Most business owners feel that they have a general idea of what their business is worth. Unfortunately, such 'gut feelings' are often based on incomplete or outdated information and don't take into consideration the myriad of differences between businesses, change in industries, the overall economy, number of similar businesses available for purchase, ease and cost of borrowing and buyer sentiment. Going to market with a large price range or price that isn't substantiated is the first mistake some sellers make. The result is either a sale price below the fair market value or a business that never sells because it's overpriced.

What the seller owes, how much the seller needs, and what the seller 'feels' are not components in calculating the true economic value of a business. A professional valuation takes into consideration all of the relevant financial details of your business and applies the valuation method(s) that are most appropriate for the type and size business. The pricing question can be further complicated by deal structure factors such as high values of inventory, percent of owner financing, non-compete agreements and training/consulting provided by the seller after closing.

Establishing the asking price is one of the most crucial steps towards a successful transaction and a professional business valuation will insure that the highest market value can be achieved in the shortest amount of time.

## MYTH #2 A competitor will want to buy my business


There are specific circumstances where a competitor is a likely (and sometimes even preferred) buyer. However, for non-public companies what a competitor is buying is rarely what the seller thinks they are selling. When a competitor comes to the table they are generally looking for something specific such as additional geographic coverage, a key employee, a large client – not the general goodwill or trade practices that have made the business successful in the past. Since competitors already know the 'tricks of the trade' it's extremely difficult for them to justify a higher price (multiple) based on that expertise.

When competitors hear you're for sale most see blood in the water and will be looking for a fire sale - or worse talking to your clients, vendors and bank. Confidentiality is key during the marketing phase and alerting competitors can be the most risky contact that a seller can make.

If a strategic acquisition by a competitor is desired an intermediary should be used to insure confidentiality.

## MYTH #3 The more people that know my business is for sale the better

Selling a business is not like selling a product or service. You can only accommodate one buyer and assuming the business was fairly priced initially bidding wars more often result in both potential buyers walking. Letting everyone know that your business is for sale can also lead to other problems such as employee retention, uneasy customers, nervous vendors and recently turned conservative bankers - all which can negatively impact the companies ability to operate, thereby decreasing its value and diminishing the chances of a successful transaction.

Selling a business is a job for a sniper, not an artillery unit. Make sure that you have non-disclosure or confidentiality agreements signed by prospective buyers before allowing your broker to provide any confidential information. An experienced business broker should be able to minimize the risks associated with sharing confidential data.

## MYTH #4 I can sell my business on my own [I don't need advisors]

"I've built this business by the sweat of my brow starting with nothing. I've proven I can build and run a successful business for years and I can certainly sell it. After all, I know more about my business than anyone". If you're like most business owners your already working more hours than you'd like. Assuming you have the expertise and the time to simultaneously properly market a business, identify and qualify potential buyers, prepare financial statements and produce a buyer package, show the business, coordinate with attorneys and accountants on closing documents and negotiate all the terms and conditions the time required will consume many hours and will come at the cost of operating the business.

Having a CPA review your financials limits the potential that the deal will fall apart during due diligence or lead to a dispute after closing. Using an Attorney to draft the closing documents and financing agreements minimizes the chance that what you thought you agreed to is different than what was actually signed. There are also confidentiality issues that cannot easily be addressed when representing your own company and no 'fall back' position when negotiations or the documentation process hits a rough patch (and it usually does at some point). Having a qualified business broker working on your behalf also provides a buffer.

In the end, a professional broker will more than pay their own fees by insuring the business is properly valued, expertly marketed and taken all the way through closing while consuming as little of your time as possible. The result is a higher final closing price, faster time to closing, less time taken away from operating the business, a smoother negotiation process, more complete documentation and a higher likelihood of selling – not to mention the piece of mind from knowing you didn't leave money on the table or overlook important details during the process.

## MYTH #5 A real estate agent is qualified to list and sell a business

Even if real property (commercial real estate) is being transferred with the business, real estate agents, unless also certified as Business Intermediaries [CBI's], have different skills than those required to market and successfully sell a business. Conversely, most business brokers (unless also licensed real estate agents) shouldn't try to sell real estate – unless they want it to take longer and sell for less!

Just because real estate professionals and business brokers earn their income in a similar manner (commissions at closing) does NOT mean the job, responsibilities, or training are even remotely similar. Remember that you are engaged in the sale of a business that happens to include real estate and not the opposite. Additionally, it's likely that the business buyer will acquire the real estate to minimize business interruptions and insure a smooth transition. The buyer of the commercial property is almost 100% the buyer of the business so the commercial property being ancillary to the business acquisition does not require marketing.

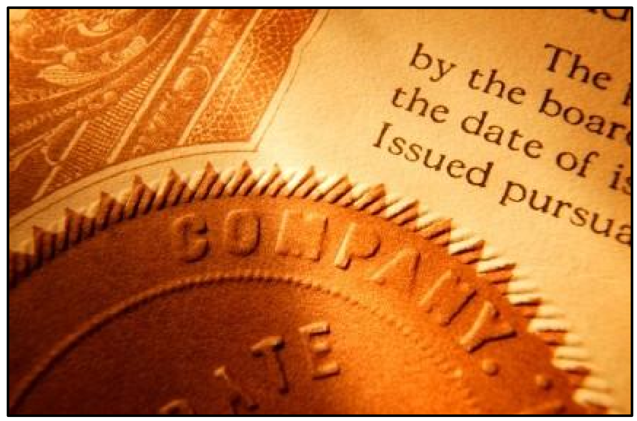
Choose the right tool for the job – when selling a business it's a business broker and the business broker will retain a real estate broker on your behalf (if not licensed themselves).

## MYTH #6 Throwing out a crazy high price and seeing what happens sometimes works

Listing your business at a price that can't be justified is a long road to "nowhereville". Business buyers research industries, similar businesses and perform extensive due diligence. Banks do the same before approving financing. A seller that thinks they can close a deal at a 'crazy high' unsubstantiated valuation is either inviting an offer from an uneducated buyer (which will ultimately fall apart) or undertaking an exercise that will consume a lot of time and effort without eliciting a qualified offer to purchase.

Most damaging however is that by out pricing the market to the limited number of qualified buyers in your industry, geographic region, and size range you have created a negative first impression that when/if the business is relisted at an appropriate market price the bad taste still lingers. "Going fishing" to see if you "get a bite" at a 'crazy money' price is a terrible strategy that involves a high degree of risk and opportunity cost.

## MYTH #7 My business is ready for sale (I can sell my business anytime)




While we have seen a few business owners who were well prepared and had been planning to sell their business for many years, most sellers wake up one day without having thought much about the hundreds of details involved in such an undertaking. Every detail must be evaluated from a potential buyer's perspective and explanations (if not changes to certain aspects of the business) must be addressed.

If you're a proactive planner, consider engaging a broker that offers planning services, buy a book, get a professional appraisal (which has value to you even if you're not ready to sell right away) or research how you can best manage and operate your business in advance of a planned sale. If you're ready to sell now find an experienced professional advisor who can explain the process and what's required so that your expectations are realistic and you understand the typical timelines. Planning is crucial to maximizing the economic value of the business and it takes time.

## MYTH #8 I won't have to owner finance any part of the selling price

Get prepared for accepting a component of seller (or owner) financing. Buyers almost universally expect and receive a portion of seller financing. A seller who is unwilling to carry some of the sales price for typically 5 years significantly reduces the likelihood of selling. Buyers look at owner financing as a safety net or additional assurance that the business is as it was represented prior to the sale. Additionally, Buyers seeking SBA Guarantees will be required to have a component of Seller financing in most cases. Ten to twenty percent is typical, but there are ways to re- duce the amount without compromising the overall selling price or discouraging the buyer.

## MYTH #9 Now is (is not) the time to sell the business

The truth is that timing is everything, but your business goals will dictate when the right time to sell presents itself. The average time to properly value, market, identify a qualified buyer, perform due diligence and close averages about 12 months - further ahead than most business owners are focused.

It's a fact that a business is worth the most when the owner is probably least likely to be considering selling (when business is booming) and worth the least and hardest to sell when selling seems like the best exit (when times are tough or external forces are driving the sale). It's much easier (and more profitable) to sell when times are good, but a business broker can insure that you receive the highest fair market value possible regardless of which situation your facing.

### MYTH #10 No one will buy my business because it can't survive without me [I AM the business]

While this is certainly true in some situations there are many small (even "one man shows") that are marketed and sold every year. Most business owners at some point feel that they themselves are the glue that holds the business together and without them there every moment the entire operation would collapse. Rarely however is this true.

If you are a small business and have created intellectual property, built a recurring client base, have transferable skills and/or a business that can be relocated speaking with a business broker will help determine if your business is marketable.

### MYTH #11 I can't afford to sell the business

Many business owners haven't calculated what selling their business could do for them financially. As an example, one business owner had a business professionally appraised at $1,000,000US and he paid himself $60,000US per year which was well below market for his skills and position. The owner was able to sell the business netting approximately $600,000 after taxes and commissions (for the purposes of this example no tax planning is considered). He then invested the money expecting to earn 11% (the 20 year average return for the DOW) which equals $66,000 per year ($6,000 more – a 10% raise over what he was taking as a salary when working!) Ultimately, the buyer offered to retain the seller as CEO at $150,000 per year for two years. The impact on annual cash flow for those two years was a whopping 360% increase to $216,000.00.

### MYTH #12 There are lots of buyers for my business

The reality is that the sale of a business is a fairly rare occurrence. Approximately 20% of all small and medium businesses are for sale at any given time, but only a small fraction of them sell per year. Most people will buy many cars - even several houses in their lifetime, but very few will buy even one business.

These facts coupled with the large investment required make it important to insure that the transaction is handled properly. For a potential business owner the 'largest investment they'll ever make' isn't likely to be their home - it's their business and the payoff comes when that business is sold.

Buyers come in many different flavors, use different methods to determine value and have different expectations. Because much of the process is subjective, having advisors that can assist you with the process can make the difference between an exotic vacation in the islands to celebrate the sale and a deal that fell apart at the closing table.

### MYTH #13 Business brokers charge too much and they are all the same anyway

In the United States, approximately 250,000 businesses sell per year with the assistance of a business broker. The costs to engage a broker to market your business vary minimally and research should be done to insure that you're being offered a competitive rate (most mainstreet brokers do not charge a retainer. More experienced brokers and M&A Advisors charge a small retainer of $2,500 to $10,000 depending on the marketing requirements) and a competitive success fee which is paid at closing (generally 10% to 12% of the total transaction price but lower for transactions over $1 million). Most have minimum success fees ($10,000 to $25,000) and these should be detailed in the engagement letter.

Remember that some brokers will negotiate their rates and others will not. Each broker will likely include different services as well so this is an area to pay attention to the details. Very important to a business seller is whether or not a broker will "cobroker" or share their commission if the buyer is represented by another broker. If the answer is "no" move on and find another broker! Many feel it's unethical for a business broker who is being paid by the seller not to present buyers that are also represented and deserving of a part of the commission.

Brokers who feel differently don't understand that they are being retained to sell the business – not to just market it and wait for a buyer that will make them the most money. A buyer that has retained a buyer's agent is probably one of the most serious, financially qualified and prepared to move forward quickly. Don't let a greedy broker discard the most qualified buyers while you pay their fee.

Professional services are often a case of 'you get what you pay for' so be wary of agents that charge too little or promise too much. Be sure to check references and read what's on the website and in the marketing materials as it will indicate the quality of your buyers package. You should be looking for a broker that you trust to represent you and your business to buyers in a high value transaction. You should be comfortable with them as you will spend a great deal of time working with them to understand your business, your goals and your expectations.

Invest an appropriate amount of time in selecting a broker as nothing is more expensive than the business not selling due to an inexperienced broker who appeared to be 'cheap'.

## MYTH #14 Having 13 Myths is unlucky

There are many more common misconceptions about the process of selling a business. To learn more about the process contact a qualified business brokerage firm. They should be willing to invest as much time as is needed to assist you.

Jeff Snell, M&AMI, CBI, ABI is the founder and Principal Broker of ENLIGN Business Brokers, a member of the International Business Brokers Association [IBBA] where he services as the Credentialing Chairman and a member of the Merger & Acquisition Source [MAS] where he service on the Credentialing Committee. He is also accredited by the American Business Brokers Association as an Accredited Business Intermediary [ABI]. He can be reached at (919) 624-1124 or jsnell@enlign.com.