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Preparing Your Business for Sale

Back | Next

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There comes a time in the life cycle of many firms when owners, having no family members interested in running the business, must sell it. Preparing your business for sale takes time and planning, perhaps a year or more. Here are a few key things to consider in preparing your business for sale.

A Clean Set of Financials
The first question that typically arises during a sale is, “How clean are the books?” Expect a buyer to be suspicious if your books (bookkeeping and accounting) don’t balance, have confusing entries, or there are a lot of personal expenses running through a business. Some personal expenses are fine, but they should be documented, traceable, and proportionate to the size of your business. If the buyer cannot tell what the true profit is after you are no longer there, you can expect to spend time negotiating over price, or the buyer backing out altogether.

Preparing for Due Diligence
Once a prospective buyer has extended an offer, he or she will want to conduct due diligence. Due diligence means reviewing every last detail about your business – sales contracts, bank statements, payroll, lease agreements, other legal documents, manuals, certifications, etc. Expect every single document to be reviewed and questioned. If you cannot produce all these documents in an organized manner, the buyer may back out of the offer. Take the time to get your documents organized now. This will facilitate the process and instill confidence in the buyer. Don’t let this issue be your deal breaker.

Systems and Processes
A structured, well-running business is always more desirable to a buyer. Among the many things you can do to demonstrate this are implementing a quality system such as ISO 9000, an enterprise management system (ERP), a customer relationship management (CRM) system, or an employee training program. Unfortunately, this takes time, but it demonstrates that the business will continue to function after you are gone.

Management Depth
This is the time to hire someone and train him or her to operate the business. There is significant risk to the new buyer if the business cannot function without you. The new owner’s greatest fears are that sales will plummet to zero and that nothing will get done once you’ve left. This can have a significant impact on the sales price of your business, and also affect how long you are asked (or required) to stay with the business after the sale. You need a management team in place if you are serious about selling your business, or at least a strong office manager and sales person. You are in a much stronger negotiating position by having key people on board who know what to do and are willing stay after the transition.

Revenue Growth
It sounds obvious, but many sellers fall to grasp this reality: most buyers are willing to pay more for a business with increasing sales than one with flat sales. It is also the most difficult task to accomplish, and nearly impossible for some businesses. Lack of revenue growth will impact both the purchase price and the marketability of your business. Solid, growing

revenue solves a lot of problems in a business; better yet, it will make it easier for the new owner to obtain funding and retire the debt of buying your company.

If your business has flat or declining revenue, you need to turn it around, and that won't happen overnight – another reason to plan two to three years out for selling your firm. You may want to consider new marketing and sales campaigns, possibly even new product lines. Even with flat or declining sales, if you can convince a prospective buyer of the revenue potential for the new products you have in development, you have made your business much more attractive.

Conclusion
These are some key aspects to consider when preparing your business for sale. Future articles will expand on certain topics and explore others. A final parting thought is this, "If you were the buyer, what would concern you about purchasing the business?"

--Matt Haynes
Enterprise Innovation Institute