

"Preparing Your Company for Sale"

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Selling a business can be the largest and most important decision of a business owner's career. Whatever prompts the sale- retirement, illness, partner disputes, etc., selling your business is a high-stakes transaction with far-reaching financial and emotional consequences.

In a perfect world the owner prepares to sell his or her company 2-3 years in advance. Realistically, this time frame often gets shortened to 6 months or a year. However, in most every instance, the earlier you start planning for your eventual 'exit strategy', the easier your company will be to sell. Here's why.

Start by assessing the financial records and 'cleaning them up' so to speak. Focus on establishing audited financial statements which demonstrate the company's profitability, various profit centers, and growth potential. The overall 'cleanliness' and 'readability' of your financial records over a 3-year period will do more to sell your company and maximize your yield than any other tool. Clean financials also prove that you as a seller are not trying to hide anything. Thus, a trust factor is established immediately between the buyer and the seller.

Next, establish systems, policies and procedures which a buyer can clearly understand. Many times there are too many idiosyncrasies or errors in a business: verbal contracts, hand-shake deals, unwritten or assumed procedures, and worse yet, a poor or misleading paper trail. All records and procedures should be formalized, documented and clearly understood so a new manager or owner can take over with a basic level of understanding and a minimal amount of training.

Another area of focus should be the number of clients. Buyers get nervous when 50% of a company's Gross Revenues come from one or two clients. The risk is too great if even one client were to disappear with an ownership change. When possible, try to minimize your risk by having multiple clients creating the majority of your Gross Sales. The potential buyer will instantly perceive the risk to be less. Also, make sure the terms and conditions of the contract will not expire or require additional negotiation while the new owner is unpacking.

Real property and equipment leases may also require the same level of scrutiny. Premise leases are almost always an issue for the buyer, so ensure the leases don't expire or require additional negotiation as well. Thus, a simple lease assignment or assumption can occur between the Landlord and the buyer.

If you own your business property, there are many factors to consider. Depending on the cash flow of the business, it may or may not be able to be sold with the business. For now however, we'll just address the basics such as gas tanks, hazardous material, easements or right of ways, zoning regulations, etc. If a buyer looks at your property and immediately sees hurdles, it can be difficult to sell.

You should also fully evaluate your company's assets. Not only will you need to catalog all your furniture, fixtures and equipment, you'll also need to track inventory. For 1-3 years keep inventory at a minimum to display company efficiency and profitability. Many companies have an antiquated inventory tracking systems which leads to a higher than acceptable levels of out-dated or unsaleable inventory. No buyer will spend money on such inventory.

Last, special attention must be give to key employees. If there are key employees that will be vital to the success of the buyer, once they've signed a confidentiality agreement, they should carefully be informed of the upcoming sale. This way the buyer can retain the key employees to ensure a smooth transition.

Obviously there are dozens of areas which need to be addressed to maximize yield when selling your company. These are meant as initial guidelines to follow when the thought of selling has crossed your mind.