The Checklist Every Business Owner Needs Before Selling

OVERVIEW

Preparation for a business sale is the single most important thing a business owner can do to make the sale process efficient and achieve the maximum outcome possible.

Think about this concept like a contractor working on a new building. You would not paint a new wall without sanding. This checklist provides a starting point for business owners on some areas to focus on improving 1-2 years before your sale in order to improve your purchase price.

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STEP 1

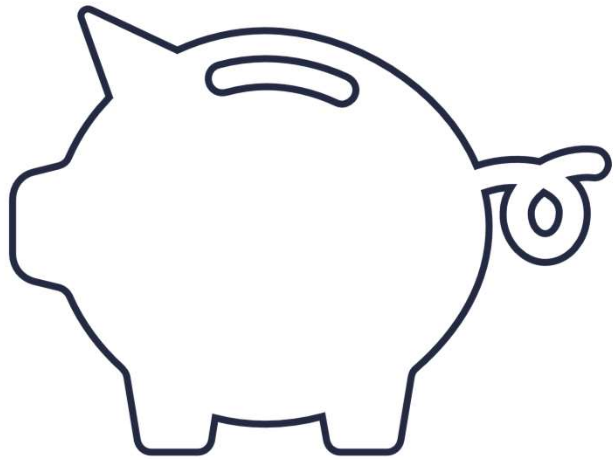
Assemble A Top-notch Management Team

What often creates a successful business is the owner of the business.

Unfortunately, this can be a big factor that detracts from the value of the business because the buyer may see too much of the business' success dependent on the owner being present. Investing in a good management team that can run the business independent of the owner enhances the value of a business. When a business owner goes into a management presentation with a buyer and says virtually nothing because the management team answers everything, that is when the buyer considers it a "most valuable business" because it is not dependent on a single person for future success.

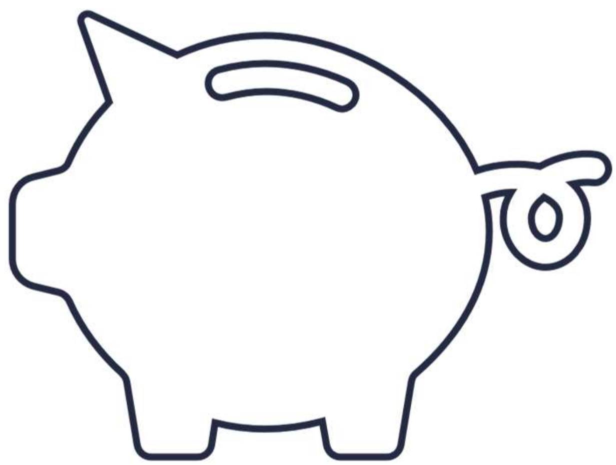
STEP 2

Clean Up Your Financial Records

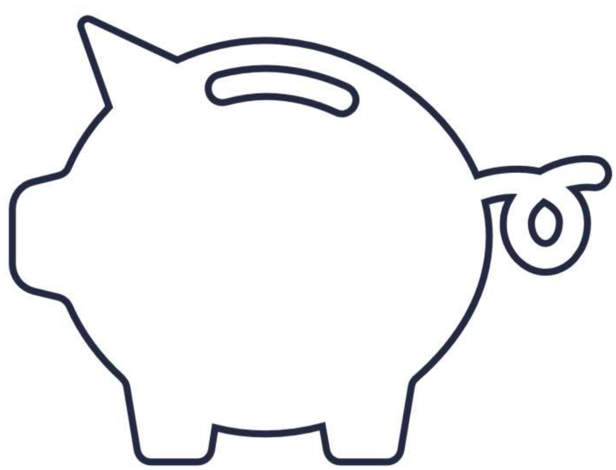


Buttoned up financial statements allow you to know where your margins are coming from and can enhance the value of your business.

Clean financial records can make your due diligence period and closing more efficient, and you'll ultimately be a happier seller. For example, let's say your business is worth $45 million, but you have discontinued audited Financial statements because you or the bank does not need them, and you had a very profitable business, so why bother?



When you sell, your buyers might be public companies or private companies that always have audited financial statements. The decision to not have audited financial statements might save you money in the short term, but it will cost you some buyers not even looking at your business or a heavy due diligence process.



STEP 3

Create A Growth Plan

Can this company grow?

This is a critical question any buyer will ask. An investment banker can help you think about your historic growth trends, the markets you have been successful in and the markets you have never entered but have opportunity in order to put together a realistic growth plan.

The perfect marriage is a buyer who is looking to enter an industry, geography or product line where a seller is already strong. When a buyer with a great sales organization meets a seller with a terrific product, it is a slam dunk.

Identifying how you can immediately grow allows your investment banker to bring buyers to the table who are going to be enthusiastic about having your company on their team.

STEP 4

Build An Attractive Client List

Very early in sale discussions, prospective buyers typically ask for 2-3 years of financial data, the balance sheet and customer concentration.

Customer concentration shows how a company's revenue is distributed among their customer base. If one customer makes up 50% of your revenue, you have high customer concentration. Likewise, if 50% of your revenue comes from one product, you have high product concentration.

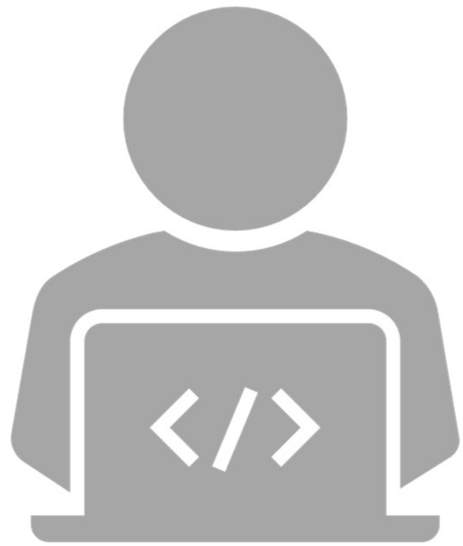
Thinking about how you can diversify your customer base and product portfolio will enhance your valuation at time of sale. Launch new products or grow the revenue from your smaller customers to detract from your concentration.

If you cannot minimize your concentration, it is the role of the investment banker to find a buyer who wants access to your top client or majority product.

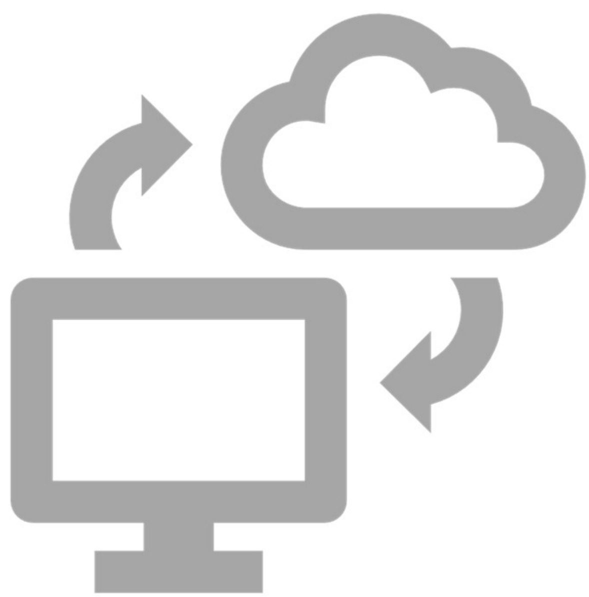
STEP 5

Update & Integrate Your IT Systems

There is an enormous hunger for data and more data available to companies than ever before.



Have you optimized and integrated your internal systems to track the most pertinent information on your clients, sales, marketing, vendors, finances and employees? The buyer of a company is taking on all the seller's risk, so they will have a lot of questions in the due diligence process.



The buyer wants to know "what is under the hood," and that is difficult to show if you are not tracking your data at the time of sale. The faster and more articulate you can answer a buyer's questions, the more efficient the closing process will be and the more valuable your company becomes.