Costly Mistakes to Avoid

A. Focusing on the Past

B. Not Preparing an Exit Plan

C. Having Incomplete Documentation

D. Being Unrealistic on Price Range

E. Not Understanding Buyer Types

F. Miscellaneous Problematic Issues

A. **Focusing on the Past:** Selling your business can be a lengthy process, often encompassing one-to-two years. During this period, you cannot afford to take your eyes off the future. The business climate can change rapidly and you must remain focused to take advantage of the new opportunities and to address all new threats. While sellers are naturally proud of their accomplishments and have fond memories of the past, buyers look toward the future. Your past accomplishments are a concern to buyers, only to the extent they pave the way toward future opportunities. Your business may have a colorful and exciting past, but you must recognize that your are selling dreams and opportunities not history lessons. Professional Business Intermediaries can assist you in documenting your past successes and allow you to remain focused on running your business.

B. **Not Preparing an Exit Plan:** Just as you prepared a business plan when you started your business, you should have a comprehensive plan for its sale. If you don't plan in advance for the eventual transfer of your business, your many years of hard work may not yield the financial results you expect. When you consider selling your business, you need a clear definition of your goals and objectives and must carefully consider all of your options. Done properly, your exit plan should outline action steps designed to maximize the value of your business. It should be your blueprint to achieving your financial objectives and protecting your net-worth. In a very true sense, the exit plan is a major component of your overall financial plan. Your plan allows you to remain in control of the process and not allow the process to control you. Preparing your exit plan in advance allows you to focus on your future.

C. **Having Incomplete Documentation:** To attract ready, willing and able buyers, and keep them excited about the business opportunity, it is critical that you document answers to the questions you will surely be asked. Documenting your business from the perspective of a buyer can be a deciding factor in the buyer's motivation to continue negotiations. Buyers are naturally cautious and look for ways to walk away. The documentation is the tool to eliminate the NO factors as well as help buyers prepare the roadmap for their future. The document should help the buyer envision how the business will perform in the future. In addition to comprehensive financial information, documentation can entail policy manuals, procedure manuals, organization charts, job descriptions, a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats), listings of all machinery and equipment, market-share analysis, customer and supplier information, information on competitors, and a listing of all contractual obligations. Preparing and assembling the documentation is a daunting task and, if not planned in advance and systematically assembled, could cause you to lose focus on the future as well as on current operations.

D. **Being Unrealistic on Price Range:** If you price your business too high, you'll scare buyers away. If you price it too low, you're cheating yourself. You need to find a range, below which you will choose not to sell, and above which buyers choose not to buy. Approaches to valuations include sales multipliers, asset valuation, earnings multiples, sellers discretionary earnings, capitalization of earnings, liquidation value, and many others. There can be as many ways to price a business as there are businesses. Most sellers should start the process by reviewing rules of thumb. Small businesses generally sell between one and three times recasted earnings with some additions or subtractions for the value and condition of the fixed assets. Larger companies have higher multiples. Multiples are also affected by growth rates and industry outlooks. Recognize that buyers look at the valuation analysis through the rear view mirror while sellers are looking through the windshield. Due to the different perspectives, an independent valuation should be considered. The valuation document can be the most important component of financial information you can share with the buyer or use in your negotiation. It can outline the value as well as form the basis of a financing request package. An independent valuation will alleviate the need for you, as a seller, to defend your opinion on the business's value. Obtaining an opinion of value from an independent expert need not be costly, and the investment made could be the tool used to obtain the maximum selling price.

E. **Not Understanding Buyer Types:** Business owners who are most successful at selling their companies clearly understand the concerns of potential buyers. They aim to attract the category of buyer most likely to purchase the business for its maximum value. In general, strategic buyers are existing companies in a similar line of business. They are looking for synergy, new market penetration, market share, new markets for existing products, vertical integration or geographic reach. For many strategic buyers, acquisitions are an integral part of their growth strategy and buying a business can be more cost effective than building it internally. Financial buyers are companies or private equity groups which look for acquisitions of platform companies to enter the industry or line of business. These buyers generally won't have management in place so sellers can expect to stay on or slowly phase out. Individual buyers, or entrepreneur buyers, are a third category of buyer. These buyers may be looking to replace an income stream. These buyers will place a lower value on the business less than a strategic buyer and they generally seek smaller businesses. Individual buyers, especially first time buyers, are often frustrated by the lengthy search process and lack of target company documentation.

F. **Miscellaneous Problematic Issues for Sellers**

- Not correctly computing "owner benefit" (discretionary cash flow)
- Allowing too much public information by not controlling the information flow
- Not pre-qualifying the buyers
- Valuing the business incorrectly
- Not continuing to Focus on Running the Business during the selling process

- Being inflexible on structure
- Nitpicking and dragging the deal
- Not having an elevator speech
- Not walking in the buyer’s shoes
- Expecting to immediately sever all ties to the business
- Not establishing a “War Room”
- Having inadequate financial records
- Demanding an all cash deal
- Lack of a business plan
- Lack of a firm commitment to sell