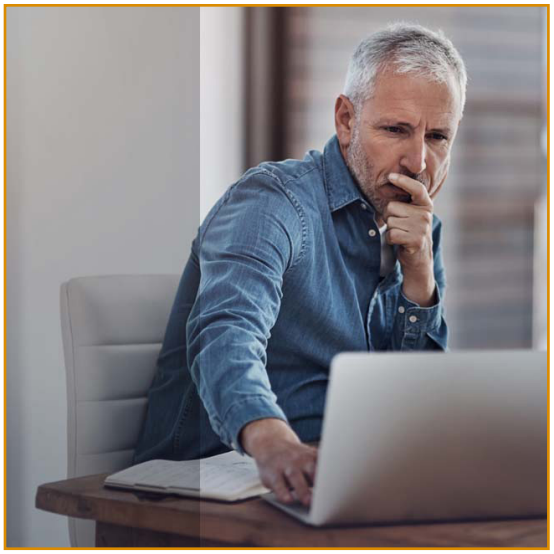
The Ten Biggest Mistakes That Sellers Make



Thinking of selling your privately held business? Use this checklist to see if you are ready. Correcting these mistakes before you sell will mean higher value received and a smoother, timelier transaction when you sell your business.

You worked long and hard to grow your company and now it is time to exit and reap your well deserved rewards. In your case, you decided to sell to a third party because you learned that is typically how business owners maximize their selling price. To that end, you elected to engage the services of a business broker or M&A advisor. You heard that they can help you to more effectively and efficiently recast your financials, create a descriptive memorandum, market your company, screen inquirers, facilitate due diligence, negotiate deal terms, arrange for financing, and otherwise professionally manage the complex, comprehensive, and confidential process of selling a company. All those are burdens you would prefer to leave to someone who specializes in such a process so you can continue focusing on your specialty of operating and growing the value of your business.

1. Wrong Price

Too high is bad; too low is bad. If the price is too high, buyers don't think you are serious and won't investigate the opportunity. Ultimately the offering becomes shopworn and has to be taken off the market or dumped below the market. If it is too low, you will leave something on the table. Most sellers do not know what the market value of their business is. How does one find out? Get an appraisal. Ask an intermediary that is experienced in selling your type of business.

2 . Inadequate Financial Records

Private businesses' accounting records are kept to minimize taxes whereas public companies' records tend to maximize earnings. If tax records are the only ones you keep, your company is going to show minimum taxes (and minimum earnings). This makes for low valuation. The answer isn't to pay more taxes; it is to keep records so that they can be recast to show the earnings and cash flow attributable to the business.

Unusual expenses should be kept in separate accounts or religiously logged to allow future recasting. This should be done even if you are not contemplating selling now. Buyers typically recast the previous 5 years. Are you positive that your business will not be transferred in the next 5 years.

3. Lack of a Firm Decision to Sell

If you have not deliberated and come to the firm decision that you are going to sell, don't start the selling process. Why you are selling must be firm in your mind and you must have determined that you are going through with the process. Most sellers are motivated by reasons other than money. For example: retirement, sickness, family pressure, burn-out and the like. Money and the right price are important, but it you are not mentally prepared to sell, don't.

4. Lack of Proper Qualification of Prospective Buyer

The first two questions a buyer asks are "Why are you selling?" and "What are your financial results?" You should ask prospective buyers the same equivalent questions. "Why are you buying?" and "What is the financial status of the buying entity?" If the buyer doesn't have the financial wherewithal to buy your business, don't spend your time talking to him/her.

A favorite stratagem of buyers is to say that they will produce their financial statement when the time is right - or that they have a partner that is putting up the money. These excuses mean that the buyer doesn't have enough money to buy your business. Make the buyers produce their financial statements and any information that you need to run a credit report, D&B or other checks that might be necessary for your particular situation. Serious, qualified buyers are happy to produce the information you need to check them out.

5. Selling to the Wrong Buyer

Both the buyer and seller have to be enthusiastic about the deal else chances are it won't go through. Or, if it does go through, chances are that it will turn sour. If the chemistry is not right with the person you are dealing with, terminate the negotiations. Another mistake sellers make is selling to competitors, employees, suppliers or customers. Competitors seldom pay full value for a company. If the deal falls through, a great deal of confidential information is lost. It is an unusual case when an employee has the money to buy the company. This means that the seller is at extreme risk in getting paid. Suppliers and customers have the problem of becoming competitors to their suppliers and customers when they integrate backward or forward. This jeopardizes the customer base of the seller. The best buyer is a synergistic buyer that fits with your company. The best transaction for the seller is when two or more synergistic buyers actively vie to purchase the company.

6. Demanding All Cash For The Deal

The issue isn't "all cash." The issue is getting paid. Buyers will pay substantial premiums for seller financing. Sellers should listen and evaluate seller financing proposals. Some sellers say that they are not going to sell to anyone who uses the profits of the business to pay for the business. They will never sell the business. Buying a business is just like buying a piece of equipment. It has to pay for itself or the buyer doesn't buy it.

7. Trying to Sell It Yourself

Selling a business is a complex legal, financial, time consuming process. There are buyers to be found and qualified; there are prospectuses to be written. There are hundreds of issues to be resolved in negotiations. e.g., stock vs. asset sale, allocation of the price, security agreements, confidentiality, employment agreements, covenants not to compete (term, geography and technical limits included), definitive agreements, earn outs, royalties, guarantees, warranties of buyer and warranties of seller, valuations of equipment, inventories and accounts receivable, recapture of deprecia-

tion, tax responsibilities, bulk sales law, buyout of minority stockholders, assumption of leases, removal of seller debt guarantees, seller financing, default provisions, fraudulent conveyance, post sale responsibilities of seller and on and on.

And, while all this is going on, the company must continue to be run, and confidentiality about the potential sale must be maintained. The solution is to get experienced legal, accounting and deal making advice early in the process.

8. Negotiating Too Hard

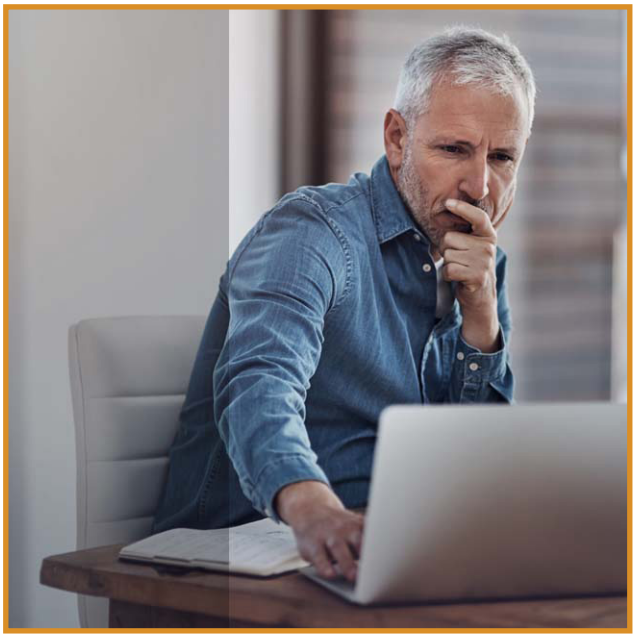
YYou should negotiate hard, but not to the last dollar. It is better for the seller that the surviving company be successful. A skillful negotiator will work to have a win-win situation where everyone leaves the transaction happy.

9. Sale Timing Not Right

There can be a substantial variation in selling price depending upon the business cycle, or the profit cycle of the particular business. All things being equal, you should sell on the upside of the business cycle near the top just after a record year of profit..

10. Lack of a Business Plan

Buyers buy based on their perception of the future earning stream of the company. The buyer, as a part of the evaluation process, will prepare a business plan. The seller is much better positioned to project market and cost information than the buyer. A business plan, with well-reasoned and documented market and operating information will go a long way to convincing a buyer of the long-term future of the company. A business plan is a way of documenting the future. It can mean a selling price based on future expectations rather than past history.



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