

How to groom your business for sale



ADVICE AND PLANNING UPDATE

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Key takeaways:

- During the sale of a business, there are several common issues sellers may face during the due diligence process.
- By addressing key items in advance, you can resolve many issues before a potential buyer raises them.

What this may mean for you:

- If you are considering selling your business, properly preparing it for sale can help streamline the process by eliminating some of the unnecessary delays and expenses

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In our experience, many business owners feel they run a well operated business. However, buyers invariably find problems during the due diligence process. The odds of everything lining up perfectly without proper grooming and preparation is typically close to zero.

Business owners tend to jump to the question of “what can improve the value of my business?” which is a valid question – but, the better question “*Is your business saleable in its current state?*”

If you’re contemplating selling your business at some point in the future, there are things you can do now to help prepare and potentially avoid common pitfalls and better position your business for a successful sale. Preparing your company today can mean a shorter sale process, thereby increasing the likelihood of a successful sale.

Common issues and tips

While every business has unique dynamics, there are a few common issues that arise during the sale process.

Topic	Common issues	Tip
1. Financial records and documentation	<ul style="list-style-type: none"> • Not having books and records in saleable condition may extend due diligence and negatively impact the sales process. 	<ul style="list-style-type: none"> • Remove any owner items included on the financials that are not business related • Consider having your financials reviewed by a CPA • Consider engaging a subject matter expert to prepare a Quality of Earnings report • Organize your corporate books and records so they are current and easily accessible. • Document key roles and procedures can improve the salability of the business.
2. Working capital	<ul style="list-style-type: none"> • Working capital not at proper level relative to revenue. • Having low inventory or receivables may result in a price adjustment from the 	<ul style="list-style-type: none"> • Maintain a balanced level of inventory, equipment, receivables, and payables relative to revenue

buyer. Excess inventory or receivables does not usually increase the sales price.

3. Concentrations (customers and suppliers)

- In our experience, customer concentrations above 20-30% may make selling more difficult.
- Supplier concentrations can be a concern if the loss of a supplier could significantly impair your ability to deliver your product.
- Diversify your customer base rather than growing your relationship with your biggest customer
- Develop relationships with alternative suppliers

4. Management Team

- Your management team can impact the type of buyer and salability of the company.
- Are they committed to the company?
- Do you have sufficient bench strength?
- Make sure you have the right team in place and they are incentivized to stay on with the new owner
- See our article – [How to build a strong management team](#)

5. Financial performance

- Not meeting projections or declining financial performance is a common reason the sales process stalls.
- Don't start a sale process unless you are confident in your company's near-term financial performance

Lastly, make sure your CPA and attorney are up to the task. Confirm that they have experience with business sales. To illustrate the importance of an appropriate advisory team, we worked with a seller that discovered during the due diligence process that they should have charged sales tax for the last 10 years but their CPA had not advised them to do so. When the sale closed, the seller had to pay an amount equal to what the company owed in past due taxes plus interest and penalties. If your business has grown significantly since you hired your CPA or attorney, you may benefit from upgrading to professional advisors with subject matter expertise in business sale planning.

Preparing your business for sale

If you are considering selling your business in the next few years, begin getting your house in order. Being prepared allows you to start the sale process when your business is in the best position to sell. Begin to build your advisory team now, including a CPA, attorney, and investment banker/business broker. To learn more, contact your advisor.

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