Prepare now to sell your business tomorrow

Recently, I've talked with a few clients who expressed interest in selling their businesses within the next three to five years. These clients could be classified as your typical Baby Boomers - successful, hard-working people who want to retire in the somewhat near future.

So, how can they prepare for the transition out of their business? How can they ensure they get a fair price for their business so they can have an enjoyable retirement?

First, you have to have good financial statements. A lender will ask any potential buyer for financial statements from the past three years to determine the health of the business. Any buyer will also want to know what the business will return to them if they purchase it. Financial statements include a cash flow statement, income statement and balance sheet. For these clients who want to sell in the near future, there are management decisions that need to be made right now that can produce healthy financial statements that can make the business sellable.

Second, you need current tax returns that match the financial statements. A lender and buyer will request three years of past tax returns. Most likely they will compare them to the financial statements to get the true picture of your business and if it is worth buying.

Next, review your business assets. What do you have of value that you can sell to a potential buyer? Lenders need collateral, so a buyer will have to prove there is something of value - think brick, dirt, and mortar - to purchase in your business.

As for the value of the business' name and customer lists, the worth depends on how long the business has existed and any long-term customer contracts that will transfer when you sell. Keep in mind that no matter what you think it is worth, there is only so much value a lender will allow for these intangible assets, often referred to as "blue sky." Some owners wind up owner-financing this part of their business when they sell because a lender will not loan money to a potential buyer because of the lack of collateral.

The last step to remember, I believe, is the most important. In small business, oftentimes the owner is the business. When the owner retires, the business falls apart. This is true because over the years the owner has established relationships, loyal customers and learned to manage in a way that makes customers happy. When someone new buys the business, customers could be lost and with them, adequate cash flow. The buyer has to have experience in your line of work to show they are capable of owning and operating your business.

To help with this last consideration, start looking at your current employees. Is there an employee who is interested in buying your business in the next three to five years? Capable both financially and experience wise? What if you asked them, would one step forward? If an employee steps forward, start training them now. Have them be your shadow. This will help them establish those needed relationships with your customers and also allow for a smooth transition with business operations.

If you worry about training a potential buyer who might start their own business instead of buying yours, you can always require non-compete contracts or agreements. Or, you could train the employee and, over time, let them systematically buy a percentage of your business. There are many options you can explore to ensure the future purchase of your business by a current employee is a win-win for all.

Just remember, if you are serious about selling your business and retiring, start preparing today.