Pacific

M&A and Business Brokers Ltd.

IS YOUR BUSINESS READY TO BE SOLD?

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PACIFIC M&A AND BUSINESS BROKERS LTD.

THE LINK TO SELLING YOUR BUSINESS | LOCAL KNOWLEDGE WITH A GLOBAL REACH

IS YOUR BUSINESS READY TO BE SOLD?

You've spent the better part of your business career thinking like one of your customers when it comes to improving your product, expanding to new regions, and launching new marketing initiatives. But when it comes to selling your business, you're in brand new territory.

Without direct experience selling your business, it's difficult to know what buyers are looking for, this can result in netting a sliver of what's possible when it comes to cash in your pocket.

With that in mind, we wanted to give you a cheat sheet to help you best position your business to sell.

Risk:

Risk is directly tied to how buyers evaluate businesses and what type of offers you will receive. If the perceived risk level is high, the buyer pool may be small and the offers will likely include earn-outs or requests for seller financing.

Here are some questions to help you evaluate your business' risk:

1. **How established is your business?** If your business has a consistent track record going back to 20 years, there is less risk involved than in a new business. Similarly, the more revenue your business produces, the more stable it is perceived.
2. **Are there moats surrounding your castle?** Are you able to protect your current portion of market share? What stops someone from coming in and doing exactly what you do? Brand awareness, intellectual property, exclusivity in contracts with suppliers and customers, and licensing requirements are all examples of moats protecting your business.
3. **What's your level of external concentration?** The more concentrated your business is, the higher the risk when considering both suppliers and customers. Are your products being supplied by one manufacturer? If there are multiple suppliers, are they all from the same country? The same goes for customers – do any of them represent more than 10% of your revenue? What happens if this customer leaves you? This is a common question from buyers and a huge risk to your bottom line if concentration levels are high.
4. **How reliant is your business on you?** If you wear all the hats, what happens when you aren't there anymore? Buyers are wary of stepping into a job where you have done everything as there is also a risk of suppliers and customers leaving with the old owner. The same goes for key staff – if the business is not dependent on you, is it dependent on a single staff member?
5. **Are you innovation-proof?** Is your product or service one or two innovations away from irrelevance? For example, are you selling fax machines when email is about to be introduced? How can you stay relevant as the market changes?

Growth:

We say it all the time: buyers *pay* for historical earnings but they buy for future potential.

Here are some questions to help you evaluate your business' growth:

1. **How are your sales trending?** The stronger the sales are trending upwards, the faster a buyer will get a return on their investment. The faster a buyer thinks they will get a return on their investment, the more buyers that will be knocking on your door and will be placing offers.
2. **How are your margins trending?** More important than sales are your profit margins. If your sales go from $1M to $2M year-over-year, but your bottom-line stays at $200K, are you working twice as hard for the same earnings? Is this trend going to continue? Most buyers will be scared by that. Ideally, your margins should grow as your business scales.
3. **What is the future growth potential?** How clear, easy, and plentiful are the growth opportunities for the business? And have you begun to prove the pathways to growth? It's good to be able to say "we can expand to the US for more sales." It's even better to say "we just expanded to Seattle and we're already seeing sales growth." The more clarity of your business' potential for future growth, the more emphasis you can put on future earnings.
4. **How costly is growth?** Are the growth opportunities able to be realized with the company's current resources (knowledge, assets, staff) or will they require additional investment by a potential buyer?

Documentation:

The more you have documented and in writing, the easier it is for a future buyer to step in. The easier it is for a new buyer, the more buyers you'll find and the higher the price will be. Attention to detail can encourage confidence and ensure your business will not only survive, but thrive.

Here are some questions to help you evaluate your business' documentation:

1. **Are there contracts?** Having contracts with your vendors, manufacturers, contractors, or employees is step number one. Making sure the verbiage in these contracts ensures they are with the business and not with the owner is step number two.
2. **Are your financial reports reliable and available?** Having a bookkeeper who uses reputable software to create monthly reports is crucial. Plus, having accountant-prepared year end statements is also necessary to give a buyer confidence that they are walking into a real business.
3. **Are there manuals?** If any of your daily, weekly, or monthly tasks are memorized by you or staff then these should be put in writing. Wouldn't you feel better buying a business where all the major tasks have been well-documented?
4. **Have you been filing third party and corporate documents?** Once you accept an offer to purchase your business, the buyer is then afforded a period of time to perform due diligence on the business. This means that they can ask for anything under the sun including credit card statements, merchant reports, WorkSafe filings, etc. Ensuring this is all on-hand prior to listing the business is key to getting the deal across the finish line.
5. **How do you measure success?** What are the metrics most important to you as the current owner? Summarize these on a monthly basis to help buyers understand the business from your unique point of view.

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