10 Tips to Prepare Your Business for Sale

businessbrokeragepress.com/2015/04/10-tips-to-prepare-your-business-for-sale/

By Loren Marc Schmerler, CPC, APC, President

09 Apr 10 Tips to Prepare Your Business for Sale

Posted at 09:15h in Seller Articles by Loren Marc Schmerler, CPC, APC, President

Number 1. Make sure you really "want" to sell. Ask yourself if you are bored, burned out, ill, have a new child, have aging parents that need your assistance, etc. Or are you simply unhappy with how much money you are making? If this is the case, you do not "need" to sell. All you need is some guidance getting back on the right track.

An experienced business broker can help you refocus and see the forest for the trees. You might find out that once you start making enough money, you do not want to sell after all. But if you conclude that selling is what you want to do regardless of how much money you are making, then you need to proceed to the next step.

Number 2. After you are 100% sure that you want to sell your business, I suggest that you drive up to your business and determine the following if they apply to you. Are there any holes in your parking lot? If so, fix them before a buyer shows up. Is any of the shrubbery dead or out of control? If so, replace the dead with live shrubbery and make sure that all of them are properly trimmed.

Are the windows clean? If not, get them washed. Is the building exterior clean? If not, get it pressure washed. Does the roof look old or damaged? If so, either get a new roof or replace the bad shingles. Does the building need to be painted? If so, do it. In brief, make sure the “curb appeal” of your business has no obvious and easily correctible issues.

Number 3. After you have fixed the exterior issues, it is now time to examine the interior of your business from top to bottom. Start with the ceilings. Are there any water stains from roof leaks? If so, fix the leaks and replace the tiles. Are there any light bulbs that need to be replaced? If so, get on a ladder and put in new and shiny bulbs. Does any of the furniture look ratty? If so, either repair it or replace it.

Are there scrape marks on the walls. If so, have them repainted. How about your employees’ desks? Do they look organized or out of control? Insist that your employees maintain neat and orderly working areas. How about the rest rooms? Are they an embarrassment? If so, clean them up and keep them clean. Are they handicap accessible? If not, make arrangements to bring them up to code. Look at your office with a keen eye. Remember that when the buyer tours your business, you want them to visualize becoming the owner and being proud to do so.

Number 4. After you have fixed the interior “physical” issues, it is now time to look at job descriptions, policies and procedures. First and foremost, you need to draft your own job description that covers what you do daily, weekly, monthly, quarterly, semi-annually and annually. It should be very detailed, and I recommend that you dictate it to a secretary or temporary employee who can take shorthand and type well. Make certain you have someone proof read the job description and correct any grammar or spelling errors.

After you are satisfied with your job description, ask all your employees to do the same. This process has several benefits. First, your employees will see how much they actually do. Second, it will give you a chance to see if they are doing what you think they are doing. Third, it will tell you whether they are doing what they should be doing. When all the job descriptions are complete and typed, you will place them in a 3-hole binder labeled “Job Descriptions.” Then you will move on to policies and procedures.

Number 5. Now that you know what you do and what all your employees do, it’s time for policies, procedures and controls. With regard to employees, you need to cover hiring, evaluations, probations, vacation, sick days, holidays, etc. If your company has positions where employees must have background checks, drug tests, reference checks, etc., you need to speak with a labor attorney to dot all your i’s and cross all your t’s.

When asking a prospective employee to complete an application, it is best to stay away from questions that deal with pregnancy, military status, race, national origin, etc. If you decide to hire an employee, make sure they complete a W-4 form, an I-9 form and the appropriate state form. Should your labor pool have a large number of Hispanics, you will need to consult with a labor attorney to insure you do not hire illegal immigrants. Severe penalties can result. With regard to vacations and sick pay, it is best to let them accrue a day or less for each month worked. More policies and procedures will be discussed in Tip Number 6.

Number 6. It is very important to stay current with all employee evaluations. Employee morale can be devastated if reviews are delayed or not given at all. Plus, it is grossly unfair to ask a new owner to review employees with whom he or she has never interacted. A prospective owner will most certainly ask about employee turnover and employee tenure. But one question that is rarely or ever asked is whether you have any “problem” employees.

That brings up the issue of probation. Probation can be a way to successfully rehabilitate a wayward employee, or it can be the final process to document a termination in such a manner that a legal challenge to the termination will not prevail. When an employee is put on probation, the leash should be very short. The employee must know exactly what behavior will be tolerated and what behavior will lead to immediate termination. Interestingly enough, putting a person on probation sometimes leads to an outstanding employee.

Number 7. Nothing frustrates a prospective purchaser more than asking for current financial statements and tax returns and being told that they are not available. Worse yet is being told that a date cannot given for when they will become available. Talk about red flags. How can you run a business without current and accurate financial statements? The short answer is that you cannot do so. As a business owner, you must anticipate the purchaser's questions regarding all financial matters and have current statements to defend your answers.

When I say financial statements, most people think of a profit and loss statement (also called the income statement.) But the balance sheet is equally important. The combination of these statements tells you whether a business is losing money and gives you a picture of the company's financial health. There are certain subtleties to keep in mind. For instance, a high level of inventory can indicate several different things. Maybe much of it is obsolete or slow moving. It can be a purchasing mistake that will hurt a business or a brilliant purchase at a great cost. Only with thorough investigation will you determine the true answer.

Number 8. Have you filed all your tax returns? Specifically, I mean monthly sales tax, monthly state withholding, quarterly payroll taxes, quarterly state unemployment insurance, annual unemployment insurance, annual ad valorem, annual corporate tax, annual state tax and any local, county, city or other special taxes. It is absolutely critical that you are current with all these returns to instill confidence in the prospective purchaser. But when it comes to sales tax, if you have not filed and paid all returns, there are very negative consequences. The penalties and interest are exorbitant, but in addition, unpaid sales taxes become the responsibility of the new owner. I was once at the closing table waiting for the checks to be written when the Georgia Department of Revenue called and told the closing attorney that the seller had not paid sales tax for the last 3 years. Upon hearing this, the buyer stood up and left the closing. Needless to say, the company was not sold and eventually shut its doors.

While we are on the subject of taxes, you need to have a heart to heart talk with your CPA regarding taxes when you sell your business. Should the sale be an asset sale? Should the sale be a stock sale? There are bonafide reasons for each type sale. An asset sale limits your exposure for past liabilities, errors and omissions. An example would be a product liability claim for a structure or machine that becomes faulty. A stock sale allows for ease of transferring contracts presently in force. A stock sale is also critical in the medical industry when a Medicare number might be involved. But there is another angle. The stock sale allows for the company to be sold for less money while still letting the owner realize the same or greater after tax position.

Number 9. What is due diligence and how do you prepare for it? Due diligence is the process where the buyer tries to validate everything you have represented both verbally and in writing. The buyer will scrutinize your financial records, your legal records, your employment records, etc. With financial records the process starts with the tax returns, goes backwards to the financial statements, goes backwards to the general ledger, goes backwards to all source documents that include bank statements, deposit slips, check stubs, cancelled checks, vendor invoices, client/customer statements, etc.

To prepare for the financial side of due diligence you should assemble tax returns, financial statements, general ledgers, bank statements, deposit slips, check stubs, cancelled checks, vendor invoices, client/customer statements, etc. for the last 3 years. Tax returns, financial statements and related items should be in date order from the most current to the oldest. Vendor invoices and client/customer statements should be in alphabetical order first and then in date order for each vendor or client/customer. Employment records should be filed alphabetically, but you better make sure you have a W-4 form, an I-9 form and a state form (G-4 for Georgia) for every employee.

Number 10. There is a legal side to the due diligence process as well. Are you a valid legal entity such as a partnership, corporation or LLC? Is your annual filing of officers and registered agent current? Have you maintained your Corporate Minutes and held annual Board of Directors and Shareholders meetings? Do you have outstanding liens for debts that have been paid off? If so, you need to contact the creditor and ask them to remove them. If this is not done, the closing attorney will have to withhold funds in escrow until the actual status can be determined.

Have you paid all payroll taxes? If not, you may have undermined a possible sale. Have you paid all sales tax that is due? If not, I can tell you from personal experience that this can demolish a probable sale. Is there any outstanding litigation that affects you as either a plaintiff or a defendant? Are all your employees legal, and do you have proof? Are there any patents, trademarks or service marks that need to be protected? If real estate is involved, do you have a deed to prove ownership? Do you have a plat that clearly shows boundaries of the property? Do you have any contracts with vendors or clients/customers? Is your company minority owned, and if so, how would a change in ownership affect your business?

We have covered quite a lot of ground in these 10 tips. I wish you well when you pursue an exit strategy.

This post was by Loren Marc Schmerler, CPC, APC the founder and president of Bottom Line Management. If you're looking to buy, sell or value your business contact Bottom Line Management via their website http://www.botline.com/ *or call them (770) 977-7334.*

AEGIS
BUSINESS ADVISORS
Confidential Business Sales & Acquisitions

: 479-689-4455
: 800-246-1660
: mail@aegis-abi.com
: www.aegisbusinessadvisors.com
Serving Northwest Arkansas