



MAKING CENTS

SELLING YOUR SMALL BUSINESS

-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®



You've done it: Congratulations on building that small business in such a way that it is capable of attracting prospective buyers. The idea of selling your "baby" may be in its infancy right now, and with a little planning both the purchase price and the transition can be made better. There are several elements to consider before you say "yes" to an offer.

A key component to selling a company is the business valuation — a measurement of what your business is worth to a third party. In most cases, founders of companies are often surprised at the low valuation that

outsiders place on your business. To you, the financial valuation is often clouded because of the pride of ownership and paternalistic feelings that develop. Certain valuation methods are more common than others and determined by the type of business that you have.

On the low side, your business may only be worth whatever someone can get by liquidating your assets. On the high side, you may get a buyer to see all of the potential that you saw and willing to pay a little extra for it. Don't just hope for this: if you truly feel that there are hidden gems or unmined opportunities in your business, highlight those issues in discussion with potential buyers.

A bunch of "soft" issues will also affect the value of your business. Your reputation in the industry and the community, and the quality and longevity of your employees will have an impact. The business's ability to sustain its current or improved operational state without you at the helm will weigh heavily on the value that your business may fetch. Often, a prospective buyer is interested not only in the purchase of a company and substantially all

of its assets, but also in the "purchase" of the team that helped its owner achieve success.

A business-savvy prospective buyer is certain to see the promise your small business holds if it

has achieved and maintained a solid customer base with little or no marketing. Buyers will also be impressed into paying a little more for your business if all of your company's systems and processes are not only tried and tested, but well documented for new hires or owners to step right into your seat.

The earlier you get started on doing the things that will increase your value to a third party, the better. The process may also alert you to areas where your business can improve over the short-term, making it a more valuable asset when you're ready to sell.

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