Is Your Business Sellable?

BUSINESS ADVISORY QUICK FACTS

80% of businesses up for sale annually DO NOT sell. Why?

1. Owner reliance
2. Lack of management strength
3. No financial reporting
4. Lack of business systems

Risk in your business equals discount to enterprise value.

Actions

- On an annual basis, make sure your accountant is generating:
  - Balance sheets
  - Profit/loss statements
  - Income statements
  - Cash flow statements
- Determine if your business is too reliant on you
- Evaluate the strength of your management team
- Ensure you have key staff contracts as they are essential for a potential purchaser

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You've worked hard for years to grow and build your business, and now you're at a point where you're thinking about working less or starting your "second act." It's at that moment, you may realize you don't have a successor in the family who wants to take over the business. Or perhaps you simply want to capitalize on your years of sacrifice. In either case, there's one question you need to ask before making any final decision: Is my business sellable?

Factors to Consider Before Selling

Many owners run their businesses without an exit plan in mind. Then when the time comes to sell, they find out that the way they've been running their company isn't attractive to prospective buyers or that they will only buy the business at a meaningful discount.

You may be surprised to learn that 80% of businesses up for sale **don't** sell.[1] To avoid being one of them, you need to understand the common causes behind this staggering statistic:

1. Owner Reliance

Owner reliance is the biggest "deal killer," and relatively easy to determine. Picture yourself taking a month-long vacation with no connectivity to your business. What condition would your company be in when you return? Does this image frighten you? If so, it means your business is heavily reliant on you, and any meaningful time away could jeopardize the viability of your company. Most buyers don't like owner-reliant businesses, especially financial buyers (capital providers, no management). To them, it shows a lack of leadership and represents a sizable risk to their investment if you don't remain with the business after the sale.

Action: If you haven't already, start grooming a second in command who can, at minimum, run the day-to-day operations.

2. Lack of Management Strength

A weak management team leads to a weak offer. Most buyers are looking to buy your business, not run it. Therefore, they'll probably pass on your company if you don't have a strong management team. Some owners respond with, "yeah but they're going to merge my business with an existing one anyway." And while that might be the case, the buyer is still going to want a strong management team to help transition the business after the purchase. Other buyers may choose to keep the company intact and run it as a separate entity.

Action: Consider hiring a consultant to help build your management team and implement processes and key performance indicators (KPIs).

3. No Financial Reporting

To a buyer, financials are a historic road map that shows where your company has been and most likely where it's headed. No prospective buyer will buy a business that doesn't have both strong financials and financial reporting. If you don't have a least three years of reviewed financials, you're dramatically reducing your ability to sell your business.

Action: Your accountant should generate and review your financials annually. Make sure they provide you with a balance sheet, profit/loss statement, income statement and cash flow statement. These reports are the foundation for creating your KPI strategy and enable you to make sound business decisions. Better decisions equal more profitability, which means higher value.

4. Lack of Business Systems

Business systems are an area of your company that will either benefit you or the buyer during negotiations. What does that mean? If you have good business systems and all aspects of your company are fully integrated, it's more valuable to a potential buyer. If you have antiquated systems, where each area of the business doesn't interface with the others, your company will be less valuable, resulting in a lower offer. Having good business systems means you have documented policies and procedures as well as a strong process for managing inventory, production, and customer and vendor contacts.

Action: Make sure all of your business functions interface within some type of management system that offers you and your team the reporting and metrics you need for strategic planning, forecasting and overall decision-making.

Selling your business is one of the most difficult challenges you will face as a business owner. Addressing any potential "deal killers" well in advance of the transaction increases the probability of achieving your desired outcome.

Want to start planning your exit strategy? Contact Cerity Partners at bdearing@ceritypartners.com or (646) 928-8775.

[1] 2017 Exit Planning Institute National Survey