Business Wi$e

The Top 3 Myths of Selling a Business

By Mike Gersten

A typical business owner will sell a business only once in his or her life, and as a result will probably underestimate just how complex the process is and how much potential profit can be lost with missteps. There are many misconceptions associated with the valuation and business transfer process. Below we discuss some of the most popular myths and how they can negatively impact the final selling price of a business.

Business Wise continues on next page

Myth #1: I Know What My Business is Worth

When "self-evaluating" the value of a business, some owners estimate $100,000 a year for sweat equity, or will base their price on what they personally need for retirement. Others utilize "industry multiples," most often some nebulous concept of EBITDA (earnings before interest, taxes, depreciation and amortization). Yet others simply pick a number out of the air. None of these approaches will ever serve a business owner well, and can in fact decrease profits when all is said and done.

A third party appraisal provided by a national valuation company is the only credible solution for understanding and valuing a company's growth potential— not some vague industry average. It is surprising, but not uncommon, just how many business owners expect a buyer to pay several million dollars for their business, yet are not prepared to spend a few thousand dollars for a qualified third party opinion.

"Half of the success involved with closing a deal can be attributed to the expectations of the seller," says Achim Neumann, President of A Neumann & Associates. "We try to prepare sellers, educating them about the many aspects of a deal. However, many have trouble evaluating their situations realistically without emotion."

For example, there are some business owners who have only a single account, yet expect full up-front cash payment. We have also spoken with some sellers with dramatically increasing accounts receivables who demand full reimbursement for overdue billing. Needless to say, expectations such as these are just not realistic.

A properly prepared valuation requires a few hours of meeting time with a qualified business broker to review the business being sold. The broker will then recast financial statements and develop a valuation so that an owner has a baseline for a negotiation position. Typically, 80 percent of a business owner's net worth is tied up in his privately held business, and it is important that this asset is maximized during the transfer process.

Myth #2: I Can Sell My Business Myself

Many business owners believe they're qualified to sell their business without professional assistance based on the skills they've acquired running while their companies. Many owners are entrepreneurs with solid selling skills, and many function as the key salesperson for their company. However, what many don't anticipate is that selling a business is nothing like selling a product or service.

If you are going to sell on your own, realize that confidentiality is immediately lost. If word of a potential sale gets out, there are definite risks. You could lose clients, employees and favorable credit terms with banks— not to mention managing potential landlord questions.

Myth #3: Selling a Business is Like Selling a House

Preparing to sell a house takes a couple weeks, and then word of the sale is spread as far and wide as possible. Once a satisfactory offer is received, the keys are turned over and the seller moves on. No confidentiality, no pre-qualification, no detailed marketing package, no transition time and no seller note.

Selling a company, however, is much more complex. A successful business sale requires a great deal of pre-planning, valuation, cash flow recasting, document preparation, buyer evaluation, tax planning, deal structuring and so forth.

It takes three to five times as much time to sell a business as it does to sell a house. And, even after the business is sold, the seller can be expected to stay on for at least several months helping the new owner to succeed with the business— thereby securing payback on the note extended to the new owner.

It takes a lot of preparation, analysis and negotiating to sell a business, and only highly qualified firms like A Neumann & Associates have the resources and decades of experience to provide a comprehensive approach.

About the Author

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