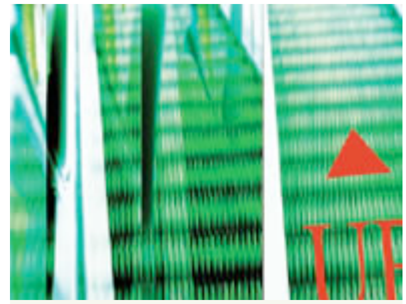
What is the Value of Your Business? It all Depends.

Why do most business owners want to know about the value of their business? This question is not intended to be fl ip, but it is one that needs to be answered. Of course, there is the curiosity factor, but there is usually something behind that wanting-to-know. Does an owner need to know for estate purposes? Does the bank want to know for lending purposes? Is the owner entertaining bringing in a partner or partners? Is he or she thinking of selling? Is a divorce or partnership dispute occurring? Is it for a buy-sell agreement? There are many reasons why knowing the value of the business is important.

The reason for the valuation is critical. For example, in a divorce or partnership breakup, each side has a vested interest in the value of the business. If the husband is the owner, he wants as low a value as possible, while his spouse wants the highest value. The departing partner wants as high a price as possible. If an owner is selling half of his business to a partner, he or she would want as high a value as possible. In the case of a business loan, a lender values the business based on what he could sell and thus recapture the amount of the loan. This may be just the amount of the hard assets, namely fixtures and equipment, receivables, real estate, or other similar assets.



Fair Market Value

"The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts."

In almost all cases, with the possible exception of the loan value, the applicable value defi nition would be Fair Market Value. It is normally defi ned as: "The price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts." This defi nition is used by most courts.

It is interesting that the most common defi nition of value begins with the phrase "The price..." Most business owners, when using the term "value," really mean price. "How much can I get for it if I decide to sell?" If there are legal issues, a valuation is most likely needed. In most cases, however, what the owner is looking for is a price. Unfortunately, until the business sells there really isn't a price.

The International Business Brokers Association (IBBA) defi nes price as "The total of all consideration passed at any time between the buyer and the seller for an ownership interest in a business enterprise which may include, but is not limited to, all remuneration for tangible and intangible assets such as furniture, equipment, supplies, inventory, working capital, non-competition agreements, employment and/ or consultation agreements, licenses, customer lists, franchise fees, assumed liabilities, stock options or stock redemptions, real estate, leases, royalties, earn-outs, and future considerations."

In short, value is something that may have to be defended, and on which not everyone may agree. Price is very simple – it is what something is sold for. It may have been negotiated; it may be the seller's or buyer's perception of value and one in which their perceptions coincided (at least, once, to allow a closing to take place), or a court may have decided.

The moral here is for a business owner to be careful what he or she asks for. Do you need a valuation or do you just want to know what someone thinks your business will sell for?

Here are some items that may not increase the value of a business, but will certainly increase the price:

• Create a list of fixtures and equipment with serial numbers, date purchased, and any amounts owed against it.
• Prepare a floor plan complete with equipment layout.
• Have copies of all copyrights, patents, special licenses, permits, etc.
• Have current financial statements -- this means the last few months, not last years.
• Make sure all leases are current and have at least five years left. If not, extend them prior to the sale.
• If an operations manual and an employee policy and procedure manual do not exist, create them.

Do You Know Your Customers?

It's always nice, when eating at a good restaurant, for the owner to come up and ask how everything was. That personal contact goes a long way in keeping customers happy – and returning. It seems that customer service is now handled by making a potential customer or client wait on a telephone for what seems forever, listening to a recording saying that the call will be handled in 10 minutes. Small businesses are usually built around personal customer service. When is the last time you "worked the floor" or handled the phone, or had lunch with a good customer? Customers and clients like to do business with the owner. Even a friendly "hello" or "nice to see you again" goes a long way in customer relations and service. The importance of knowing your customers and/or clients could actually be extended to suppliers, vendors, and others connected with your business. When is the last time you visited with your banker, accountant, or legal advisor? A friendly call to your biggest suppliers) can go a long way in building relationships. A call to one of these people thanking them for prompt delivery can pay big dividends if and when a problem really develops. Owning and operating your own business is not a "backroom" or "hide behind the business plan" business.It is a "front-room" business. Go out and meet the customers – and anyone else who has an interest in your business.

The Advantages of Using a Business Broker Intermediary

Many buyers and sellers believe that a business brokerage intermediary just lists and sells a business. There is a lot more to it than that. Here are just a few of the areas that the professional business broker deals with in putting a transaction together.
The business broker:

• Maintains confidentiality
• Has the ability to recast the financials
• Understands the valuation issues
• Has knowledge of goodwill value and its impact on price
• Knows how to maximize the value of the business
• Is aware of tax consequences to the parties
• Can handle relationships with professional experts and advisors
• Will clarify what is being sold
• Has knowledge of the marketplace
• Can develop marketing strategies
• Has a database of prospects
• Understands the various financing options
• Has contacts with other competent business brokers
• Is an experienced negotiator
• Understands the emotional issues of the parties
• Acts as an intermediary between parties
• Coordinates and facilitates sell-side and buy-side activities
• Permits the seller to continue focusing on running their business
• Is not emotionally tied to the business, maintaining objectivity throughout the transaction

Who is Today's Buyer?

It has always been the American Dream to be independent and in control of one's own destiny. Owning your own business is the best way to meet that goal. Many people dream about owning their own business, but when it gets right down to it, they just can't make that leap of faith that is necessary to actually owning one's own business. Business brokers know from their experience that out of fifteen or so people who inquire about buying a business, only one will become an owner of a business.

Today's buyer is most likely from the corporate world and well-educated, but not experienced in the business-buying process. These buyers are very number-conscious and detail-oriented. They require supporting documents for almost everything and will either use outside advisors or will do the verification themselves, but verify they will. A person who is

What Do Buyers Really Want To Know?

• How much money will have to be I

• How much money will have to be Invested?

• What are the sales and what is the annual increase in sales?

• What is the Inventory?

• What is the debt?

• What makes this business different/special/unique?

• What defines the product or service? Bid work? Repeat business? One-time sales or service?

• What can be done to grow the business?

• What can be done to add value?

• What is the profit picture in bad times as well as good times?

• Will the seller stay a reasonable amount of time with a new owner

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• Will the seller stay a reasonable amount of time with a new owner?

realistic and understands that he or she can't buy a business with a profit of millions for $10 down is probably serious. They must be able to make decisions and not depend on outside parties to do it for them. They must also have the financial resources available, have an open mind, and understand that owning one's own business means being the proverbial chief cook and bottle washer.

Today's buyers are usually what might be termed "event" driven. This means that the desire to own their own business is coupled with a need or reason. Maybe they have been downsized out of a job, they don't want to be transferred, they travel too much, they see no future in their current position, etc. Many people have the desire, but not the reason. Most people don't have the courage to quit a job and the paycheck to venture out on their own.

There are the perennial lookers. Those people who dream about owning their own business, are constantly looking, but will never leave the job to fulfill the dream. In fact, perspective business buyers who have been looking for over six months would probably fit into this category. Business brokers spend a lot of time interviewing buyers. Here are just a few of the questions they will ask. The answers they receive will determine whether or not the prospective buyer is serious and qualified.

• Why is the person considering buying a business?
• Has the person ever owned their own business?
• How long has the person been looking?
• Is the person currently employed?
• What kind of business is the person looking for?
• Is he or she flexible in the kind of business?
• What are the most important considerations?
• How much money is available?
• What is the person's timeframe?
• Does the person's experience match the type of business under consideration?
• Who else is involved in the purchase decision?
• Is the person's spouse positive about owning a business?

There are other questions and considerations, but those cited above reveal the depth of a buyer interview. Business brokers want to work only with buyers who are serious about purchasing a business. They don't want to show a business to anyone who is not qualified, which is simply a waste of their time and the seller's time.

Benchmarks – How Your Business Measures Up!

Benchmarks can help a business owner look at the vital signs of his or her business and compare them to similar businesses. Benchmarks can be expressed as a percentage of sales: for example, a business's rent is 12 percent of annual sales, but the industry average is eight percent. The rent is pretty much a fixed expense, so there isn't much a business owner can do about it. However, it might pay to point out to the landlord that the average rent for this type of business is considerably less than what he or she is charging. Benchmarks can also be expressed as sales per employee, sales per square foot of floor space, etc. Most business owners can calculate their own figures by using common math, but finding comparable data may not be quite as easy.

A good source of benchmarks is BizStats at www.bizstats.com – an excellent site. Most libraries will also have business guides that can help. Many banks will have benchmark data in their commercial lending departments. Dun & Bradstreet is another source for benchmark data, as are industry associations. Business brokerage firms also may have benchmark data that could be helpful.

Here are the most common benchmarks used when comparing businesses(expressed as a percentage of annual sales) are: Cost of Goods Sold, Payroll/Labor Costs, Occupancy Cost, Profit (estimated)

Another important benchmark is based on employee productivity. For example, an AAMCO Transmission business should generate $3,500 to $4,000 per technical employee per week. If one is comparing one AAMCO shop with another, this can be an important benchmark. It would also be an important benchmark if one owned any type of transmission business. Here are some benchmarks for some well-known business types:

Type Of Business	Cost of Labor	Sales per Employee
Ice cream & soft serve shops	23.0%	$30,539
Donut shops	25.9%	$37,926
Drinking places	21.5%	$38,269
Convenience stores	9.5%	$109,481
Beer, wine & liquor stores	7.5%	$173,645
Gasoline stations	5.8%	$214,916
Book stores, in general	11.8%	$103,517
Misc. store retailers	13.0%	$103,733
Florists	21.3%	$52,359

Source: BizStats (www.bizstats.com)

Note: The figures include both full-time and part-time employees and do not indicate what they earn, but rather the sales they generate in a given year.

In addition to the above examples, BizStats contains many other benchmarks. Revenue per employee can be used to:

1. Check how a business stacks up against its peers, and
2. Provide an excellent way to see how the business can be improved – a valuable tool.

If, for example, the business doesn't stack up very well with the benchmarks, then an owner may want to see how he or she can increase sales and profits.

The following sampling also provides some rough rules of thumb for employee productivity benchmarking purposes. The number of employees includes both full-time and part-time employees.

Sales per Gross Square Foot

Another common benchmark is Sales per Gross Square Foot. Here are examples from some large restaurant franchises and chains. It provides a guideline of what these popular restaurants do. They can be compared to similar businesses to see how they stack up with these successful operations.

Company	Sales Per Foot	Av. Store Size	Av. Sales Per Store
Cheesecake Factory	$1,020	10,730	$10,940,800
Krispy Kreme	$859	4,600	$3,952,000
Papa John's	$575	1,300	$747,000
McDonald's	$543	3,000	$1,628,000
Applebee's	$454	5,000	$2,975,000
Panera Bread	$418	4,400	$1,840,000
Denny's	$270	4,800	$1,294,765
Schlotzsky's Deli	$147	4,000	$588,000

Type Of Retailer	Payroll as % of Sales	Sales per Employee
Automotive parts & accessories	15.6%	$129,024
Tire dealers	18.1%	$137,821
Floor covering stores	14.9%	$171,250
Camera & photographic supplies store	14.4%	$128,609
Nursery & garden centers	10.0%	$198,428
Children's & infants' clothing stores	10.2%	$99,699
Athletic footwear stores	10.5%	$118,111
Hobby, toy & games stores	09.5%	$128,746
Book stores, general	11.8%	$103,517
Florists	21.3%	$52,359
Gift, novelty & souvenir stores	14.2%	$69,574
Used merchandise stores	19.9%	$61,692
Pet & pet supplies stores	12.9%	$89,763
Vending machine operators	19.4%	$103,763

Source: BizStats (www.bizstats.com)

Benchmarking allows one to look at a business from an entirely different viewpoint. By using these tools, business owners can not only see how his or her business compares to similar ones, but will also be arming themselves with a good measuring stick for assessing where the business needs improvement.

Difficulties in Pricing Businesses

One of the major problems in pricing businesses, especially small ones, is the record- keeping of the owner. Most owners are "chief cook and bottle-washer." Maintaining the financial records is not necessarily high on his or her list. In many cases, the bills and receipts are tossed in an envelope and periodically dumped on a bookkeeper's or accountant's desk. From these documents, along with computer (or cash register) print-outs of sales, the accountant prepares tax returns, and, in some cases, monthly or quarterly income statements. The rub in all this is that the accountant can work with only what the seller provides. Small business owners are usually so busy running the day-to-day operations that they fail to spend the necessary time on the financial affairs of their business.

The sale of a business is usually "event driven." In other words, it is generally a specific event that forces, or, at least, pushes an owner into selling. Very few business owners actually sit down to consider selling and all that it entails. The event occurs; the seller calls his local business broker and announces that he or she now needs to sell. They want to know what it will sell for. The business broker says that before a price can be suggested, he or she will need to see the financial records. The seller scurries to his accountant and says that he needs his current profit and loss statements and the last three years' tax returns. The accountant promptly faints! When she wakes up, she tells the client that it will take a lot of time to go through the bag of receipts and bills.

When the financials are finally prepared or the tax returns given to the business broker, one thing is readily seen – the financial records or tax returns reveal that the business has not made much money over the years. After all, tax returns are not prepared to show a business in its best light. Noone, including the small business owner, wants to pay any more taxes that he or she has to. The focus shifts now that the decision to sell has been made.

Business brokers are very good at recasting or normalizing the financial statements or tax returns. They add back such items as depreciation, owner benefits, etc., and arrive at the "real cash flow" of the business. This number is used to arrive at a recommended or suggested selling price. For anyone selling a business, using the services of a business broker professional can make the difference between a successful sale and "giving away the store."

Selling a Business – How Long Does It Take?

A recent survey revealed the following about the length of time that selling a business requires:

Average time from putting the business on the market to time of sale:

Time Period	% of Businesses Sold in This Time Period
1 to 3 Months	9.7 %
4 to 6 Months	28.3%
7 to 9 Months	38.0%
10 to 12 Months	15.9%
13 to 18 Months	7.6%
19 + Months	0.7%

It took from four to 12 months to sell approximately 82 percent of businesses, with 38 percent falling into the seven- to nine-month range. Certainly some businesses sell more quickly, but at the other end of the spectrum, over eight percent are on the market for over 12 months.

Why does it take so long to sell a business? Price and terms are the biggest reasons. Not over pricing the business at the beginning of the sales process is a big plus, as well as a transaction structured to include a reasonable down payment with the seller carrying the balance. Having all of the necessary information right from the beginning can also greatly reduce the time period. Being prepared for the information a buyer may want to review or having the answers available for the questions a buyer may want answered is the key.

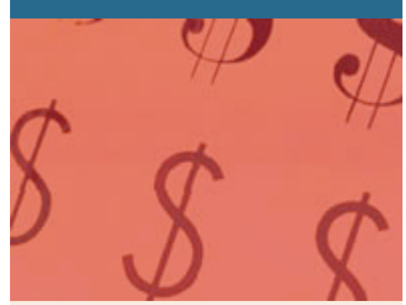
Here is the basic information that a prospective acquirer will want to review:

- Copies of the financials for the past three years.
- A copy of the lease and any assignments of the lease from previous sales.
- A list of the fixtures and equipment that will be included in the sale. Note: If something is not included, it is best to remove it prior to the sale or at least have a list of items not included.
- A copy of the franchise agreement if applicable or any

Here is an anecdote that is as accurate as it is old . . .

A Greek restaurant owner had his own bookkeeping system. He kept his accounts payable in a cigar box on the left-hand side of his cash register, his daily cash returns in the cash drawer of the register, and his receipts for paid bills in a shoe box on the right side of the cash register. When his youngest son graduated as a CPA, he was appalled by his father's primitive bookkeeping methods. "I don't know how you can run a business that way," he said. "How do you know what your profit is?"

"Well, son," the father replied, "when I got off the boat from the old country, I had nothing but the clothes on my back. Today, your brother is a doctor. Your sister is a speech therapist, and you're a CPA. Your mother and I have a nice car, a city house, a country house, and plenty of money for retirement. We have a good business and everything is paid for. Add all that together, subtract the 'clothes on my back,' and there is your profit."



agreements with suppliers or vendors.
- Copies of any other documentation pertaining to the business.
- Supporting documents for patents, copyrights, trademarks, etc.
- Sales brochures, press releases, advertisements, menus or other sales materials.

In addition, here are some of the questions that buyers may have. A prepared seller should have ready answers as well as the information to support them.

- Is the seller willing to train a new owner at no charge?
- Are there any zoning or local restrictions that would impact the business?
- Is there any pending litigation?
- Are any license issues involved?
- Are there any federal or state requirements, or environmental OSHA issues that could affect the business?
- What about the employee situation? Are there key employees?
- Are there any copyrights, secret recipes, mailing lists, etc?
- What about major suppliers or vendors?

Small businesses are usually financed over 5 to 10 years. Debt service (the amount owed by the buyer to the seller) generally does not exceed 25 to 30 percent of the annual cash flow. The remaining balance is for the buyer's personal cash requirements. The numbers have to make sense – for both parties.

A prepared seller is a willing seller and having the answers to the above questions can significantly reduce the time it takes to sell a business. Using the services of a professional business broker can also greatly reduce the time period. They are knowledgeable about the current market, how to market a business and they can advise a seller on price and terms. They can also recommend professional advisors, if a seller doesn't have them already. Using advisors who are transaction-experienced can also shorten the time it takes to close the sale.

Valuing Your Business: Look in the Mirror

When business owners asks that familiar question "What is my business worth?"—they might find the best answer in the mirror. Of course, there are also the financials to be considered, but numbers will not tell the whole story. Nor will goodwill. The true value of a business can be best determined by looking at the person at the helm—themselves.

As the owner of a business, ask some hard questions of yourself. How do you measure up when it comes to attitude, management strategy, customer-service smarts, and community relations? Take the following litmus test and see if you make the grade.

1. Do You "Think Positive"?

Are you so focused on the bottom line that you forget to look at the clouds from time to time? Owning a business is the acknowledged American dream, yet many business owners allow themselves to get bogged down by the harshest sort of reality. They neglect to keep the dream alive, to think positively about the business today and tomorrow. In our technological world, it's easy to forget the importance of having the right attitude. If business owners aren't positive, how can they expect customers and employees—and at some point, prospective buyers—to be? The owner who sees only the downside of the business will probably not see it turn upward again. Of course, there are always the real-life factors: banks that won't lend, customers who stop buying, services that become obsolete. However, if these problems didn't exist, the negative-thinkers would find a whole new set.

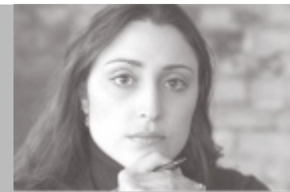
If you feel you could do with some positive polish—begin with just that. Spiffing up the place of business with fresh paint, newly cleaned carpeting, well-stocked shelves, a cheerful potted palm or ficus—just to name a few improvements—will speak volumes about the state of the business. Less visible, but equally key, is a positive plan for the future of the business. Business owners should be prepared to spend what it takes to generate new business, and should take the time to explore new possibilities for long-range success. If the company currently has no mission statement or business plan, creating one will be evidence of the owner's enthusiasm for the future and for the ongoing success of the operation.

2. Are You a Macro or a Micro Manager?

In today's workplace, with a manager hovering at every corner, it is difficult to keep an eye on the big picture of the business. When an owner is managing every manager, and shuffling paperwork at his desk all day, he is estranged from the big outside world of the business. Owners should occasionally take time off to work the floor, drive the delivery truck, and sell the product. Owners who put themselves in the trenches are in touch with the business, and this first-hand understanding will be evident to anyone who assesses its value. Part of being a macro, big-picture manager is preparing for contingencies. The value of a business increases dramatically when the owner demonstrates appropriate delegation of duties and provides a backup managerial plan. If the owner is the business, and personal disaster should strike -- the answer to "What is the business worth?" is not a felicitous one.

3. Do You Smile When You Say "Customer Service"?

Do you avoid treating a customer like a number? If not, follow the lead of successful mail-order operations, such as L.L. Bean, who ask for the proper pronunciation of a customer's name and who do not automatically address him or her by their first name. Basic up-front courtesies are important, but they do not supplant other customer service virtues such as patience and willingness to problem-solve.



Questions Sellers Need to Answer

The first, and most important, question sellers must ask themselves is: ***"Do I really want to sell my business?"*** Sellers must also be prepared to answer the following questions, since buyers will want to know the answers.

- **Why do I want to sell?**
- **What makes the business successful?**
- **What is its competitive advantage?**
- **How dependent is the business on one person?**
- **How would a new owner grow the business?**

Sellers also need to decide on specific comfort levels concerning price and ask themselves the following:

- **What is the bottom price for the business I can live with?**
- **What is the lowest down payment and terms I can accept?**
- **What is not negotiable and what am I willing to concede to make the deal?**

Whether products and services are sold by phone or on the floor, employees should be up to speed on what they're selling. Nothing sparks a sale better than a salesperson with hands-on knowledge and expertise. This works for companies as large as L.L. Bean (whose employees seem to have Ph.D.s in every item in their catalog) or as small as a neighborhood bistro, where the waitperson can explain every nuance of sauce or vintage of wine. Every hour spent training employees in the product pays huge dividends for the business's long-term success.

4. Are You "Out There" with Community Relations?

Business owners need to keep their company's image "out there" and visible to the public. Advertising can build image at the same time it attracts business. A display ad within the yellow pages listings, a monthly newsletter (hard copy or on-line), the offering of free seminars, for example, are ways to position the business as more than just the sum of its products. An example of a business owner with multi-faceted image-making skills is a caterer in Asheville, N.C. She dishes up the city's best lunches and dinners-to-go—or to eat with obvious relish at the small tables she sets out on the sidewalk. She sends out a monthly newsletter with recipes and manages to snag appearances on radio programs to talk about her commitment to buying local food. When Garrison Keillor's "Prairie Home Companion" (a production of Public Radio International) came to town, she volunteered to cater for the cast and crew, and they ended the program by having her stand for huge ovation. Her small store-front operation had a line the next day that wound around the block.

For the less adventurous, or conspicuous, there are plenty of conservative ways to promote the business and its owner. Taking an active role in the Chamber of Commerce or in trade or service associations, and sponsorship of worthy local events is great public relations. In addition to the more traditional public donations—providing kids' sports team uniforms, taking out ads in yearbooks—employees can join hands for walkathons, or volunteer to work the phones for public TV or radio fundraisers. Being a good community partner is good for the business and for the workers. It's also great for that reflection in the mirror that takes us back to where this discussion began.

The Listing Agreement

When it comes time to sell, and you are discussing the process with your business broker, the term "Listing Agreement" will surface. Very simply, a Listing Agreement is a written agreement in which a seller authorizes an individual or company to sell their business. It is basically an employment agreement. The agreement may employ a broker to represent the seller in the sale of the business, which

Sellers should also give some thought to who might be the best buyer. Who might be willing to pay the highest price? Is it someone who is looking to go into business for the first time? Is it the competitor in the next town? By answering these questions and arriving at satisfactory answers, sellers are off to a great start in selling their business successfully!

One other important thing: There are some sellers who think they can run a cash business without reporting all of the income, and yet expect the buyer to recognize this unreported income. Buyers are not going to! There are also some sellers who run their business in such a way as to just show minimal profits, but do show a maximum number of "perks" (with many carefully hidden), and expect the buyer to pay for "recasted" or "phantom" earnings. That's not going to happen either.

Some sellers also bend the tax laws to avoid paying taxes. If the seller cheats the government by avoiding taxes, then the buyer may also assume that the seller will somehow cheat him or her in the transaction.

Nothing impresses a buyer more than a clean set of financials. The seller may actually receive a better price and terms by allowing a buyer to see exactly what the books show and not trying to sell "the off-book" income. If the business does better than the seller's financials showed, a happy buyer will be the result. A happy buyer will make the payments on time or maybe even a bit early, if the seller is financing the sale.

means the broker is the agent of the seller. Some states provide for a Transaction Agreement, which means that the broker doesn't represent anyone, nor is he or she an agent of either the seller or the buyer. Regardless of the terminology, the purpose is the same. The seller wants to sell the business, and the business broker is supposed to sell it. The agreement essentially should cover the following areas:

- **The employment**
- **What is being sold**
- **The selling price**
- **A specified time period**
- **What the seller agrees to do**
- **What the business broker/ intermediary agrees to do**
- **What the broker's fee is and when it is to be paid**
- **Safety provisions protecting the parties**
- **Any miscellaneous provisions**

All agreements should be read carefully. However, a seller must sell the business and pay a brokerage fee only if a buyer is procured who is ready, willing, and able to buy the business at exactly the price and terms stated in the listing agreement.
Professional business brokers almost always expect a seller to agree to an exclusive listing. This means that the business broker you chose to work with will be the only one handling the sale of the business. If the business sells during the listing term, the business broker is entitled to the fee outlined in the agreement. Most agreements also provide that if any prospective buyer who was introduced to the business by the broker during the term, buys the business for a period of time (usually a year) after the listing period, the broker is still entitled to the fee.

The reason for exclusivity is that business broker professionals spend a lot of time, effort, and money in attempting to sell a business. The bulk of the business brokerage firm's income is earned only when – and if – the business sells. Professionals avoid working with a seller who is not serious about selling or who doesn't have confidence in the business intermediary they have chosen to sell it. Sellers should expect the brokerage firm they have selected to do everything necessary to sell their business at the highest possible price.

Remember, buyers are only willing to pay for what the seller can prove, not for what a seller says the business does, or can do.

Who Wants It Most?

If the business is priced fairly, the final sales price will be influenced and ultimately determined by whether the buyer wants to buy more than the seller wants to sell. In other words, it is the marketplace that ultimately determines the selling price of the business.

For many owners, selling their business is a new experience, and there is always the fear of the unknown. Selling a business is not only a major economic decision but also can be an emotional one. After all, many business owners have spent many years, and a lot of hard work building the business. When the decision to sell is made, there will inevitably be accompanying concerns. However, when faced head-on these concerns can usually be addressed and resolved. Here are some of the major concerns and ideas on how to deal with them.

Getting the Highest Possible Price

Every seller wants to get the highest possible price for their business - that's a given. Here is an old, but very accurate definition:

What Buyers Think

Many buyers think that the business they buy should be able to pay for itself. They are wary of sellers who demand all cash. Is the seller really saying that the business can't support any debt, or is he or she saying that the business isn't any good and I want my cash out of it now, just in case?

The Asking Price is what the seller wants.

The Selling Price is what the seller gets.

The Fair Market Value is the highest price the buyer is willing to pay and the lowest price the seller is willing to accept.

Today's buyers are more educated, more sophisticated, and more demanding than ever before. They seem to be searching for a "sure thing" - yet, many are afraid to make the leap-of-faith necessary to make the final plunge. Buyers are also more numbers conscious than in prior years. Somehow they think they can buy a business and continue with business as usual.

Sellers, on the other hand, must understand that the buyer may buy with an eye to the future, but is only willing to pay for the past performance of the business. The buyers believe that the future of a business is up to them and they should reap the benefits of their efforts. The value or price, however, in their minds, is based on what the seller has done with it.

In order to obtain the highest possible price, the seller should make sure that the financial records are crystal clear. Any issues, whether financial, operational, legal, or environmental, should be addressed and resolved prior to putting the business on the market. Hidden issues have sabotaged more sales than anything else.

This may seem a contradiction, but the seller must go to market initially with a fair price. Too many times, a seller's first inclination is to start with a very high - and - unreasonable price. They may feel that the business is really worth what they are asking and may be unwilling to accept the fact that the price is unreasonable. The thinking is that an interested buyer can always make an offer. Interested buyers will feel that the price is so high that a fair offer would not even be considered. A professional business broker can advise buyers on what is reasonable and what is not.

Seller Financing

Another important factor relating to the asking price is the amount of cash involved in the sale. There is an old

saying that the higher the full-price, the lower the
vice-versa. The sale of almost any business involves
financing. The smaller the down payment, the higher
sale. No seller wants to take back his or her business
wasn't successful. On the other hand, a buyer wants
the business will not only pay for itself, but also

A Valuable Service

Screening and qualifying buyer prospects is perhaps the business broker's most valuable service. Business brokerage industry statistics indicate that over 90 percent of buyer prospects who call on business-for-sale ads are unqualified for some reason. The successful business broker survives by mastering qualifying and screening techniques!

down payment - and
some seller
likelihood of a quick
because the buyer
to make sure that
provide sufficient
income for his or her
family's needs.

What it all boils down to is that the seller wants the buyer to be successful and the buyer wants to buy a successful business. With the amount of capital required in today's market to buy a business, sellers should feel optimistic that they are dealing with successful buyers.

Maintaining Confidentiality

Confidentiality is always a major concern. Sellers feel that maintaining confidentiality is important in safeguarding the current business. They don't want the word to leak out to customers, suppliers, competitors - and especially the employees. This is an area where a business broker professional can especially help. They use non-specific descriptions, screen and qualify buyers and require buyers to sign confidentiality agreements before showing businesses or providing specific information.

However, even under the best of circumstances, rumors can fly. There are basically two ways sellers can muffle the business-for-sale problem. The first is to explain that over the years there have been people who have inquired about whether the business might be for sale. These inquiries are unavoidable and they do happen.

The other way is to handle the matter directly and to explain that you have been considering retiring and now may be the right time. The employees, especially the key ones, should be told prior to putting the business on the market so they don't hear the rumors second-hand. They should be told that they are very important to the business's success and that a new owner would most likely be happy to retain them. When the sale is complete, they can be offered a bonus for helping in the process. Sellers should do whatever it takes to keep the employees from deserting the ship and on deck to maintain business as usual. Once employees have been dealt with openly and fairly, they will understand that discretion will help protect their future.

The Future of the Business

Sellers may feel that they have built the platform for the future growth of the business. It is only natural for them to want to share in any extraordinary profits in what they feel they have helped create. Sometimes, if the price is low enough and it allows a buyer to purchase the business, he or she may be willing to provide some type of earn-out or royalty based on any substantial increase in sales. The professional business broker can offer advice on how to make this work for everyone. However, everyone has to agree that no one can predict the future. As mentioned earlier, the buyer is hoping to buy the future, but is not willing to pay for it.

Ginger Woolley opened her Adventure Time day-care business in 1985 with 15 children in her care. For the next 18 years, she welcomed more children into her arms and grew to care for 150 children daily. Her staff grew to 50, and she landed contracts to operate programs in public schools and government facilities.

After 18 exhausting and fulfilling years, she hesitantly began thinking of selling. Her parents were needing more assistance, and at age 51 she began facing her own health problems. She talked to several business brokers and decided to list her business with Alpine Business Brokers,

"Within a week of posting my business for sale on the internet, I had four potential buyers," Woolley says. "I was able to choose somebody out of those four potential buyers who would honor the kind of quality that we had built and someone who wanted to keep me in the picture as a consultant."

Woolley, of Provo, ended up getting her asking price, but more importantly to her, she got someone who would continue to provide good care for children. "It helps me feel that I didn't totally turn my baby up for adoption -- it was an open adoption." She says. "When you birth a business, and then raise it through its preschool, toddler and school years, it would be sad to see it go downhill."

The sale of Adventure Time went through in August of 2003, and Woolley says the process included more variables than she expected. "For example, finding a stopping point for my payables and receivables," she says. "In the end, all potential grievances were eliminated by clear accounting of what monies go to whom."

Woolley's positive experience was based largely on how she entered the process. "She had realistic expectations about her business," says Neal Westwood, business broker with Alpine Business Brokers.

SELLING A BUSINESS

Bad days often prompt business owners to threaten to sell the business. But they should also think about selling on good days. the best time to sell your business is at the peak. Westwood says, Although this can be difficult to determine, the right time to sell is when momentum is building.

Although Selling a business has obvious benefits, Westwood says he is surprised at how many business owners close their businesses and walk away when they are ready to retired. "We find that many business owners don't know they can sell, and they simply sell their inventory and walk away from potentially hundreds of thousands of dollars," Westwood says.

Some business owners simply need to be educated on the selling process. "If I pick up the Yellow Pages and start talking to business owners about the possibility of selling, I find that one in four says they will be thinking of selling," Westwood says. Nationally, one in five businesses is for sale. Of those for sale, one in four will actually get sold.

FOR SALE - THE NUMBERS TELL THE STORY	
7 MONTHS - Amount of time the	**80 PERCENT** - Number of buyers who end up buying a different business from the one

average business takes sell. **1 IN 5 -** Number of existing businesses that are "for sale" at any given time. **1 IN 4** - Of the businesses that are for sale, only one in four nationally actually get sold. **1 IN 6** - Number of businesses that change hands each year. **82,000** - Number of privately-held businesses in Utah.	they thought they were interested in. **85 PERCENT** - Number of buyers who are buying a business for the first time. **87 PERCENT -** Businesses will typically sell for 87 percent of the list price. If a seller desires all cash up front, he typically gets 70 percent to 75 percent of the asking price.