Fulton Bank

SELLING YOUR BUSINESS CHECKLIST

If you're thinking about selling your business, it's important to first work through the details that will help you maximize your price and make your business more attractive to potential buyers. Use this handy checklist to make sure you've got everything covered.

1. Prepare your business

- [ ] **Decide when to depart**

Plan well in advance and consider family, finances, your health, any business goals you've yet to achieve, and the state of your industry. If you wait until you are ready to exit, you might spend several more years working before you can actually leave. Choosing an exit date early on, even if it is an estimate, will help ensure you can depart when the time is right.

- [ ] **Check all legal and accounting issues have been resolved**

A new owner won't want to take on any unresolved legal or accounting problems that could make their first few months in business more difficult than they need to be.

Make sure any legal or tax disputes are settled. You'll want to advertise a problem-free business to attract as many potential buyers as possible. Discuss any issues with your attorney, accountant and banker.

- [ ] **Make sure any leases are ready for a new owner**

Ensure any leases have been formalized in a way that's acceptable to you and your likely buyer. Re-sign or extend your lease if location is critical to your business. Notify the owner of the property that you're considering selling and that they are happy to assign the lease to a new owner.

- [ ] **Have maintenance tasks up to date**

Paint what needs to be painted, fix anything that's broken, and repair or replace damaged assets.

The goal is to get your business environment looking clean and sellable so you can attract more buyers into taking a closer look. If you need to, get extra funding to get your business up to standard.

- [ ] **Solve any environmental issues**

If your business has any environmental problems, they would be best addressed before going to the marketplace. Buyers may lose interest in your business opportunity if there are unresolved issues.

- [ ] **Check your business is compliant**

If your business operates in an industry that requires licenses or is regulated, then it's critical that you comply with everything that is needed to run the business. List what these are, when they are due for renewal, or what the business has to do to maintain an easy operation.

This includes health and safety for you, staff and customers, noise or pollution controls, and environmental or cultural restrictions.

2. Check your financials

☐ **Ensure your accounts are in order and check their accuracy**

Have all your accounts up to date and accurate to show your business's value and to give a true presentation of profits. You'll want your accounts to show a well-run business.

Double-check to make sure you've included everything. Speak with your accountant and get them on the task if your accounts are in poor shape.

☐ **Gather together your last three years of financial records**

Potential buyers will be interested in the last few years of your business's accounts, particularly sales and profit figures, so they can examine business performance. They'll also want to know if your business is turning over stock quickly and showing future profitability.

☐ **Highlight any unusual items**

You should be able to explain any unusual items such as discontinued operations (like recently shutting down a unit) or a change in accounting principles, so everything is out in the open for potential buyers.

Make sure your accountant reviews any unusual items on your books so you can explain what they are.

☐ **Document key drivers**

Outline for the new buyer what financial ratios or key performance indicators you use to track success. If you don't have these in place, now is a perfect time to implement these systems so you can demonstrate what drives your business success.

3. Talk to the people that need to know

☐ **Confide in your family**

At some stage you should inform your family, friends or any dependents that you're considering selling. It's even more important if you intend to retire. You may not need to tell them immediately, but the more people that support and agree with your decision to sell, the better.

☐ **Speak with your staff about your sale plans**

It's very important that you manage your staff well during the sale process so they remain on-board, especially key management that help run the business. A new owner is likely to want to retain any staff that add value to the business (and remove those that don't). Get professional advice early about handling the transition of staff and management.

☐ **Involve your key personnel in the sale process**

Discuss the sale with any staff members when the time is right. They will likely be contributing to the future success of the business so it's important to keep them informed so they don't get discouraged and go searching for other work.

Set up an informal meeting to discuss your sale plans going forward when the time is right.

☐ **Get professional advice**

Your professional advisors are critical before, after and during the sale of your business. Make sure you've got the right lawyer and accountant on board who can give you the right advice at the right times.

Speak with them as soon as you can as it may take a number of years before you finally sell. There will be issues to solve around tax, possible inheritance, shareholding, contracts and leases.

☐ **Prepare confidentiality agreements**

You may not want news that your business is for sale to be made public until you are ready. Staff, suppliers, competitors and customers will all react differently when they hear your business is for sale.

If you do need to inform anyone that you're selling, reduce the chance the person will tell others by preparing a confidentiality agreement for people to sign. It should at least deter anyone from breaching confidentiality.

☐ **Decide whether to use a broker**

A business broker can help you to package your business in an attractive way and use their network to uncover potential buyers. A good broker can also take enquiries from potential buyers without ever mentioning your business's name.

Search for one who's knowledgeable about the marketplace and your industry and has the skills and time to help market your business for sale.

4. Add value to your business

- [ ] **Consolidate any contracts with long-term customers**

Customers are the lifeblood of most businesses, so secure any long-term contracts with regular customers to help increase the perceived value of your business.

A new owner wants to know they'll have support from the existing customer base.

- [ ] **Firm up any supplier or distributor agreements**

Document any favorable terms with your supplier(s) so you can lock them in for the future benefit of the business and the new owner.

Likewise, if you have agreements with distributors, secure them if they'll increase the value of your business in the eyes of buyers.

- [ ] **Sell off any redundant assets**

Depending on the condition or age of certain assets, you may be better off selling them rather than leaving them on a new owner's books. Potential buyers won't want to pay for old or obsolete assets.

Sell dated or surplus stock to demonstrate you run an efficient business. This will help maximize the value of your business and maintain the confidence of potential buyers.

- [ ] **Reduce shrinkage and decrease expenses**

Do a quick review of your expenses to see what can be tightened up. For businesses that deal with a lot of physical stock, shrinkage can be a huge expense.

Aim to reduce any inventory before taking your business to market, so potential owners will view the business as efficient with little wastage.

- [ ] **Build a comprehensive customer database**

Possibly the main reason a person buys another business is for the existing loyal customers who come back again and again. If you haven't already, start collecting customer names, addresses and emails and set up loyalty or reward programs. Start or improve how often you make contact, using automated software.

If you can demonstrate a large portion of your sales comes from happy repeat customers, it adds value be reassuring the new owner this revenue stream is likely to continue after the sale.

- [ ] **Develop an operating manual**

Start documenting everything you do in the form of an operating manual. This will contain all the working guidelines, policies and procedures to effectively run your business. The best way to write the manual is to imagine you wanted to franchise your business, to document the way things are done that may be in your head. For example details of how the work is carried out, invoicing, shipping, which marketing tactics work best, how you keep your best customers and any systems you have developed for efficiency.

An operating manual increases the value of your business as it helps the business become more of a turn-key operation.

- [ ] **Create a marketing plan**

Outline how you get new customers and keep them coming back. A buyer will want to see a business that has tried and tested ways of generating new customers (it's possibly the reason why they are interested in buying).

Profile your best customers, identify any new markets and where you see the future of the industry.

Document your advertising campaigns, social media activity, marketing automation and planned promotions.

5. Gather all your paperwork

- [ ] **Draw up a comprehensive asset list**

An asset list will show a potential buyer exactly what is being sold and the value of each item. Make sure your assets all have a purpose and you're not being seen to offload old or obsolete equipment.

- [ ] **List your intellectual property (IP) rights**

You may have protected your business's name or logo with a trademark, patented a new product or process, or safeguarded a trade secret. Discuss them with potential buyers so they can get a clearer idea of how beneficial they are to the business.

If you don't have any IP consider registering/protecting what you do have, to increase the perceived value of the business when it comes time to sell.

- [ ] **Document copies of licenses or permits**

Your business may require specific permits or licenses to operate legally. Ensure you inform prospective new owners of these ongoing regulations so they don't run into problems down the road.

- [ ] **Disclose any operating requirements**

Your company may have to meet certain operating requirements or comply with certain laws in order to continue doing business (for example, preparing and handling food).

Make these requirements available for potential buyers to browse over and consider. Also organize any government and tax forms they may need to complete.

6. Identify and approach possible buyers

- [ ] **Define your potential buyer**

Try to profile your likely buyer. What do they do? Are they entrepreneurs or will they be first time business owners? What are their interests?

Outline what you expect your potential buyer to be like, to help you position the business to appeal to them.

- [ ] **Create interest amongst these prospective buyers**

How will you market your business to the type of person you expect to buy it? You'll need to generate interest in your opportunity while also being careful to keep the upcoming sale confidential.

Speak with your accountant, lawyer, broker, banker and other advisors to form a plan.

- [ ] **Decide on a fair sale price**

Calculate a fair price that will get buyers interested and will gain you a worthy profit for all your hard work in the business. There are a number of ways of valuing a business, so make sure your expectations match the actual value. Talk to anyone in your business network who've been through the selling process before and try and identify any market valuation rules.

This is another time when seeking expert business advice in valuing your business is important.

- [ ] **Anticipate buyer requests**

Think about what your target buyer will probably ask about you and your business. Questions will revolve around why you are selling, who the main customers are and what are the future trends. They may question what you intend to do once you've sold: a common request is for you to sign a non-compete agreement, so you're less likely to open up a similar business nearby.

- [ ] **Prepare the sales agreement**

In conjunction with your professional advisors, get a sales agreement drawn up. It's the key document for buying the assets and goodwill of your business so make sure it's accurate.