# Top 10 Mistakes Business Owners Make When Trying To Sell Their Business

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### Top 10 Mistakes That Seller's Often Make

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### 1. Lack of a Firm Decision to Sell

If you have not deliberated and come to the firm decision that you are going to sell, don't start the selling process. The reason for selling your business must be firm in your mind and you must have determined that you are going to go through with the process. Most sellers are motivated by reasons other than money. For example: retirement, sickness, family pressure, burn-out and the like. Money and the right price are important, but if you are not mentally prepared to sell, then do not do it.

### 2. Sale Timing Not Right

There can be a substantial variation in selling price depending upon the business cycle or the profit cycle of the particular business. All things being equal, you should sell on the upside of the business cycle, near the top or just after a record year of profit.

### 3. Inadequate Financial Records

Private businesses' accounting records are kept to minimize taxes whereas public companies' records tend to maximize earnings. If tax records are the only ones you keep, your company is going to show minimum taxes (and minimum earnings). This makes for low valuation. The answer isn't to pay more taxes; it is to keep records so that they can be recast to show the earnings and cash flow attributable to the business. Unusual expenses should be kept in separate accounts or religiously logged to allow future recasting. This should be done even if you are not contemplating selling now. Buyers typically recast the previous 5 years. Are you positive that your business will not be transferred in the next 5 years?

### 4. Lack of a Marketing Plan

Buyers buy based on their perception of the future earnings of the company. Therefore, as a part of the evaluation process the buyer will like to see a marketing plan. The seller is much better positioned to project market and cost information than the buyer. A marketing plan, with well-reasoned and documented market and operating information will go a long way in highlighting to a buyer the long-term future prospects of the company. A marketing plan is a way of documenting the future. It can mean a selling price based on future expectations rather than past history.

### 5. Wrong Price

Too high is bad; too low is bad. If the price is too high, buyers don't think you are serious and won't investigate the opportunity. Ultimately, the offering becomes shop-worn and has to be taken off the market or dumped below the market. If it is too low, you will leave something on the table. Most sellers do not know what the market value of their business is. How does one find out? Ask an investment banker or business broker that is experienced in selling your type of business.

### 6. Demanding All Cash for the Deal

The issue isn't "all cash." The issue is getting paid. Buyers will pay substantial premiums for seller financing. Sellers should listen and evaluate seller financing proposals. Some sellers say that they are not going to sell to anyone who uses the profits of the business to pay for the business.

Unfortunately, these sellers will never sell the business. Buying a business is just like buying a piece of equipment, it has to pay for itself or the buyer doesn't buy it.

### 7. Lack of Proper Qualification of Prospective Buyers

The first two questions a buyer asks are: "Why are you selling?" and "What are your financial results?" You should ask prospective buyers the same equivalent questions. "Why are you buying?" and "What is the financial status of the buying entity?" If the buyer doesn't have the financial wherewithal to buy your business, don't spend your time talking to him/her. A favourite strategy of buyers is to say that they will produce their financial statement when the time is right - or that they have a partner that is putting up the money. These excuses mean that the buyer doesn't have enough money to buy your business. Make the buyers produce their financial statements and any information that you need to run a credit report, D&B or other checks that might be necessary for your particular situation. Serious, qualified buyers are happy to produce the information you need to check them out.

### 8. Selling to the Wrong Buyer

Both the buyer and seller have to be enthusiastic about the deal or chances are it won't go through. Or, if it does go through, chances are that it will turn sour. If the chemistry is not right with the person you are dealing with, terminate the negotiations. Another mistake sellers make is selling to employees. Employees seldom pay full price for a company. It is an unusual case when an employee has the money to buy the company. This means that the seller is at extreme risk in getting paid. The best buyer is a synergistic buyer that fits with your company. The best transaction for the seller is when two or more synergistic buyers actively vie to purchase the company.

### 9. Negotiating Too Hard

You should negotiate hard, but not to the last dollar. It is better for the seller that the surviving company be successful. A skillful negotiator will work to have a win-win situation where everyone leaves the transaction happy.

### 10. Trying to Sell It Yourself

Selling a business is a complex legal, financial, time consuming process. There are buyers to be found and qualified; there are prospectuses to be written. There are hundreds of issues to be resolved in negotiations. For example, stock vs. asset sale, allocation of the price, security agreements, confidentiality, employment agreements, covenants not to compete (term, geography and technical limits included), definitive agreements, earn-outs, royalties, guarantees, warranties of buyer and warranties of seller, valuations of equipment, inventories and accounts receivable, recapture of depreciation, tax responsibilities, bulk sales law, buyout of minority stockholders, assumption of leases, removal of seller debt guarantees, seller financing, default provisions, fraudulent conveyance, post sale responsibilities of seller and on and on.

And, while all this is going on, the company must continue to run and confidentiality about the potential sale must be maintained. The solution is to get experienced legal, accounting and deal-making advice early in the process.

***CORRECTING THESE MISTAKES BEFORE YOU SELL WILL MEAN HIGHER VALUE RECEIVED AND A SMOOTHER MORE TIMELY TRANSACTION WHEN YOU SELL YOUR BUSINESS.***

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If you found this information useful and you'd like to find out more about how we can help you sell your business for maximum value, please call us on 1-780-469-4769. You can also email us at info@vralta.com or visit our website at www.vralta.com.

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## About Us

VR Business Sales has attained the position as Alberta's market leader in the sale of privately owned companies. Our clients choose us because, through our proprietary marketing process, we are able to sell small and mid size businesses for its maximum value than are typically achieved. Since 1979, VR has built up a reputation based on trust, integrity and mutual respect.

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