5 Things to Focus on When Prepping for a Business Sale

We often hear from business owners asking how to best prepare their company for sale. Generally speaking, you're likely already doing much of what's needed — staffing appropriately, boosting profitability, maintaining growth, ensuring a healthy pipeline, etc. You're the expert at running your business, there's little value we can add in that arena.

That said, there are a handful of basics that can apply to any business, helping to smooth the selling process while increasing your company's value.

1) Clean Up the Books

First and foremost, keep clean financial records — by month, if possible. The cleaner they are, the smoother the selling process will be. Accounting or bookkeeping may not be your forte. This might be an area where it makes sense to outsource. This will aid in a few ways.

- Ease of Analysis: Revenue source can be interpreted, associated COGS or COS can be assessed, and a buyer will be comfortable knowing the margins presented are accurate and true.
- Benchmarking: How does your business stack up to competitors? By allowing painless analysis, it's much easier to compare the business performance to industry KPIs and metrics.
- Offer Validity: Being able to comprehend the numbers will lead to confident buyers. The offer submitted can be seen as tried and true.

It's important to note this is more than fixing negative expenses, or simple reclassifications. Where appropriate, try and limit the amount of personal expenses that are run through the books.

2) Diversify the Client Base

Avoid putting your eggs in one basket. This is a business practice that's generally accepted, but intensifies with a business sale. High client concentration can be a red flag for potential buyers, signaling a higher risk if a major client leaves. Ideally, no single client should account for more than 25% of your revenue.

Diversifying your client base in a few-year window may be unrealistic in some cases. Other ways to mitigate risks are to consider long-term contracts or offering additional product/services to become so integrated it's painful for the client to leave.

3) Work Yourself Out

Buyers like to see that your business can thrive without you at the helm, which means delegating responsibilities, offloading client POCs and building a strong management team. Establishing a management layer that can handle day-to-day operations is important. Ask yourself if you can take a two-week vacation without worrying about your business; if the answer is no, work to delegate more. Additionally, ensure all processes and procedures are well-documented and not entirely in your head.

Of course, every deal will include a transitionary period of knowledge transfer — so look at these tips as ways to minimize that period. By reducing your involvement, you make the transition smoother post-sale and can attract better, less complicated offers.

4) History of Stability and Growth

More obvious but worth noting — a track record of steady growth is attractive. Choppy revenue trends lead to an unpredictable interpretation of the business. Sensitivity will vary depending on the business model. Regardless, a line moving up and to the right speaks volumes on the potential of the business post-sale. More than three years of this trend is best. Be transparent about any anomalies; selling during a period of unusually high performance due to one-time projects can lead to renegotiations later.

Bare minimum, keep a stable ship. Downward trends will merit many questions and can potentially ding value.

5) Ground Your Expectations

Having realistic expectations about your business's sale price is crucial. Network with industry peers, consult experts, and talk to brokers or investment bankers who have handled similar transactions. Understanding what similar businesses are selling for helps you align your expectations with market realities, preventing disappointment and facilitating smoother negotiations. Grounding expectations will result in a smoother sale process.

Take a Step Back

The best way to gauge the salability of your business is to step back and view it from a buyer's perspective. Consider what would make you nervous and what your non-negotiables would be. More often than not, you'll come to the same conclusions as a potential buyer.

Preparing your business for sale involves more than maintaining profitability; it's about making strategic changes that enhance its attractiveness and value to potential buyers. Focus on these key areas, and you'll be well on your way to a smooth and successful sale.

If you're interested in selling your business with a trusted advisor, contact Vista Business Group today at (913) 944-2285.

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