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presents

Eight Common Transfer Mistakes by Business Owners

Selling or transferring a business is something many owners either want to do or are forced to do. Naturally, you want to make top dollar from the transaction. The easiest way to do that is to avoid the most common mistakes that all sellers make.

1. Not interviewing several experienced professional M&A Intermediaries.

A national survey reported most sellers interviewed one sales person before listing their business. The next group of sellers interviewed two. The first sales person in the door is the most likely one to get the listing of the business. By interviewing only one or two marketers, you are only assured of meeting the most aggressive agent, not necessarily the one with the best marketing plan for you and your business needs. Lastly, most sellers called a "real estate agent" or "business broker" thinking they are experienced as mergers and acquisitions Intermediaries. While licensing requirements may be the same in some states, they are three entirely different careers and disciplines.

Trusting one of your most guarded assets to the first person you meet simply isn't the way you grew your business, so why start now?

- 1.1 Not recognizing the value of an objective professional business valuation and /or real estate appraisal.
- 1.2 Not preparing to market the business in multiple categories.
- 1.3 Not utilizing an experience multiple category marketing negotiator.
- 1.4 Not preparing and negotiating tax considerations.
- 1.5 Not utilizing the professional with current expertise with negotiated tax considerations.

2. Choosing a business broker based on how high he or she is willing to list the price of the business.

After showing you a financial business analysis, examining your business, assets, books and records, viewing your competition in the marketplace, your business broker should have a pretty good idea how much and how quickly your business will sell.

But many business owners have their own ideas. They want top dollar whether the business warrants it or not. To get the listing, a real estate sales person or business broker may sense this and play to your ego. Why? Because they can't lose - even if he or she doesn't sell your business.

The broker also knows that after the business doesn't sell, he can come back to you (He'll skip the "*See? I told you so!*" part) and you will allow a price reduction. Then the business will sell. The problem is that when you are forced to reduce the price, you will likely end up with less than if you had priced it correctly in the first place.

Why? One of the things buyers consider when they shop for a business is how long it has been on the market. If it has been too long, they think "overpriced" or now it's time for a "bargain." Odds are you will be offered a significantly lower than what the broker should have priced your business for in the first place.

3. Choosing a business broker who advertises only in local markets

Many business brokers and M&A Intermediaries are still fighting progress tooth and nail, and they still aren't ready for the Internet or any other kind of national, let alone international marketing campaign.

Business sales do occur at the local level, but there are also many free or low cost, effective Internet sites, business magazines, and national classified ads that produce results. If your business broker doesn't have a marketing plan that includes national exposure, he is relying too much on other brokers to sell your business. Who could best buy your business, someone in the community or someone new to the area that is looking for opportunity?

4. Overpricing the business.

It is human nature to regard what belongs to us with the eyes of love. Aren't our children more beautiful? Aren't our mates more desirable?

Our businesses are no different. Beauty is in the eye of the beholder, and that is why most sellers are tempted to overprice their businesses. A high price is prestigious. It shows everyone how important you are. But too high a price could eliminate buyers.

Most buyers are pre-qualified. They know what range to look in. If your business is overpriced, they will compare it to other businesses in the same price range that have more to offer. The result is that they pass right over your business. Many buyers in your price range won't even consider your business because you have eliminated the ones who are willing to buy at the top of their range.

5. Putting too much value on personal improvements and original (dated) equipment cost.

Everybody customizes a business when they build, start, buy or takeover. You like neat and orderly books, records and an office with wallpaper, while another is content to pile everything in boxes and just give it to his accountant. You like a spacious open floor plan while another fills every square foot with product for sale. That POS (Point Of Sale) cash register program you put in two years ago for \$15,000 is terrific, but the next buyer may view it as a financial drain. The newer version is only \$8,500; runs quicker and provides a map and directions to the customers home. To you, it is still worth \$15,000. To the buyer it may be only worth \$2,000 - 3,000 to say nothing of the repair and maintenance nightmares.

What about the manufacturing and assembly equipment installed five years ago? Do they meet the new requirements or is it time for re-tooling? Granted you paid \$200,000 five years ago for the equipment and they need \$40,000 in re-tooling today, what is the equipment worth? Surely you want the \$200,000 and the buyer can spend \$40,000 on retooling if he wants to, that's up to him right? Well, the buyer can buy the same "reconditioned equipment" retooled with a warranty for much less. Sometimes 50-60% less.

It is best to look upon improvements as something you did to please yourself or enhance the business.

Don't expect updates to add value to the business. They may have been required due to local, state or federal code changes, or to increase your bottom line. We won't even discuss how much has been recaptured in depreciation.

6. Mistaking activity for interest

When people are interested in a business, they make offers. If they aren't making offers on your business, something is holding them back. Many brokers routinely ask for feedback whenever your business is shown or exposed, but a lot of brokers do not follow through with this courtesy. Feedback is crucial to understanding why you aren't getting offers on the business. The lack of response is usually due to two things - the business is in a state of poor condition and/or it is overpriced.

7. Failing to prepare the business for sale before it goes on the market

Preparing the business for sale can include everything from spring cleaning, to repainting, to clearing out clutter, to making repairs, and so on. It's hard work!

Many people leave their exteriors and interiors as is, but if you haven't updated in years and the business looks outdated, your business will not compare as well as others who have taken the time and gone to the expense to freshen the appearance of the business. How is your parking lot and exterior sign? This is the first impression a buyer will have. Does it invite them in or tell them to drive by and look at the next business on the list? Once they are in the lobby or main office, what message does this area convey? Remember, the first time they will be thinking like a customer. Don't forget the restrooms. Especially, if you are dealing with the public. Are they up to code? Handicap access accessible? What is required if the new buyer wants to expand? Having the answers before the question is asked will keep a buyer interested.

8. Failing to heed the advice of experts

When you are represented by an experienced mergers and acquisitions Intermediary, he or she is trained and has experience in the marketplace. Do not hinder this advisor broker by telling this professional what to do, when to do it and how to do it. This seriously limits the ability to help you. But if you are willing to listen and weigh what the Intermediary is telling you, you will know from the forward progress of the transaction that you received sound advice.

Business brokerage is the smallest segment of the real estate industry. There are very few professional business brokers in relation to the thousands and thousands of good real estate agents, REALTORS, commercial and industrial real estate agents. Choose a licensed professional willing to back up their work in court if need be.

If a business is to be sold verses many other alternatives, a businesses should not be 'put up for sale', they should be prepared to be sold or transferred. Think like a buyer will. These are actual questions a buyer faxed in before he would fly in to look at this business. He had a better plan than most sellers I meet.

- 1) Is the business computerized?
- 2) Who are the targeted customer bases?
- 3) Does the business have any distributors?
- 4) How many distributors, if any?

- 5) Where are the distributors located? (City & State)
- 6) How many accounts does the business have?
- 7) What percentage is the largest account?
- 8) What percentage is the second largest account?
- 9) How many different products are offered?
- 10) What is the detailed inventory?
- 11) How old is the inventory?
- 12) What is the percentage of the largest selling item?
- 13) What is the percentage of the second largest item?
- 14) What is the inventory of the two largest selling items?
- 15) How many employees do you have?
- 16) How many managers do you have?
- 17) How many sales people do you have?
- 18) Salary Of each employee and position?
- 19) Does the business have a toll free number?
- 20) Does the business have a FAX number?
- 21) Does the business have a web site?
- 22) How are the orders received?
- 23) How are they shipped?
- 24) How many vendors do you have?
- 25) Where are they located?
- 26) Does the business own any molds?
- 27) How many molds?
- 28) Who is holding the molds?

While a lot of these questions may not relate to you business, it gives you an idea of how thorough the buyers search and questions can be. Step away from you business and try to look at it through the eyes of a buyer. Would you buy it?

Avoid These At All Costs!

1-Lack of Preparation

In order to conduct a thorough investigation you must have everything in order **before the process begins** . In fact, you must start your preparation and information gathering the moment you decide that you are interested in a particular business.

The Due Diligence period is short, there is no time to waste. There's a ton to cover (and uncover).

You must arm yourself with:

- a detailed listing of the exact steps to follow
- a checklist of everything to complete in each area
- specific tasks that need to be completed
- all of the materials you need from the seller before you start

If you do not have these things in place then far too much will fall through the cracks; it always does!

2- Focusing All of Your Attention on The Past (Financials)

The past financials are important, they paint a picture of what has happened, but it's over, the past is finished and the business will never be the same with you as the new owner. It may be better, it may be worse, but it will never be the same!

If they check out against what the seller has presented previously -wonderful. Then what? They tell you nothing about the future.

Some buyers believe that they can predict the future based on the past-nonsense! It won't happen; forget it. If you find anything that can predict the future, please call us collect, we want to discuss tomorrow's lottery with you.

The past will give you at best, a glimpse of the future. Nothing more, nothing less.

Yes, they are important, but a proper Due Diligence goes way, way past the financials.

3- Not Allowing Enough Time To Complete The Process

Every seller, every broker and every other individual involved in your purchase will do absolutely everything in their power to convince you to accept the shortest Due diligence period possible.

It's in **THEIR** best interests, definitely not yours. They are so close to closing the deal by this point that they can all taste the money you're going to pay them. Some have even begun to spend it in their minds.

Some purchase agreements limit the buyer to a 10-day investigation. How crazy is that? It doesn't matter how small a business is, how can you possibly expect to learn everything about any business in 10 days? You know how? It's absolutely impossible; that's how!

You need a month minimum-20 working days, a full month. If the seller won't agree, walk away. No, sorry. Make that run away, as fast and as far as you can.

Imagine what secrets are to be uncovered if they want to limit your time.

If the business is as wonderful as they say it is (and boy, they all tell you that), wouldn't it make sense to let you take your time so that you are certain to buy?

4 Overlooking Far Too Many Individual Parts of the Business

There is only one thing that you need to investigate- EVERYTHING! There are eleven, count them eleven areas that must be checked out. Perhaps some don't apply to every business, but in any traditional business, each and every one of them has to be verified, with the same importance placed on each.

These are:

1. The Financials

2. The Assets
3. The Employees
4. The Sales Strategy
5. The Marketing
6. The Industry
7. The Competition
8. The Systems
9. The Legal and Corporate Issues
10. The Company's Contracts and Leases
11. The Suppliers

Why Buy Any Business?

There is just one reason to buy any particular business. Not because you love it, not because it has done well in the past and not because it's cheap. The only reason is because:

It's a good business that has a great future with you as the new owner. Repeat.

The only way that you are going to be able to determine if it's right and what the future looks like is by conducting an investigation that is so exhaustive that by the time you're done, you'll know more about the business than the current owner does.

It can be done easily, when you know exactly what to do.

A business is worth only what someone is willing to pay for it. That is the market value.

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