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# **“Seven Critical Points Every Business Owner Must Know Before Selling A Business”**

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# When Selling A Business, You Can Attempt To Coordinate 4 Different Business Professionals You'll Need By Yourself

(CPA, Attorney, Investment Banker, Appraiser)

Or You Can Attempt To Do It Yourself Or Coordinate *Everything* With Just One Simple Phone Call To A Professional Who Is Powerfully Experienced To Handle It All For You.

When it comes to selling a business, most owners **don't know where to start** or the right questions to ask. The entire process seems confusing and overwhelming. When you consider that in a typical selling process there are no less than four different professionals involved ranging from CPAs, accountants to bankers it's easy to see why many people are afraid to even start the ball rolling.

Let's say you have learned there may be a potential buyer interested in your business. You're ready to sell for just one or all of the various reasons:

## Why Sell Your Business

- It's time to retire.
- Desire to pursue other business interest, more challenging with less stress.
- Your business is at an all time high.
- Serious illness.
- You're tired of the day-to-day grind.
- Lack of sufficient working capital.
- Divorce or dissolution of a partnership.
- Need within the company for new skills, resources, or philosophy.



Since you've been a successful business owner, selling a business can't be that difficult right? Are you qualified to sell it yourself? There are several questions you might want to consider **before** you take that big step to go it alone. To find out if you've **got what it takes** to be successful in closing a sale on your business, take this 5-second test to find out...

- ◆ Can you maintain complete anonymity so confidentiality is not lost that could seriously hurt your business?
- ◆ Are you knowledgeable in current areas of the law, accounting, taxes, marketing of a business, financing, negotiations and closings?
- ◆ Do you have a vast amount of contacts and the ability to match a prospective buyer to your business?
- ◆ Can you devote the time to screen and qualify a large group of prospects in order to find a qualified buyer who is serious and will offer a fair price?
- ◆ Aren't your talents much more effectively utilized in running your business rather than trying to sell it yourself?

How did you do? Did you answer "YES" to any of the questions? Not very many business owners have the expertise, time and experience to handle the sale of their business. It's not surprising...you're an expert at **what you do** and we're experts at **what we do!**

Buying and selling a business demands a level of expertise that only a Business Broker has. The intricate details of a sale alone can cause a deal to fall through the cracks if you're not experienced in **all** phases, even if you're a savvy business owner.

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***What A Business Broker Can Bring To The Table That No Other Business Professional Is Able To Bring***

***It's Your "Ace In The Hole."***

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There are 25,007,505 businesses in the U.S. today. 40% of business owners expect to sell their business within the next 3 years. Take a look at these alarming statistics:

**What Are The Odds Of Sale?**

Sales < \$750,000	1:5.5 = 18%
Sales \$750,000 to \$2 million	1:4 = 25%
Sales \$2 to \$6 million	1:3.5 = 35%
Sales \$30 million	1:3 = 33%

Not very encouraging are they? That's why a Business Broker can be your "Ace in the Hole". They can minimize your risk through their experience, expertise and vast attention to even the smallest of details.

Jill Andresky Fraser, of *Inc.* Magazine, found that historically, only about one-quarter to one-third of all private companies ever manage to find a buyer. To lower the percentages above, here are reasons that were cited:

- Sellers didn't have all the information that prospective buyers needed in order to make a decision.

- Sellers should have up-to-date and accurate financial information.
- Sellers have to accept reality.

Your best guide for buying or selling a business aren't words on paper it's the experience that representation by a qualified Business Broker brings to the table.

There are two basic types of buyers: financial and strategic. Financial buyers make up an enormous segment of the market. They look for businesses they can buy using debt financing for 50% to 75% of the purchase price, and they have sufficient cash flow to service the debt. Strategic buyers expect synergies with their other holdings. They can afford to pay a premium, but they may not need to because they know the market.

Business Brokers can bring 5 vital components to the table that other professionals, such as CPA's, attorney's, investment bankers and appraisers, are unable to bring that will increase the odds of a sale and maximize the amount of money you walk away with in your pocket.

Essentially, would you go to the doctor if you had a toothache? NO, you'd go to a dentist. That's because even though a doctor can give a pain pill to take away the pain, the dentist is needed to fix the tooth...where the pain came from. A Business Broker is no different. Even though there are other professionals who may handle a sale, they are not equipped to do so because they don't have the time and experience to handle it. Business Brokers have experience and expertise to handle **all aspects** of a business sale.

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***What are The 7 Critical Point's You Need To Know before You Sell?***

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1. **Validating A Realistic Sales Price.**  
Realistic pricing is perhaps the **most important** factor in selling from a point of strength. The pricing of a business, different from the simpler means of valuing based on goods or services, depends on industry-tested valuation techniques, with tangibles and intangibles

incorporated to ensure that the business will not be under priced.

The price of a business is arrived at by a variety of factors; one of the key factors is the intensity of a buyer's interest in a particular business. A Broker is an expert in placing a **realistic** price on the business incorporating both intangibles and tangibles.

You must realize, a Broker is not a magician who can sell an overpriced business. There are some Brokers who just can't bring themselves to tell you that your price is too high. Don't shoot your Broker for what you consider to be the "wrong" price and don't choose your Broker on the basis of which one quotes you the highest listing price. Your business needs to be priced **realistically**.

A Broker has extensive experience and knowledge to accurately price a business at a level that is achievable. While Brokers substantiate the true value of the business, most importantly, they help prospective buyers understand the reasons for such value and structure a sale for the maximum benefit of the buyer and seller. Nothing can be worse than putting a business on the market that does not attract buyers because it's priced too high or too low. It can not be said enough, a fair market value pricing is **key** to the successful sale of a business.

## **2. Current Knowledge Of The Marketplace.**

Brokers surround themselves with databases, search tools, industry reports, business contacts around the world and maintain an extensive network of Brokers that are similarly connected. Brokers are connected to thousands of other Brokers, purchasers and sellers all at a given time. You should understand that the arena that a Broker comfortably dwells, that being a daily presence in the marketplace, serves as an instrument in determining what a business will sell for.

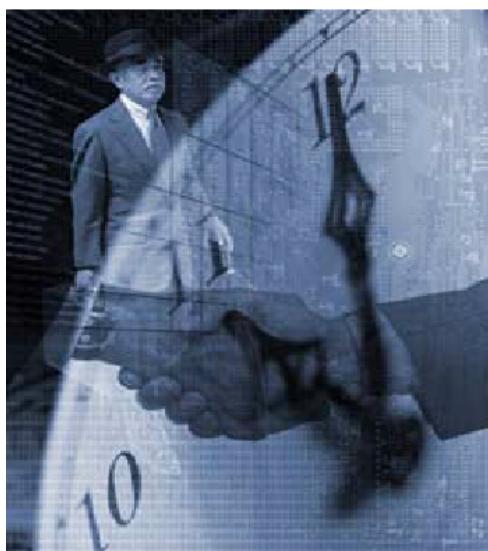
**3. Confidentiality Is Essential.** It is imperative that an owner understands why confidentiality is important to the successful sale of the business and what can happen if a sale is prematurely

announced.

Confidentiality is important for a number of reasons. Customers, competitors, employees, vendors and creditors all will have different reactions to finding out that your business is for sale.

Prospective buyers often react negatively to a business opportunity that has not been kept confidential.

Realize, the sale of your business will be held in strict confidence by your Broker, not only because he owes you a fiduciary duty to do so, but also to maximize the sale potential. That protects your company from competitors, employees, customers, suppliers and bankers from learning of your intentions. Any premature indication of a possible change in ownership could disrupt these relations and weaken the company's competitive position. For these reasons, confidentiality is critically important at all stages.



## **4. Expertise In Attracting Serious Potential Buyers.**

80% of prospective buyers are individuals who want to control their own future.

Many of them will be moving into the area from other states and countries. A Broker is in continuous contact with all categories of buyers using efficient and effective search procedures to find and screen those that are best qualified to buy.

"Blind" ads and listings are used. A "blind ad" is an advertisement that camouflages the identity of the business. A "blind listing" is a camouflaged description of the business in a multiple listing database. The goal of any business opportunity ad is to attract buyer prospects.

When the identity of the business is guarded, the ad is cautiously worded.

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**Brokers Have A Huge Advantage  
Over Other Professionals  
When It Comes To Listing And Representing  
A Business For Sale**

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The Broker typically has many businesses for sale, which attract prospective buyers. Prospective buyers respond strongly to ad's which indicate that the Broker has a wide variety of business opportunities, even if the individual business descriptions are vaguely worded. The Broker is experienced at mixing and matching prospective buyers and listings. A Broker will determine and match up the right buyer for the right business focusing on prospects that are **financially qualified** and are **genuinely** interested in your type of business.

Brokers conduct all the due diligence on prospect buyers to weed out "tire kickers" and bring those serious buyers to you for consideration. During the early stages, while a buyer is still considering making an offer, the Broker is the ideal person to follow-up and keep the deal running smoothly.

**5. Pre-Arrange Lender Financing.** Surveys have shown that sellers who ask for cash receive, on average, only 75% of their asking price, while sellers who accept terms typically receive 86% of their asking price.

In many other cases, businesses that are listed for all cash just don't sell. With reasonable terms that a Broker and lender resolve **before** locating a potential buyer, the chances of sale increase **dramatically**, and the time period from listing to sale, greatly **decreases**. Most sellers are unaware of how much interest they can generate by financing the sale of their business. What's more, seller financing tells the buyer that the seller is confident about the ability of the business to pay for itself.

**6. Untangle The Red Tape.** A Broker is an expert at alleviating any and all potential pitfalls an owner may not even think about prior to selling a business. For example, some potential pitfalls may include, but are not limited to: permits, licenses, financing, blemishes, agreements, leases, etc. When a buyer has interest in your business, the Broker qualifies, interviews and conducts due diligence of that individual's background, goals, objectives and

financials.



**7. Expert Negotiator.** The Broker is equipped with negotiation experience that increases your chances of a sale. A Broker will uncover the bargaining power of the buyer and discovers at the outset how that individual plans to finance the purchase of your business. In addition, the Broker will anticipate the buyer's concerns and counsel you about being up-front about any problems that might make a buyer suspicious and unnecessarily adversarial during the negotiation process.

Steeped in knowledge about negotiating price, terms and other vital aspects of the sale, the Broker will guide you each step of the way. A Broker acts as the "middle man" and can get your thoughts across, keeping you at a distance from the words themselves.



## Tax Return vs. Valuation

### Compare And Contrast Why And How A Valuation Often Spells The Difference Between Failure And Success

Comprehensive documentation from a buyer's perspective is essential today for a successful sale. That means, you need to develop a **convincing** and **solid** financial package to present your business.

Today's prospective buyers are different from those of even just a few years ago. Increased Technology in the workplace has a major impact. Most buyers today are "number crunchers".

Prospective buyers expect that business owners that are selling will have accurate and current financial reports that will provide a detailed analysis of the business and the markets that it serves. In addition, today's buyers also expect the owner to be able to justify the price and terms of sale based upon an understanding of normal investment returns.

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#### ***If You Were Buying A Business/ Do You Want To See Profits or Deductions?***

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Most business owners use tax returns or financial statements prepared for tax purposes as the only financial presentation of their business. As a result, the market value of goodwill, or intangible value, which represents a major component of what a business is worth, most cases, is not a consideration for tax purposes and, therefore only serves as a financial statement for tax purposes.

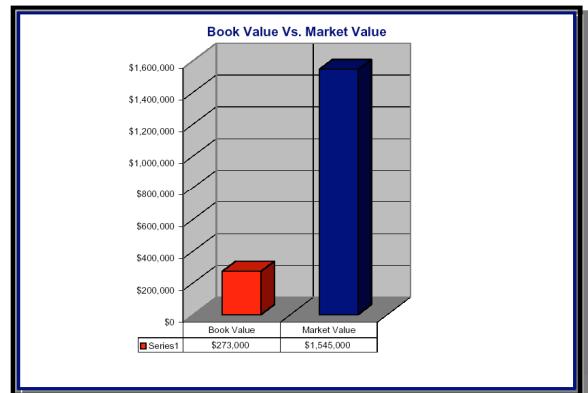
While this may be good for tax purposes, tax return financials **do not** reflect years of hard work and business assets. The business goodwill, or intangible value, which represents a major component of what a business is worth, most cases, is not a consideration for tax purposes and, therefore only serves as a financial statement for tax purposes.

Too often a business will use financial

statement's prepared for tax purposes in the day-to-day operations of their business. **Assets are written off rather than capitalized. Profits are minimized to avoid taxes.**

That gives a negative view of operations from a tax standpoint. But look at the difference between book value versus market value below. Which would you rather see?

The value of a typical business should be greater than the total values of its hard assets. For a buyer, the key factor is that an ongoing business has everything necessary such as equipment, location, and inventory, if applicable, not to mention experienced



employees, suppliers, business processes, and a customer list – all in one place, in the right amounts, for successful operation of the business.

But how do you put a price on this intangible asset, which is frequently referred to as goodwill or going-concern value? And, how do you determine the true market value of the hard assets used in your business? The answer is, you make a Business Broker a **key player** on your selling team.

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## **What's So Important About A Valuation?**

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Some business owners don't want to spend the time or money to have a third party independent valuation done. However, placing a business for sale without a valuation often results in a price that's unrealistically high and turns off many potential buyers, or a price that's unnecessarily low and keeps the owner from cashing out at full value.

A Business valuation is a mix of art and science. The bottom line is, of course, that a business is worth what a buyer will pay for it. However, there are ways of estimating a fair price. There are variations of these and there are other methods that apply to specific situations. It is not uncommon to value a business by a number of different approaches and use an average - or more likely a weighted average that gives more weight to some approaches than to others - of the various approaches used.

How is a business valued? There are up to three different ways to value a business; and it's the job of the Broker and the third party independent evaluator to decide which approach or combination of approaches is most appropriate to value the business. Revenue Ruling 59-60, promulgated back in 1959, Rev. Rul. 59-60 remains one of the most important guides to Fair Market Value. Briefly, the three approaches are:

- Market Approach** – Comparing the entity being valued to counterparts engaged in the same or similar lines of business whose shares are publicly traded.
- Income Approach** – Company's value is based on its ability to generate income.
- Asset Approach** – Sometimes referred to as the Replacement Cost Approach. Values tangible assets such as an office building, drilling equipment, etc.

Note that there are a number of reasons for valuing a business, other than buying or selling it. Businesses are valued for estate and tax purposes, divorce settlements, and for raising capital.

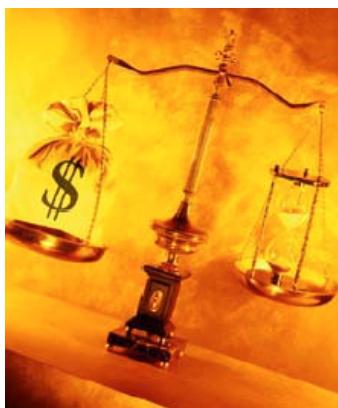
**A professional valuation reflects the "Fair Market Value" of a business-based on re-casted assets and condition's in today's market. This presents the true economic value of your business.**

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## **What Is "Fair Market Value"?**

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"Fair Market Value" is defined 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 later is not under any compulsion to sell, and both parties have reasonable knowledge of the relevant facts.



More importantly, what are the real benefits of a valuation? The fact is a buyer is **less likely** to be suspicious of numbers prepared by a third party and **more willing** to move forward in the sale process.

Do you really know what your business is worth? There's no precise answer, of course. The specific number is less important to you than the general range and the process that gets you there...the maximized amount of money you can sell your business for in the least amount of time.

## **Count The Ways A Valuation Is A Financial Resource You *Cannot* Be Without If You're Planning To Sell...**

- ❖ A business's success is ultimately measured by a business's value.
- ❖ Provides a useful snapshot of where the business stands, what options it has, and how it can improve long-term.
- ❖ Enormous impact on strategic planning.
- ❖ In-depth composition of tangible and intangible assets, prevailing market conditions, supporting discount rates, adjustments, calculations, justifications of purchase - testing the reasonableness of the indicated value -, buy-out loan analysis, historical financial recasting, approach to market analysis, and valuation summary.
- ❖ Validates the Fair Market Value of your business the true *realistic* price.
- ❖ Provides a lender with Fair Market Value information for a business loan.

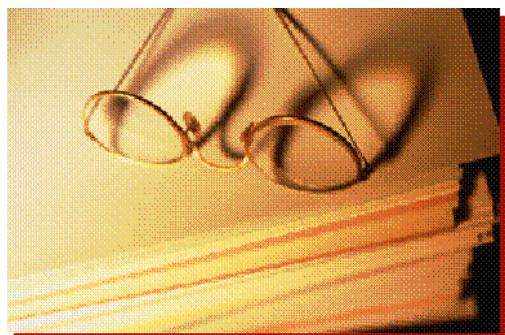
## ***Preparing Your Business For The Financial Market Gets...***

# **RESULTS**



Once you decide to have your business valued, the first person you may think to call is your CPA. Your CPA may be a great choice if he or she has business valuation training, does a large number of them and their schedules permit. Also, it's important for you to know that most CPA's don't do valuations. There are approximately 128,000 members of the American Institute of Certified Public Accountants (AICPA) in public practice. Less than 3% have earned either the ABV or the CVA designations conferred by those who have undergone its valuation-training program. Of course, a CPA without a designation may be entirely capable of doing a first-rate valuation but this statistic suggests valuations are not something most CPA's do as a core part of their practice.

The smart choice that the majority of business owners make is to contact their Business Broker to have a third party independent valuation prepared. The valuation, which runs up to 50 pages, provides the owner with a blueprint for future decision making.



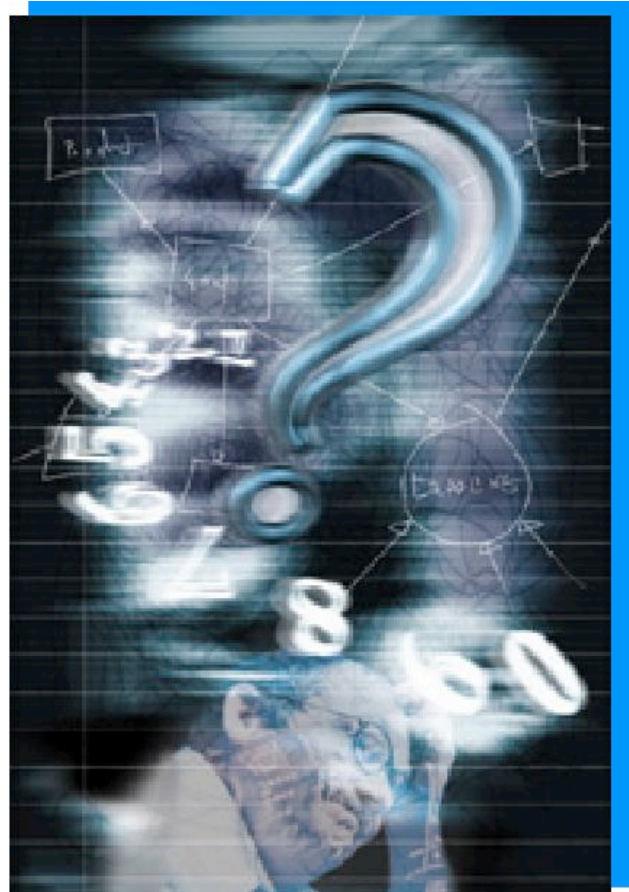
## To Get A Lender's "Pre-Approval" Of A Business Or To "Pre-Qualify" A Buyer, They Won't Just Take Our Word For It And Tax Returns Aren't The Answer.

### Third Party Independent Valuation Gives You Bargaining Strength.

Why can financing a business become a deal crusher? Simply this...Lenders and buyers are uncomfortable with financial statements prepared for tax purposes because they **do not** reflect the **true economic value of your business**.

Pre-approval and pre-qualifying sets Business Brokers apart from other professionals. To be effective in marketing your business for sale and qualifying prospective buyers, it is **imperative** that guidance from a lender is secured. Without lender involvement from the beginning, a closing may be plagued by hurdles and result in an unnecessary lost deal. Based on those fundamental premises, what is generally required in order to obtain "pre-approval" and "pre-qualification"?

financial presentation reflecting what the business is worth can be a **powerful** tool in dealing with financial institutions, suppliers, and customers.



#### **Documents Needed By A Lender For "Pre-Approval" Of A Business...**

- ◆ Third party valuation to justify market value.
- ◆ Three years business tax returns from the seller.
- ◆ Three years financial statements from the seller. Interim financial statements from the seller.

#### **Documents Needed By A Lender To "Pre-Qualify" A Buyer...**

- ◆ Third party valuation to justify market value.
- ◆ Three years personal tax returns from the buyer.
- ◆ Personal financial statements from the buyer.
- ◆ Resume of the buyer.

For a business to grow and expand in today's market, capital and financing are essential. The

# **For Those That Are Seriously Interested In Selling... Where Do You Go From Here To Maximize Sound Financial, Strategic, And Tactical Advice To Achieve A Successful Hassle-Free Sale?**

You've taken your first very important step toward sound financial strategic and tactical strength to successfully sell your business.

At **Business Brokers New York™**, we overcome every problem and frustration a business owner faces when they go to sell their business.

**1 Initial Meeting:** We'll execute Confidentiality Agreements, which validates my reliability and integrity of keeping your business information in strict confidence. I'll want to hear all about your business, discuss goals, and strategies. Together, we'll review your last two years of tax returns and balance sheets and prepare a preliminary Valuation Summary. The Valuation Summary identifies the following:

- All assets that would be included in the sale
- Liabilities included in the sale
- Income Statement

The purpose of the Valuation Summary is to provide you with a glance or "rule of thumb" value summary. The Summary is not to be construed as a limited scope valuation, professional value advice, or for any other valuation purpose. It will provide a generalized overview prior to an in-depth third party independent valuation.

**2 Second Meeting:** At the second meeting, we'll collect your company's historical information to create a Confidential Memorandum that will provide a buyer with a historical overview, an in-depth presentation of the business with a financial overview of the economic performance of the business. We'll prepare a comprehensive presentation package of your company, which includes:

- ◆ A Confidential Business Profile
- ◆ A Confidential Business Outline For The Internet
- ◆ A Confidential Memorandum

- ◆ A Third Party Independent "Fair Market" Business Valuation
- ◆ A Step-By-Step Marketing Plan For Your Business.

## **What Is A "Confidential Memorandum"?**

Only BBNY Brokers give their sellers such comprehensive and in-depth document. A Confidential Memorandum includes all the points a buyer would need to see in order to clearly identify the value of your business.

Our Confidential Memorandum is an instrumental document that will encourage prospective buyers to take a further look at your company. The Memorandum has to make a good first impression; it's like a strong advertisement for your business and tells a believable, factual story, substantiated by true realistic figures.

The Memorandum encompasses an executive summary, a business description, financial requirements, target market niche, identification of top management, an operations review, analysis of strengths and weaknesses, current financial statements and projections.

**3 Third Meeting:** At our third meeting, you'll receive the Confidential Memorandum and we'll review it in its entirety.

We'll also review the listing Agreement and begin the intricate details of the sale process. Once you've executed the Agreement, I'll meet with lenders to determine the scope of preliminary financing and funding for a potential buyer.

**4 Listing Your Business For Sale:** The first step in the listing is aggressively marketing for serious and qualified buyers for your business. My network of contacts is extensive stretching across the US and Canada.

Being a member of The Business Brokers Network and other professional organizations, I have access to over 500 potential buyers worldwide. That's not all, I will also draft and place "blind ads" in local and national

newspapers such as the Wall Street Journal, USA Today, and trade journals if appropriate, as well as internet profiles, letters, emails, phone calls, and networking.

## **5 Marketing For Buyers:**



Aggressive marketing for your business will produce potential buyers for your business. Qualification of serious buyers is a delicate task I don't take lightly. I'll determine the buyer's financial capabilities, experience, time frame, and most importantly, seriousness and commitment.

Unlike other professionals who may be savvy in selling a business, BBN brokers have a tremendous advantage over all others.

***I am experienced at matching buyers and sellers together by recasting your business financials to meet a prospective buyer's goals, objectives and terms.***

## **6 Presenting To A Qualified Buyer:**

I'll remain in constant contact keeping you apprised of buyer interest. When a buyer meets due diligence criteria and executes a Confidentiality Agreement, a presentation will be made to the buyer. The buyer at this point is 10% emotional and 90% financial in their decision making.

**7 Conduct A Buyer/Seller Meeting:** The serious buyer has passed our due diligence criteria and is ready to proceed to the next step...a meeting with you and the buyer is scheduled. The

buyer will present his financial capabilities, business stature and you'll discover his style, attitude and personality. At this point, the buyer will want to hear from you about how the business works, employees, and your responsibilities.

**8 Presenting Offer And Closing:** My job also entails assisting the buyer in making an offer to you and collecting an escrow check. I'll present the offer

to you, facilitate counter offers, if any, and present a complete package to the closing attorney.

In addition, I will assist the buyer with due diligence and work to remove any contingencies. I will review closing documents with you, the closing attorney, and buyer. Finally, I will attend the closing with you to ensure all documents are in place and that it runs smoothly.



## About The Author



Alan Brind is President of Business Brokers New York, LLC. He has over forty-years experience in high technology telecommunications and information technology startups and major public companies.

Alan has held numerous officer level positions in large corporations as well as small businesses. He co-founded a telecommunications networking company and founded a marketing and business management consulting firm, serving worldwide markets

Alan is a Certified Business Intermediary, Certified Machinery & Equipment Appraiser, Chartered Professional Engineer, and Chartered Information Technology Professional.

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