3 Important Things Every Business Owner Should Know About Selling A Business

1) The fair market value of a business from a professional valuation report should not be the listing price for the business.

A fair market value of a business is what a reasonable person/company would pay without considering any special circumstances. That is the proper way to estimate the likely sales price from a legal perspective.

However, a business owner typically wants to sell to the person or company that has the best potential to earn profits on this business. This will be a person or company that has assets that they can leverage in combination with this business to produce greater value than before – the Strategic Buyer Consequently, a business owner should be looking for potential buyers with special circumstances that might justify a higher price than the valuation.

This should be an important consideration in setting the listing price. There can also be special circumstances that reduce the likely sales price below what the valuation shows. A motel at the edge of Death Valley may have a low vacancy rate and solid profits, but there are likely to be fewer potential buyers of motels that want to live near Death Valley, than a motel in San Diego with similar earnings potential.

2) Business owners should start their exit planning at least 3 years before they plan to sell.

The central financial maxim of most established, privately held businesses is to minimize taxes. The company financials and tax returns reflect this strategy. A key element to exit planning for most owners is how to maximize the value of the company (with the possible exception of family businesses that will stay in the family).

Maximizing the value of the business requires a significant shift in focus from tax minimization, and needs a period of transition of at least 3 years. Potential buyers will almost always want to see the last 3 years of tax returns.

3) The strategic buyer is the company that anticipates making the most profit from combining with your business.

If their worst enemy is their biggest competitor, then that company may have the most to gain from buying the owner's company. In effect, the biggest competitor may be the Strategic Buyer willing to pay the most.

Valuation is a science to estimate the value of a business if sold with no special circumstances. When an owner gets ready to sell the business, he/she needs to focus on identifying those companies that have special circumstances that would produce the greatest flow of earnings. It is up to the owner to get a piece of that greater future pie.

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