

Are You Thinking of Selling Your Business?

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Does running your business still hold your interest the way it used to? If not, the reasons are no doubt more personal than financial. Most people sell their businesses for human, not financial reasons. But, since everyone wants to ask a financial question first, we'll start there. You're probably thinking:

What's my Store worth?

Because you work hard to keep your establishment unique and business sales are highly confidential, traditional real estate methods using values based on recent comparable sales simply won't work. While a broker might help to set an asking price for your store, only the market can tell you what it is really worth.

However, while waiting for the final judgment of the marketplace, there are rules of thumb that can be applied to estimate the value of a store. All businesses, including yours, generate a certain amount of income after expenses are paid. The new store owner will use part of that income to live on and will use the rest to pay off the loan she or he used to buy the store. The money available for these uses is the CASH FLOW. Businesses with greater CASH FLOW will allow the buyer to get a larger loan. A larger loan means that she or he can pay more for the store. That is why there is typically a direct relationship between CASH FLOW and the selling price of a business. One approach to valuing licensed beverage establishments in Minnesota is based on a multiple of the CASH FLOW. Real estate is valued separately.

There are a few additional factors that may impact your store's selling value. The terms of your lease and the current liquor license are obvious issues. High margin sales, such as wine, will impact the value positively. Likewise, low margin sale items, such as cigarettes, are less desirable.

Can I walk away with the Cash?

It depends. One way for a buyer to get cash is through a Small Business Administration (SBA) loan or a bank loan. SBA lenders use tax records to determine if the business makes enough money to support a loan. It is the income from the business that matters, in addition to the credit worthiness of the buyer. You, however, probably keep your books to minimize the amount of taxes you have to pay. As you can see, keeping the books to minimize taxes can also limit the amount of money a buyer could borrow against the business.

Another option is to find a buyer who has enough cash. However, typically a buyer with enough cash to buy a medium sized store outright, will probably want to use her or his cash as a down payment on a larger store.

The option that gets most deals done is seller financing which tends to get the seller the most money for his or her business, while spreading the gain over time may have some tax advantages. Most seller-financed deals involve a substantial down payment (30% or 40%) and monthly payments for 3 to 5 years on the business. If a seller finances inventory, the term on that is very short. Buyers see seller financing as a vote of confidence in the future of the business, and they are often willing to pay more for this kind of deal than if they are forced to seek outside financing.

When is a good time to sell?

When you find that you are no longer as excited about the business as you used to be. It will show up in the performance of the business very quickly, and it becomes harder to come to work every day. So, the best time to sell your business is while you've still got enough energy to keep it running well. That way you'll get the best possible price.

How long does it take?

Liquor stores tend to sell quickly, while bars and restaurants take a bit longer. However, selling your store can still take several months. To be safe and to give yourself time to wait for the right offer, allow 6 to 12 months for making this transition in your life.

In general, the sales process will need time for the following steps to occur.

It takes a few days to put together marketing materials and to spread the word to the buying public, while holding the identity of your store in strict confidence. It takes several weeks to sort through potential buyers to identify a qualified buyer with a strong offer. Once a potential buyer has been selected, additional time will be needed for the negotiations which often include a series of offers and counter-offers. Once an offer has been selected, the buyer will want to complete her or his own due-diligence work. The buyer will want to do an in-depth review of the business and its records before agreeing to proceed with the sale. If you need extra time to locate the business records the buyer requests, this step may require additional time. Finally, allow about four weeks for the accountants and advisors on both sides to draw up the paperwork needed to prepare for the CLOSING of the sale.



What's the big deal about Confidentiality?

It is hard to advertise and sell a business while remaining anonymous. However, a FOR SALE sign is never seen as a good thing and can cause unintended reactions from customers, employees, suppliers, landlords, creditors, and even competitors. When a business is put up for sale, key employees may become concerned about their livelihood and begin looking for other work, causing damage to the morale of those employees hoping to stay on after the sale. Suppliers may also react badly to what they see as "uncertainty" and request changes in their invoicing terms, e.g., deliveries C.O.D. If you can arrange to sell your business in as confidential manner as possible, the good news is that the bad feelings about the business being FOR SALE usually end immediately when the new owner can be introduced. The feelings of uncertainty become simply an opportunity for a new beginning.

How can a Broker help me?

A broker can expose your business to enough buyers to help establish the market price. An attractive store, offered on good terms may even attract several buyers at once, resulting in a "competitive offer" environment. While such bidding is the best test of the market price of your business, most businesses are sold with offers a bit more spread out. Most sellers find that using a broker brings a quicker sale, at a price that easily covers the fees.

An equally important service provided by a broker is confidentiality. The broker has offices, meeting rooms, phone lines, confidential advertising, e-mail and web sites that can all be used to meet and filter buyers without revealing any connection to your business. Only qualified buyers who sign non-disclosure agreements should be allowed to learn the identity of your store. Furthermore, only extremely serious buyers who have made acceptable offers, should see your detailed business financial data, such as tax returns (when interviewing brokers, always ask what their practices are about sharing data and information).

Finally, a broker supports the entire process of the sale, beginning with preparing marketing materials, to getting the right paperwork done around offers and counter-offers, supporting through the due-diligence work, and preparing for and working through the closing.

As you can see, selling your business, just like owning it, is a very personal and even life changing endeavor. Timing it right and doing it right can prepare you for your next life challenge.

So if you are thinking of selling your business, and would like to speak with a broker to learn more about the advantages and confidentiality that a broker can provide, please give me a call: Clayton Wendt, Sunbelt Business Brokers, office: 763-286-0628, or cwendt@sunbeltnetwork.com.

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