HOW TO SELL AN eCOMMERCE BUSINESS FOR THE BEST PRICE

This paper by Doug Pedersen, owner of two eCommerce businesses and a broker with Sunbelt Business Advisors, tells you how an eCommerce business is different from other types of businesses and what you need to do to prepare to sell one.

There are three primary considerations when approaching selling your eCommerce business: how to maximize your economics, how to time the market, and how to make the business financially attractive to buyers willing and able to pay the most.

Make the business "Internet" attractive to buyers:

The below are key metrics to making your business attractive to buyers looking for an eCommerce business.

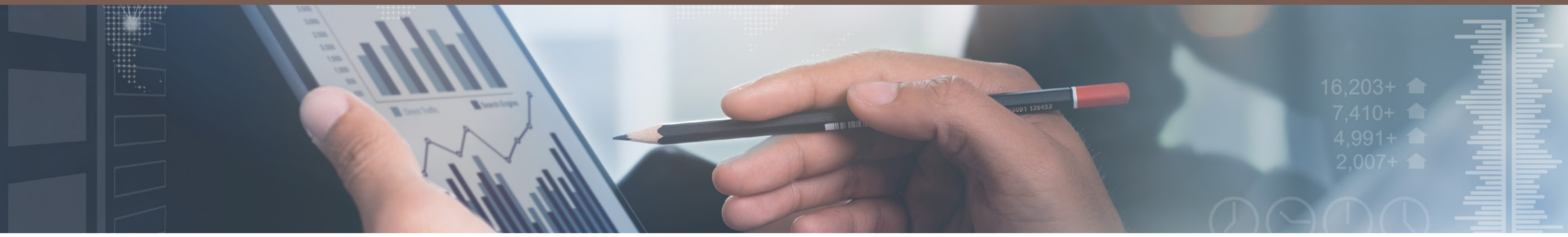
- Stable or growing traffic from diversified sources (Google Adwords, Facebook, Twitter, Pinterest)
- Established suppliers of inventory with backup suppliers in place (drop shipping is huge)
- Traffic analytics (Google Analytics or other)
- Higher percentage of repeat sales and visitors
- Amazon – use FBA (Freight by Amazon) if you are selling on Amazon
- Growth potential
- Barriers to entry - Establish patents and trademarks, supplier agreements, domain names

It's not what you sell for; it's what you net:

Despite business owners' usual focus on sale price, a seller's most important economic metric from a financial standpoint is net after-tax (NAT) cash. NAT cash is the amount of cash the seller receives after every third party is paid, including the government, lenders, employees, brokers, etc.

Sale price is a major component of NAT cash, but so, too, are the tax allocation, transaction structure, post-closing cash payments (seller financing), closing costs, excluded assets and liabilities, etc.

Timing also influences NAT cash, most notably through the economic cycle and the condition of the business at the time of sale.



Sell at the peak:

Since 1969, economic cycles, defined as trough-to-trough, have lasted from a little over two years to just under 11 years. Broadly speaking, business cycles over the past five decades average about seven to nine years in duration. See www.nber.org/cycles.html

June 2009 is recorded as the most recent economic trough. I believe the market is at a peak level today for sellers and has been at this level for a few years. We are now ten years into the cycle from the last trough.

Selling during a peak market is key to maximizing NAT cash. An owner trying to decide between selling now or in two to three years should think seriously about selling now, especially considering the average time to sell a business is 6 – 8 months. Selling during a downturn results in fewer buyers, less bank financing and less business profit — all of which result in less sale price and NAT cash.

Make the business financially attractive to buyers:

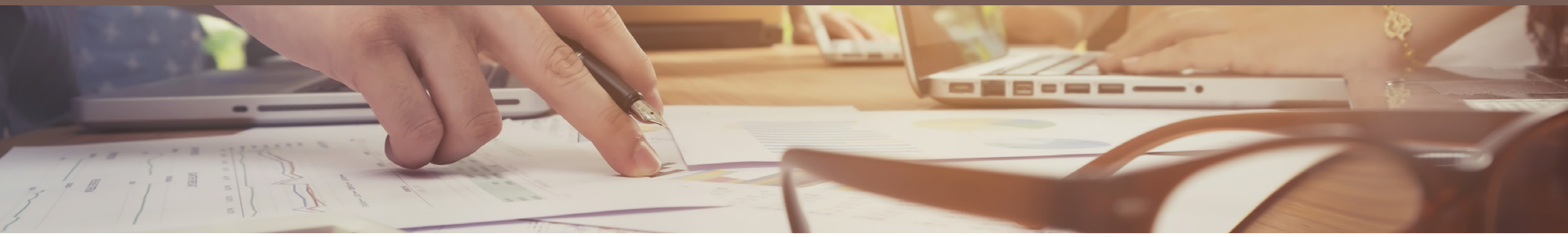
In order to maximize NAT cash from sale, it is important to make the business financially attractive. The more financially attractive the business, the higher the price. How to make the business financially attractive to buyers:

- Have clean financials prepared by a CPA
- Highlight your true earning power not just net profit – be ready to show your discretionary expenses such as company funded retirement plan, travel expenses and meals/entertainment expenses
- Show stable, consistently growing cash flow
- Have last 3 years of increasing revenues and profits
- Show little to no debt on the balance sheet
- Work with an experience business broker

Successful eCommerce businesses also use their business processes as a competitive weapon in the marketplace. They are able to plan, execute, monitor and self-correct to maintain a profitable business while efficiently shifting with customer demand. From an accounting standpoint, buyers want to know where the money is being made — by product, customer, market and SKU (identification code). Being able to slice-and-dice sales and costing data provides valuable insights. The best information is gross profit by customer by SKU, an SKU being the most basic item sold and not commingled with other products.

Don't overlook your accounting system. A good accounting system is very important in adding value to a buyer. Well-functioning accounting systems allow for accurate and timely cutoff between the P&L and the balance sheet.

SUNBELT BUSINESS ADVISORS
1300 GODWARD ST NE, SUITE 6000 MINNEAPOLIS, MN 55413 | (612) 455-0880 | SUNBELTMIDWEST.COM



The Sale Process:

A properly executed sale process is the best way to maximize NAT cash.

Most business owners agree that having many customers for their products is a plus. This same principle applies when selling a business. Competition from multiple buyers drives price and terms for the seller.

It is tempting for a seller to accept an unsolicited offer from a strategic buyer, private equity group or other financially capable buyer. Buyers pay sophisticated people a lot of money to find off-the-market businesses to purchase. These "finders" get paid high fees because buyers know that without competition, they will purchase the business for materially less.

If the priority is to maximize NAT cash, then selling to the first buyer doesn't make sense. There is no way to quantify the amount lost by the seller who accepts an unsolicited offer because there is nothing with which to compare.

Competition between buyers shifts the demand curve up while the supply curve remains fixed, resulting in a higher sale price. This basic economic concept of competition driving economics is proven by skilled sell-side advisers daily in the marketplace.

A crucial part of the brokers marketing campaign is to articulate a simple, understandable future plan about how the new owner will grow the business and generate more profit in the future. The less simple and clear the story, the less value ascribed to the business.

A key milestone in the sale process is a buyer's written offer in the Letter of Intent (LOI). From a seller's standpoint, the LOI should include all material economic terms of the transaction. The instant the LOI is signed by both parties, the power shifts from the seller to the buyer, and the buyer begins its due diligence investigation. Therefore, it is optimal to have all material economic terms defined in the LOI, because if they are not, then the buyer may use blemishes found during due diligence to negotiate undefined terms down when finalizing the definitive purchase agreement.

Once the LOI is fully executed, then a smooth due-diligence process maximizes the likelihood of closing. Due diligence and legal documents are necessary to reach closing, but these subjects are outside the scope of this article.

Maximize into the Future:

Consider this your road map for advising business owners how to maximize NAT cash from sale. Making your business Internet-attractive, timing the sale with a peak market, making the business financially attractive and engaging an experienced broker with experience in the eCommerce industry to run a competitive marketing campaign will maximize NAT cash from the sale in nearly all instances.

SUNBELT BUSINESS ADVISORS

1300 GODWARD ST NE, SUITE 6000 MINNEAPOLIS, MN 55413 | (612) 455-0880 | SUNBELTMIDWEST.COM