

What every business owner needs to know about selling their business: Part 2

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Thank you for your time and desire to better understand how to sell your business. This brief article was prepared in no nonsense language---for business owners---by a business owner. As a CPA and founder of several small businesses including a

successful business valuation firm and a transaction advisory firm, I thought it would be helpful for business owners to understand the basic landscape of selling a small business.

Build your succession team

After you know the valuation of your business it is time to build a team that can help you create and execute your succession plan. Micro size businesses (revenues < \$125,000 year) might only require a CPA, a trusted investment advisor, and a **transaction attorney**. It is important that your Attorney be intimately familiar with business transaction law. Just like you would not trust a heart surgeon to do brain surgery---don't trust a real estate attorney to close a business deal. Finally, businesses with revenues in excess of \$125,000 will want to add a trusted business intermediary/broker to the team.

Select your intermediary/broker wisely

It is critical to understand that only sixteen states in the entire country require business brokers to have a broker license—so choose your broker carefully. Only two of the sixteen

“license” states are on the east coast. That means if you are on the east coast outside of Florida or Georgia then your state does not require a business broker to have a license. So, beware when choosing your broker. Although only required in two states--exceptional business brokers on the east coast earn their real estate license because they recognize the similarities between selling businesses and real estate. Moreover, they see the need to understand agency law, real estate/lease principles, and pertinent state laws. Some additional factors you will want to consider when choosing a broker include their knowledge of business—especially accounting and business valuation and whether or not they have earned their real estate broker license. You will want to ensure they are well connected with the bankers, attorneys, and investment advisors in your area—this will increase your prospects of reaching your succession goals.

Other interesting things to consider

It is important that you start your succession plan sooner rather than later. Most business owners do not plan for retirement. In fact, according to PwC's 2021 US Family Survey, only one-third or about 34% of US Family businesses have a robust, documented and communicated succession plan in place. By waiting too long, an owner runs the risk of not having the right people in place to run the business and limiting tax planning for the business and their personal estate. Either mishap can lead to a business to fail when it passes from one generation to the next.

Bizbuysell.com will enable you to glean the asking price for similar businesses. This robust site has upwards of 50,000 businesses listed for sale. The site is free and allows searches by state, industry, size, etc. Most ads will contain a brief summary of the business and some basic financial information including the annual revenue, cash flow, and asking price.

Common but sometimes confusing business transaction terms

Like most disciplines the business transaction industry has a unique parlance. There are certain words and acronyms that you will need to be familiar with. For instance, cash flow is typically synonymous with earnings before, interest, taxes, depreciation, and amortization or "EBITDA." Another definition of cash flow is

EBITDA plus one owner's salary or sellers' discretionary earnings referred to as "SDE." In fact, businesses advertised on bizbuysell.com use SDE for the cash flow generated by the business.

Final thoughts

If you are ready to move forward with selling your business or if you are just starting your exit strategy, give us a call or contact us by email today. Our firm has over a decade of experience valuing small business and helping business owners like you with succession plans. Our team consists of caring professionals (CPA's and licensed brokers) who are ready to listen to what is on your mind. Your busy and we know it--so we are here to serve you.

WE VALUE YOUR BUSINESS!