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## What Is My Business Worth? I'm Thinking Of Selling It!

by

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At one point or another in any business owner's career, the question arises as to whether or not the business should (or can) be sold? Typically this question is combined with three others:

1. What is the business worth?
2. And if the value isn't where I expected (or needed) it to be, what can I do about it?
3. Finally, the BIG QUESTION: Is now the right time to sell?

Question 1 - The first question can be answered relatively easily. All that's needed is to bring in a business appraiser like SPIA and have them evaluate your business. The appraisal will show you the range of value that your business is worth in today's economy. Certainly that is good to know. It tells you where you are.

If the value of the business is not what the you expect or need - often a far cry from where you thought it would be, which is a common occurrence, then the second question needs to be answered, "What can I do about it?"

If this is the case, you need to know what to do to raise the value of your business? This is particularly important if the your are approaching an age when you are thinking of retiring or remaining in charge but just working less. Many is the time I have heard, "I only wish I had known what I should have been doing to ***position my business for sale.***"

I hear, "So what happened to the equity value I thought I had been building?" It isn't that the equity disappeared. Instead it is often the case that the company has been structured/operated to accomplish one goal (produce income) and not the other (maximizing the equity value when it is sold).

That suggests the business is just not ready to sell – its value being centered on the entrepreneur or executive who is overworked (60-70 hours/week is not uncommon), unwilling to delegate (thus has few, if any, senior managers – the people who would remain after a business is sold), or feels the business must sell at a price that is way out-of-line with the marketplace and the company's ability to produce a profit.

Thus it becomes critical you to evaluate your business with an honest sense of reality. The following example provides a sense of how dramatically a price paid for a business can differ with – or without – effective senior management who get sold *with the business*:

Company A – Manufacturing business located in the Southeast. The company was owned by one family (husband and wife), had 93 employees and generated revenue of \$ 57 million/year. Profits were decent @ 4.1% pre-tax plus the principal of the business was paid a salary of \$425k plus bonus – a package of approximately \$750k/year. Things were rosy but the owner was concerned about the fact he was not young any longer (he was in his mid-50's) and his energy level was deteriorating. So

he started thinking that he might want to sell the business and find another less time consuming job to keep himself busy.

As is so often the case, this company was managed almost entirely by the owner in his role as president/CEO. There were managers all right, but they had limited authority although they were responsible for their departments. Just about every major (and sometimes minor) decision need to be bounced off of the principal stockholder.

When SPIA did the appraisal, the principal stockholder was told that the business was probably worth approximately \$5,500,000. "Why so little" he asked? SPIA told him that the management team was not strong enough to operate the company if he was to leave. It seems that in his effort to stay in-control, he had literally reduced the real market value of the company by as much as 60%. If he walked, all the senior expertise and management skill he gained over the years would walk out the door with him.

Naturally he was shocked. He asked what he could do about it? Our answer was to suggest he ***position his business for sale.***

Once the principal stockholder became aware, things started to change in a hurry. The process began immediately and took a total of 30 months. During that time, he brought in two senior managers, promoted and trained capable junior management, upgraded internal systems and procedures to cut costs and beef up the bottom line. The result? That business sold for \$27,100,000. What was the difference? With the right management team and systems in place, that same business could continue operations and produce the kind of income for a new owner that would cover debt service and pay a decent ROI and income.

The decision to sell is one of the most complex and difficult decisions an owner will make. The desire to pursue a more comfortable lifestyle and the ability to achieve financial independence from the sale of the business must be balanced against the challenges and joy that come from owning and operating a business.

Properly planning and positioning the business for sale will increase the value of the business and enable the you, as a business owner, to maximize the sale.

## **The Selling Process**

Selling a business is time consuming and complex. In order to realize a sale and maximize value, the process should be carefully planned and organized. Once the sales prospectus is prepared and the marketing effort commences 12-18 months is a normal time frame to close the deal.

A few owners attempt to sell a business on their own, just like some homeowners do. When they do try it on their own, the time and effort involved often detracts from day-to-day business operation and often ends in frustration. A qualified, certified management consultant or business broker significantly broadens the base of qualified prospects and assists in every aspect of the selling process. The role of such a professional should include properly pricing the business, establishing terms, preparing an accurate offering prospectus, attracting and carefully screening qualified prospective purchasers, negotiating the transaction, assist in obtaining financing and guiding the transaction through closing.

In addition to the broker, a competent accountant and attorney are important to include on your team. An accountant will assist in the financial analysis and in properly structuring the transaction to minimize tax obligations. An attorney will protect your legal interests and draft the appropriate documents. These three professionals should comprise a team that assists you in obtaining a satisfactory transaction.

## Other Considerations

**Employees.** The time to notify employees that the business is for sale is a sensitive issue. Start by letting your key people know that the decision to sell has been made. They will appreciate your taking them into your confidence; and can notify the rank and file when appropriate. They can be relatively assured that a new owner will value their continued service, and they can be helpful in the selling process

**Terms.** The terms of a transaction are often as important as the price. The equity investment from a purchaser should be significant. 25% - 35% of the sales price is a reasonable range. While the bank requires adequate cash flow, the amount they are willing to lend generally corresponds to the value of the assets purchased or other collateral that may be offered. In most transactions, the seller can be expected to finance a portion of the sale price. Seller terms may take the form of a fixed note, a consulting or non-competition agreement, or some type of pay-out based on performance. Equity, safety and tax considerations are all important factors. The profitability and desirability of the business and the existing banking environment all influence the terms that may be called for.

Those who assist in the sales process are generally compensated as a percent of the sales price, commonly ranging from 5% to 12% (as the sales price increases, the percent paid will decrease). While most compensation is paid on performance (e.g., completion of the transition), a retainer or a monthly fee is often charged at the outset of the assignment.

**Asset or Stock Sale.** Most small business transactions occur as an asset sale with specific assets transferred; this varies for a mid-sized company and is subject to final negotiations. Consult your professional advisors as to tax implications.

Successfully selling a business is often the culmination of years of hard work..Maximize your prospects for a happy ending by following the planning and positioning steps outlined here. Good luck!

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### About The Author

Craig Stimmel has been awarded the distinction of Certified Management Consultant (CMC) by the *Institute of Management Consultants USA* (IMC USA). The CMC represents evidence of the highest standards of consulting and adherence to the ethical canons of the profession, and is awarded only to those consultants who have successfully passed a rigorous examination process, demonstrated a history of substantive results for clients, and shown adherence to the IMC USA Code of Ethics and professional practice management. Less than 1% of all consultants have achieved this level of excellence.