

How to Prepare Your Business for Sale

Part 2: Critical Contracts & Assets

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Now that you have your books in order take some time to start reviewing your customer and vendor client contracts and eliminating those which will have an adverse affect on your business. Remember to always keep the buyer in-mind when establishing new contracts or updating existing contracts so they will not be faced with this task once they purchase the business. Traditionally, greater value exists when contracts are not up for negotiations during or immediately after the sale of the business.

You may also want to start a dialog with your landlord regarding the process to renegotiate your real estate lease once a new buyer is located. This practice should only be done if you feel comfortable doing so because many landlords will become uneasy assuming you are having financial difficulties. Use your best judgment in this matter because the confidentiality surrounding the sale of your business may unknowingly get compromised. If your lease is due for renewal during the sale of your business, try to negotiate a short term contract unless your business is absolutely tied to this location. There again, keep the buyer prospect in mind and negotiate based on the best case scenario.

Separate any real estate in the assets of the business including the business location. You should consider selling these real estate assets either to yourself or another buyer in order to allow the business to stand on its own without any complications or added burden of dealing with increased expenses. You may in fact want to sell the real estate along with the business however, do not obscure the sale of the business by allowing the real estate to be devalued within the assets of the sale. A purchase price should be established for both the business and the real estate irregardless of the other. An appraisal for the business and a separate appraisal for the real estate should be on-hand to be used as a negotiation tool. Keep in-mind these appraisals are tools for your use and should not be made a part of the listing documents for all prospective purchasers to see. Appraisals tend to have greater value when negotiating with a promising buyer who needs a little nudge to raise his/her confidence level with the asking price. On the other hand, if the price established is greater than the appraisals obtained keep them to yourself—after all you paid for them.

Look at all of your company assets including key employees. Start recording fixed assets according to their usefulness or life expectancy and get rid of any asset which is not used or outdated. This is an excellent time to clean house—so to speak. Buyers are not going to be impressed with old equipment. Remember to record any serial numbers available and place a “cost value” on each. By the way, the cost is always the value this asset would bring if sold today—not the value new.

As far as your “key employees” are concerned, consider discussing the proposed sale of the business with them. Key employees may very well be the lifeblood of your business and any new buyer will want to be assured of their continued employment. Accordingly, a loss of key employees may wipe out any pending sales negotiations. Therefore, do not let your key employees here about the pending sale through any third parties. Besides, you may be surprised to find out a key employee or employees may be your best buyers. Even if they are not interested in business ownership, they can

sometimes provide valuable insight into the sale of your business because they undoubtedly have obtained some key contacts over the years which can be quizzed as to the market competition or other information which might be helpful. Just be careful not to allow your employees to give away your marketing position by releasing information about your proposed plan to sell.