

dollarsandsense

# Before selling your small business

## Questions to ask yourself

**T**hinking about selling your small business? Then it's time to start asking yourself some questions. These straightforward considerations are the first step towards preparing yourself – emotionally, legally and financially – for what's to come.

- 1. Why do you want to sell?** How much time are you willing to devote to the process? Your commitment to the decision and the selling process will be key to a successful transaction. Being in a hurry because you're simply tired can lead to very different terms than having a planned exit strategy that will let you take your time. Your business took years to develop, and selling it the right way will take time too.
- 2. Is it the time right to sell?** An established business has advantages over a younger business. If it's not the right time to get the right price, can you wait? If you can't wait, what is your absolute bottom line – the minimum price you'll accept and not one penny less?
- 3. To what factors are your business subject that might affect its saleability?** Is it substantially dependent on you or your connections? Trends or changes in the marketplace will affect also affect the price you can expect to get. Have sales and/or profits been stagnant or declining?

Are you worried about new competition or changes in laws that affect your business?

- 4. Are you prepared to reveal your financial information?** And can your financial statements stand up to scrutiny from potential buyers? Are there any impending tax or legal problems to consider?
- 5. When sorting your own priorities for the sale, ask yourself, who is the right buyer?** There are two basic types of buyers: financial buyers and strategic buyers.

Financial buyers are generally investors looking for a good return. They want to know about cash flow, and their own future exit opportunities. They've got money they want to invest, and may not be too interested in what kind of business they buy, as long as they get that ROI. They're looking for a well-managed company with a history of consistent profitability, which they can reasonably expect to deliver the same level of earnings in the future.

Strategic buyers want a business that fits into their own long-term plans. They may have a complementary business they're looking to expand vertically (such as into a different price bracket) or horizontally (perhaps into a new geographical market). Often, strategic buyers will pay more than financial buyers because can benefit immediately from economies of scale, and elimination of duplicate functions. The better the fit your company is, the more they'll pay.

Which type of buyer is the best fit for your company depends on your goals. Are you trying to get the highest price at any cost or looking for a balance of good price and other considerations (such as protecting employees)? Or are you looking to get some cash out but wanting to stay with the company for a period of time?

Once you've got some answers to these questions in mind, your accountant will help you determine your next steps once you've decided when to consider sell your business.



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