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BUYING AND SELLING A BUSINESS

Market your business to find the right buyer

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There it was, among business supplies such as desks, chairs, printers and filing cabinets: an actual business, for sale on Craigslist in Colorado in December.

"Wedding business for sale — $10,000. Own your own wedding business with great earning potential. The business comes with a website, two domain names and a registered business in Colorado."

Can it be that easy? Slap up an ad and wait for the phone to ring?

Well, possibly.

Yes, some businesses are marketed that way, said Karen Brady, an attorney and owner of Karen Brady & Associates PC, an estate-planning firm in Arvada.

"That tactic can be effective for very small businesses, but it can backfire for larger businesses or those that depend on customer goodwill," Brady said. "Once employees and customers learn you're shopping a business, business owners can lose the loyalty of those two important groups."

Brady said that's why some businesses often are better off with a business broker or other intermediary. "The broker can market the business with more anonymity and discretion," she said.

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> **Patricia Williams**
> President and owner,
> Business Acquisitions Ltd.

Patricia Williams, president and owner of Business Acquisitions Ltd., a Denver-based company that specializes in business sales, agreed and said confidentiality is vital. "Sellers are concerned about customers, employees, vendors and competitors knowing their business is for sale."

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Karen Brady of Karen Brady & Associates PC, an estate-planning firm in Arvada, says once employees and customers of a small business find out it's for sale, their loyalty can be diminished. For that reason, she says, using a broker can give the business some anonymity.

And Williams also suggested using a business intermediary to facilitate the process.

"Exposing the business opportunity to prospective candidates without compromising confidentiality is critical to finding the right buyer," Williams said. "Using Internet business-listing websites, qualified buyer databases and direct-marketing programs will assure maximum exposure to the right investors."

Brady also suggested having potential buyers sign a nondisclosure agreement.

"This can prevent potential buyers who see details of the business from sharing that information with competitors or opening a competing business," she said. "You can't prevent them from competing, but you can make it harder for them to use your trade secrets to do so."

Another potential problem in the wedding business example is that it's apparently being sold based on revenue it might make, not what it's made.

The ad reads, "This business is fairly new … [and] currently the business is advertising and marketing for wedding vendors and services."

"Many sellers price their business based on what profits it could be making rather than what it is making," Brady said. "Sellers need to understand that the purchase price is going to be based on the business as it is, not as the business could be. The buyer isn't going to pay for the business potential but for the business history."

Another surprise for sellers, Brady said, is that they usually don't realize how often they have to take part of the purchase price in a promissory note, with payments over time.

"A seller who waits for a cash sale may have to wait a lot longer than a seller who is willing to hold a note," she said.

And sellers need to understand first whether they intend to sell the assets of the business or the stock of the company that runs the business.

"Selling stock can seem cleaner, but it usually doesn't get as high a price because any undisclosed, even unknown, debts of the company will become the liability of the buyer," she said. "Selling the assets generally gets a higher price but then the seller needs to clarify which assets are included and how the business debts are going to be paid off.

"This is especially true where the buyer is going to look for financing from a bank, because the bank won't loan more than the current assets are worth."

Williams said small business owners who are ready to sell should consider three items:

• The personal issues of selling. Why they want to sell, when they want to sell and what they'll do after they sell. "They need to know if they're emotionally detached from the business," she said.

• The value of the business and what they'll net from the sale. "Sellers need to know how much money they need for their next adventure, whether that's retirement, another business venture, travel or something else," Williams said.

• The timing of the sale. "All of the key performance areas need to be addressed before the sale. For example, good books and records, the management team, issues with product diversity and the number of customers," she said.