

Selling Your Business For Maximum Value

Is it time to sell? Selling your business is a major decision! You have devoted your time, money, and energy to building, running, and operating your business. It may well represent your life's work. You may have already decided that now is the right time to sell. Be cautious and get the very best professional guidance you can get. Speak to your financial advisor, your CPA and your attorney and other key parties in the decision.

FRIDAY, OCTOBER 31, 2008

Adding Value to Your Business (Before Selling)

Adding Value to Your Business

By Anthony J. Citrolo, CPA, CVA, CBI

Anyone looking to sell their business must realize that it's critical to look at the value of the business. But a typical business really has two values. The "academic" value is the one determined by a professional business valuation. The other is the "true market" value. The academic value is arrived at with a formula based on the firms' hard assets, cash flow, industry averages and multiples. The fair market value also takes those items into consideration, but then considers what buyers are really willing to pay. It evaluates the business in the context of how that particular entity stacks up against the competitors in the marketplace. It also looks at comparable sales, where available, in that particular industry, evaluating relative margins, Ebita, discretionary cash flow, working capital and growth potential with owner initiatives which are identifiable.

For many small and mid-sized businesses hard assets like equipment, vehicles, land, buildings, and inventory may be limited. For some small businesses there may be few, if any, hard assets which have worth. Instead, their value is based on intangibles such as the talent or employees who are in place and preferably under contract or some form of agreement in the case of "key" employees, business processes, customer lists, location and its relative condition, and business relationships.

To maximize the fair market value of your business, it's vital that your clients capitalize on the intangible assets. Here are some simple recommendations for your clients:

Develop key employees. Buyers generally aren't interested in paying a premium if the business relies exclusively on the owner(s) for its success. Remember to delegate responsibility to key employees and involve the key staff members in the decision making process. Demonstrating that a company's success is reliant on capable, well-trained employees - not just the owner - and will pay off handsomely at the time of sale.

Blog Archive

▼ 2008 (3)

▼ October (1)

[Adding Value to Your Business \(Before Selling\)](#)

► August (2)

About Me



Anthony J. Citrolo
Long Island, New
York, United States

Anthony J. Citrolo, CPA, CVA, CBI is a principal of New York Business Brokerage, Inc. and is a Certified Public Accountant having more than 30 years of experience in small business operations and finance. Anthony worked as an acquisitions specialist for several Fortune 100 companies where he developed and expanded both regional and national accounts. Anthony is a member of the American Institute of Certified Public Accountants (AICPA), the New York State Society of Certified Public Accountants (NYSSCPA), and the National Conference of CPA Practitioners (NCCPAP). He is also a Certified Valuation Analyst (CVA) and member of the National Association of Certified Valuation Analysts (NACVA) and is a Certified Business Intermediary (CBI) with the International Business Brokers

Document Job Functions. Be sure that job descriptions, operation processes, and strategic plans are documented. It is vital to have a SOP (Standard Operating Procedures) manual for the business. Documented records and plans give a buyer greater comfort that he or she will be able to emulate successful growth and will help a buyer obtain financing. Most lenders, especially SBA backed loans required a detailed business plan along with an SOP manual.

Financial Records. The business must make sure to keep business copious records including sales and expense reports, internal profit and loss statements/balance sheet, and tax returns clean, well-organized and readily available. They need to be segmented by fiscal or calendar year and have quarterly or monthly breakdowns including three year comparisons. These financial records are in addition to those that the CPA prepares. Audited financial statements are always a benefit and result in a greater enterprise value when presenting the business to the marketplace.

Build relationships. Name recognition, customer awareness and the business reputation are all part of the overall business value. Even if the company doesn't have many hard assets, your relationships are essential in proving "staying power" of the entity. Consider diversifying both supplier and customer accounts. It is important not to have a disproportionate amount of business with any one supplier or customer. Make certain that the contacts at the respective vendors and clients are kept current and that you have an ongoing dialogue with them on a regular basis (preferably monthly at a minimum).

Improve cash flows. A potential buyer wants to see the "true cash flow." Be sure that all income is being driven to the bottom line. Take other steps to assure positive cash flow and good working capital. It is a good time to make certain that the business is running lean and efficient. It is easier to make these corrections prior to offering the business for sale, rather than explaining the merits of how a new owner may come to the forefront, make changes not made by the current owner and realize increased net income.

Review your assets. Sell off or dispose of unproductive assets or unsalable inventory. Remove or buy off any assets that are primarily for your personal use. Have only the assets that will be transferred with the business on the balance sheet.

Find and build your niche. The business doesn't have to be everything to everyone. Buyers will pay a premium for a niche that has barriers to competitive entry. Making sure that niche is identified and there are no distractions is important to providing real value to a buyer.

Remodel, clean, and organize. What's the first thing anyone does when they put their home on the market? They spruce things up and make sure everything is in its right place. Selling a business requires the same consideration. A well-maintained facility will get the best

Association. Anthony has been named an industry expert in franchise transactions by Business Brokers Press, Inc., a national publisher of educational content for brokers. He authored a course for prospective business owners, which has been offered in Queens College. Anthony is a graduate of Baruch College in New York.

[View my complete profile](#)

cleaning and organization to convey a feeling of quality and efficiency.

Keep these important intangible assets in mind if when selling any business. They convey a value that financial statements alone do not. If it is nearing the time to sell, crafting a plan, especially with the assistance of a professional team of experts, including the CPA, attorney, estate or financial planner and Certified Business Intermediary. The plan should include working on the intangibles well in advance of putting the business on the market. For many business owners, they reach a point where they burn out and psychologically retire early, before a sale is made. It's important to work to keep focused right until the sale is complete. Remember, this is typically the largest liquidity event or sale of a lifetime for most owners. It must be done properly to realize the greatest value.

Anthony J. Citrolo is a principal of New York Business Brokerage, Inc., specializing in the sale of privately held companies . He is a Certified Valuation Analyst (National Association of Certified Valuation Analyst designation) and a Certified Business Intermediary (International Business Brokers Association designation) in addition to a member of the AICPA, NYSSCPA, NCCPAP, NYABB, NACVA, IBBA and M&A Source. To contact Anthony, please call 1-631-390-9650.

Posted by Anthony J. Citrolo at 11:19 AM 

0 comments:

[Post a Comment](#)

[Home](#)

[Older Post](#)

Subscribe to: [Post Comments \(Atom\)](#)