Top 10 Tips to Sell Your Business and Not Leave Money on the Table

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Canada has a good market for quality businesses. But a CIBC World Markets report says that some 310,000 of us plan to transfer control of our companies within the next five years, a staggering number that represents half of small-and medium-sized businesses in Canada.

What would you like to do after you sell your business?

Business owners will be selling into a very competitive marketplace, which means it's likely that only the most attractive and well-prepared businesses will sell for what they're worth.

You'll want your business to be one of them. Here are our top 10 tips to sell your business AND protect its value, increase your personal wealth and reduce the taxes you will need to pay on the proceeds.

And here's an extra one to start you off—for the best results, start planning three and a half to five years ahead, allowing at least six months to analyze the business, two years to build value and take advantage of tax strategies to maximize the proceeds of the sale, and another year to sell.

Top 10 Tips to Sell Your Business

1. **Start by knowing what your business is worth. Identify changes and improvements you could make to add value. And make yourself replaceable**.
   - Buyers want to know that they can step in with resources in place to keep the place running when you're gone.
   - But *make sure you are ready to leave the busines*s. When your personal and professional identities are fused together in your business, it can be hard to know what you want out of life once you leave.
2. **Engage tax, accounting and estate professionals early in the game and work with them to structure your business so you can maximize the proceeds of your sale and pay no more tax than necessary.**
   - The two main tax structures in the sale of a business are the shares of a corporation and the assets of a business. Tax considerations and lead times are different for each option. To do a share sale, the company must be clean and have good financial records.
   - The difference between the cost of the shares and the sale proceeds is a capital gain. By taking advantage of the lifetime capital gains exemption (LCGE), share owners can potentially receive the capital gains tax free. (The LCGE for 2015 is $813,600; it is indexed to inflation, up to $1 million, for tax years after 2014).

- There is however, usually a 24-month hold rule to claim the capital gains exemption.
- The share ownership can be split among family members or placed in a family trust so the tax benefit can be used by each member thus allowing a much larger tax-free capital gain.

3. **Engage an experienced business broker from a reputable firm. It will save you time and effort, while ensuring that you avoid costly mistakes**.
   - You need a business broker rather than a realtor when selling your business. Business brokers understand how to price the business and find and work with buyers.
   - All the stages and processes, maintaining confidentiality, negotiating offers, managing the buyer's due diligence, etc. need careful balancing to bring the deal to a conclusion that works for both parties.
4. **Bad record keeping is the biggest roadblock to selling a business. Ensure that your books, records and financial statements are up-to-date.**
   - Prepare at least three years' worth of financial history. Documents need to be current and correct, demonstrating timely remittances and filings.
   - The balance sheet and income statements will need to be "normalized," especially in the area of owner's compensation and discretionary spending.
   - Provide appropriate financial projections and business potential forecasts for your potential buyer.
5. **Buyers want assurances that your business will be profitable and continue to grow if they become the owner. Work on providing them**:
   - Stable earnings and steady revenue (or revenue growth) beat revenue that's erratic. The higher the market share, the better. A 50% market share in a defensible position is very attractive.
   - It's risky to have any one customer representing more than 10% of your business. Resolve and diversify issues of customer concentration. A dependency on any given supplier is also a risk. Line up alternatives.
   - Buyers count on taking over a business with experienced, loyal and knowledgeable staff. Take steps to retain them.
   - Secure long-term contracts with suppliers and clients.
6. **Choose the right professionals— experts who have actual experience in buying and selling businesses and who understand their role in the process**.
   - Recognize that MOST lawyers and accountants are not entrepreneurs or business experts. Understand that because their job is to protect your interests against all conceivable risks, the safest recommendation they can make in every situation is to not take a risk.
   - Remember that you are the one who will ultimately accept the offer to purchase. Trust your instincts, experience and personal goals.
7. **Be realistic in your expectations.** A seller's expectations need to be in line with the market reality when it comes to the most probable selling price (MPSP) and how long it takes to sell their business.

- The MPSP represents what the business would sell for on an open market as is, in use, in place. It factors the true earnings, the state of the business, the risks and what the market is willing to pay. For some sellers, though, it means their business is not worth as much as they thought.
- While there are many factors that affect the length of time it takes to sell a business—the asking price, the buyer's ability to secure financing to purchase the business, local economic conditions, the nature of the business and where it is located, etc.—a period of six to 24 months is typical.

8. **Be honest in the information you provide—full disclosure is essential.** Do not hold back or misrepresent information.
    - At some point in the transaction the seller and prospective buyer must each make a leap of faith and trust the other.
    - But the trust will disappear along with the deal if the truth has been stretched and the promises and commitments aren't kept.
    - Share everything. The buyer will be more comfortable.
9. **Be prepared to finance the buyer**. Most buyers will need the seller to finance part of the purchase price.
    - Seller financing can add as much as 30% to the price of your business and you get interest on top of that.
    - The terms and conditions on the balance due note (the difference between the down payment and the balance of the purchase price) can be anything that works and is agreeable to both parties.
    - Protect the loan as a financial institution would, but be reasonable. Do not expect a mortgage on the buyer's home.
10. **Negotiating the right deal takes time and effort, typically some three to nine months**.
    - Understanding your buyer's objectives and reasons for buying is a critical part of structuring the right deal.
    - Above all, do not take the negotiating tactics of the buyer personally, or get caught up in the emotion of the situation.
    - Rely on the professional expertise of your intermediary to negotiate well and create win-win terms that work for both parties.