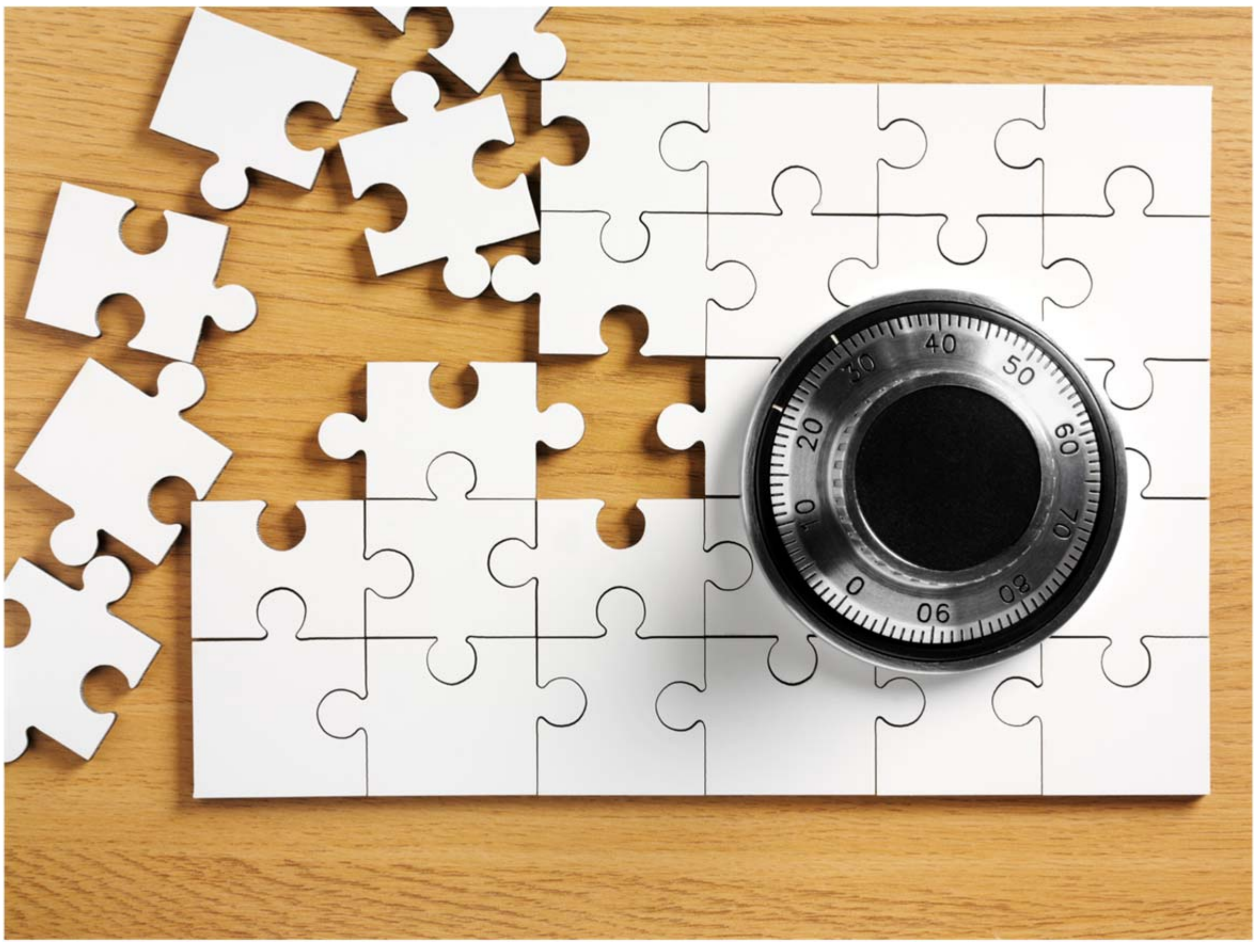
15 Reasons Why Your Business May Not Sell…
For what you think it is Worth.

Unlocking a life-time of wealth creation.



1. Overview

Most business owners have over 80% of their personal net worth invested in the value of their businesses expecting that when they decide to exit the business their payout will come. To the surprise of many, the payout is not what they expected or need to fund the next stage of their life. The strategy of investing profits back into your business has been very successful generating investment returns not available in other investments but it also creates a problem. In hindsight, taking some profits out of the business along the way may have been a better strategy.

While doing our research on this topic, we found business owners identified with many or if not all of the 15 reasons discussed here. Some of the 15 reasons will vary based on the size and history of the business. If you are in a service industry with only a few employees, you are the management team. If that is the case, you may not have a business that can be sold. It has been a well paying job for you and your family so unless you find someone who is looking for a similar job, there may not be a financial asset you can sell other than the equipment and building.

But don't lose hope… there are things you can do to make your business more desirable to buyers. These are possibly 15 reasons why your business may not sell for what it is worth to you, but by turning these reasons around, these are also 15 things that you can do to make it more attractive to potential buyers. By working on these 15 things, you can add substantial value to your business and the payout you want or need could well happen.

This statement holds very true, ***"It is more important to work on your business then it is to work in your business".***

There are three transitions that need to happen to make your exit from your business successful. Management, Ownership and Personal; you must have a plan for all three to successfully move on to your next stage in life.

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1. ***Limited or no management team***

   Most buyers will have other business interests so they will look to current management to run the business when the current owner steps away. They may not want or have time to spend running the business day to day so the value to them will be determined by how strong the management team in place is. The same holds true for you today if you want to spend more time away or pursue other interests.

2. ***No clear vision of the future***

   What is the future of your business? Do you know? Do your key employees know? Is the industry that you are in growing or has it seen its better days? These are all questions that you need to clearly articulate to ensure you get the full value of the hard work you put into your business. If you don't have a clearly communicated vision for the future your key people may start looking around for other opportunities when they hear you are looking to exit.

3. ***Limited ongoing revenue streams***

   The real value of any business is its stainable free cash flow. Any buyer but particularly a cash buyer will look at stainable cash flow as a key indicator of the value of a business. When they pull apart the earnings of the business and find that most or all of the earnings come from a very few customers and if you don't have long-term contracts in place, this will lower the value. This is very true in the construction industry where you are only as good as your last bid.

4. ***Older employees have all the skills & knowledge***

   As you age so do your employees. The demographics of our country are such that up to 40 – 50% of employees will retire in the next 10 years. The people who have been with you for 20, 30 or 40 years are the cornerstone of your business. As they leave, what does this mean for your business and your ability to serve your clients?

When a buyer looks at your employees, what do they see? A young, vibrant, growth focused group or something else? What do you see?

5. ***Very few policies & procedures are written down***

Are all your key business plans, strategies and procedures in your head or are they written down? Buyers will pay for well developed policies & procedures that can be followed when you are not there. Have employees had to contact you while you were away to inquire on how to do something? Employees should feel empowered to serve clients well based on their knowledge on how things get done.

6. ***A confusing/complex corporate structure***

When you started in business you either started as a sole proprietor or had one operating company with you and maybe your spouse as shareholders. As the business grew you added companies and shareholders so today you need an organization chart just to keep track. Buyers like to see a clean org chart that clearly identifies the shareholders and the assets and liabilities. If you are looking for a share sale to take advantage of the Capital Gains Exemption, the buyer will want to ensure what assets and liabilities they are buying.

7. ***Few hard assets – all the value is goodwill***

This holds true for many service industries. The value to you has been good cash flow from new sales and existing clients. This relates to point #3 where stainable cash flow is a key value driver.

8. ***Financial statements are not complete or accurate***

The first thing a buyer will ask for after the non-disclosure agreements are signed is a copy of the last 3 – 5 years of financial statements. Would you show them your current statements? Can you explain all the items on your statement or should you spend time cleaning them up? What does your Notice to Reader state on the front of your current financial statements? Buyers may ask for an audited financial statement.

9. Low EBIDTA

EBIDTA = Earnings before Interest, Depreciation, Taxes and Amortization. EBIDTA is a way to measure the profitability of a business and then determine the value by applying a multiplier based on the industry. For example if your EBIDTA is $250,000 and your industry multiplier is 3 times, your business value would be $750,000. Business valuators may also "normalize" the EBIDTA by adding back some expense items like owner's salary, onetime expenses, etc. EBIDTA is only one method of valuing a company; determine what method reflects the true value of your business. Earnings will always be important to buyers.

10.The business has no unique value proposition

What makes your business special? Why do customers or clients come back? Is it your service, experience, your people, location, etc? It better not be price alone because only Wal-Mart can afford to compete on price. You can win or lose on price.

11.Barriers to entering your industry are low

If someone can compete with you by getting some tools and a cell phone, your business value will be decreased. The more difficult it is to enter your industry will increase the multiple your business sells for. Many business owners are discovering that the payout they expected is being eroded by this one factor.

12.Limited growth opportunities

Growth Is King. Has your industry reached its plateau? What about your business? Buyers look for growth opportunities. They either want to expand their existing business by purchasing a strategic asset or by entering another growth market. You may not want to expand or grow but position your company for growth.

13.Non-core assets in the operating company

Over time "stuff" collects in places it does not belong. Just try moving to a new smaller home. The same holds true for operating companies. We have seen boats, cottages and winter homes in operating companies. The most common are commercial buildings used for operations and excess cash. These things can put you offside for the capital gains exemption if the value of these assets is over 10% of the assets of the company. It can take over 2 years to clean up the balance sheet.

14.Too many family members on payroll

This is possibly the toughest one to deal with. When a buyer looks at your business and a large majority of the key employees are family members, will they stay or the buyer ask them to leave when the business is sold? The question is, "Why did they not buy the business"? How interested are they in the business? It is important to early on determine the level of interest by family members in being owners of the business.

15.The owner can't go away on holidays for 3 - 6 months

Here is the test. Can you go away for 3 - 6 months and the business not only operates but it grows? If you don't know, now is a good time to find out. Buyers want to know that they are buying a business that can run and grow without you.

You should know…

Beyond Wealth Consulting Inc.

Beyond Wealth Consulting is a leading fee-for-service consulting firm specializing in working with business owners, high net worth individuals and self-employed professionals. We provide advice on business transition and exit planning, corporate structures, risk management and wealth management.

Our focus is on helping you clarify & define your goals and plans.

Beyond Wealth Management (SK) Inc.

Beyond Wealth Management is a financial services firm providing a full range of financial products. These include life insurance, disability and critical illness insurance, investments and employee benefits. We work with a variety of product suppliers and financial institutions.

Our focus is on helping you build & implement your plans to achieve your goals.

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