Things to consider when selling a business

Description

How to sell your business? It is rarely a straightforward process. Many owners assume that a good product or strong revenues automatically guarantee a smooth sale. But thatâ??s often far from reality.

Common mistakes include overestimating value, neglecting preparation, or underestimating the complexity of buyer negotiations. If you want to avoid these pitfalls and ensure you exit on the best possible terms, there are several crucial aspects to consider before you even start talking to buyers.

Define Your Goals and Exit Strategy

The very first step for how to sell a business is clarity. Are you looking for a quick sale, or do you prefer a gradual transition where you stay on for a while? Do you want to sell 100% of your ownership, or keep a stake in the business? Each option affects not only the price but also the type of buyer youâ??ll attract.

For example, selling to a competitor may yield a higher price, but could lead to layoffs for staff. Selling to a private equity group might mean you continue working in the business for a few years, while selling to management or employees often results in a smoother cultural transition.

Understanding Valuation

Valuing your business is one of the trickiest, and most important parts of the sale. Setting expectations too high can scare away buyers, while undervaluing means leaving money on the table. Professional valuation experts typically use a combination of methods: income-based approaches (looking at past earnings or future cash flows), asset-based approaches (what the business owns), and sometimes market-based comparisons.

It is essential to understand that valuation is much more than relying on a business valuation formula. It means getting an understanding for the business and looking beyond the numbers in the balance sheet and income statements.

Itâ??s important to recognize that valuation discounts may apply when determining the fair market value of a business interest or asset. These adjustments can significantly affect the final valuation outcome. Discounts for lack of control (minority interest) or lack of marketability (difficulty in selling) recognize that certain ownership stakes are less attractive to potential buyers than a controlling or easily liquidated interest.

Without accounting for these factors, a valuation may overstate the economic reality of what the asset is truly worth in the marketplace. Recognizing and properly applying these discounts ensures a more accurate, defensible valuation and helps avoid disputes, tax issues, or misinformed financial decisions.

Increase Value Before You Sell

Just because youâ??re planning to sell doesnâ??t mean you should stop improving your business. In fact, buyers will pay more for a business that looks like it has strong future growth.

Practical improvements often include:

- Reducing unnecessary expenses
- Diversifying your customer base (buyers dislike over-reliance on one client)
- Strengthening your brand or intellectual property
- Documenting efficient processes so the business isnâ??t overly dependent on you

These changes often take six to twelve months to implement, so ideally, start preparing well before putting the business on the market. Think of it as staging a house for sale. Except the stakes are much higher.

Organize Your Financial Information

Most small business owners keep financial records primarily for tax purposes. While thatâ??s necessary, itâ??s not enough for a sale. Buyers will want detailed, clear, and credible financial statements showing profitability trends, debt, and growth potential.

For example, imagine youâ??re buying a bakery. Tax records might show $300,000 in revenue last year. But if the seller can also show a trend of 10% annual growth, a loyal customer base, and a plan for a second location, the value looks very different. Clean, well-presented financials make your company far more attractive.

If youâ??re the seller, make sure the buyer gets impressed.

Prepare for Due Diligence

Once you find a serious buyer, they will conduct due diligence: a deep investigation into every aspect of your business. Expect scrutiny of contracts, leases, employee agreements, permits, and governance documents. A disorganized data room can cause delays or even scare buyers off.

On the other hand, a neat, cloud-based data room with labeled folders and clear documentation signals professionalism and inspires confidence. At *Excellent Business Plans*, weâ??ve seen deals accelerate simply because sellers presented information in a structured, transparent way.

Finding and Qualifying Buyers

Locating potential buyers can be one of the hardest steps. While some owners quietly approach competitors, others rely on advisors to identify investors, private equity firms, or even international buyers. Casting a wide net is smart, but not all interest is equal.

A good advisor will filter inquiries, asking tough questions to ensure prospects are financially qualified and genuinely serious. This protects your time and ensures you only negotiate with buyers who can realistically close a deal.

The Art of Negotiation

Negotiations go beyond the purchase price. Youâ??ll also need to agree on:

- Which assets or debts are included
- Whether youâ??ll provide financing to the buyer
- Employment or non-compete agreements
- Terms of transition support

For example, if you own a consulting firm, the buyer may want you to stay on for 12 months to maintain client relationships. The key is to understand your must-haves and be flexible on details where possible.

Finalizing the Agreement and Transition

Once terms are agreed, the purchase agreement is drafted. This legally binding document covers payment schedules, responsibilities, and contingencies in case something goes wrong.

After signing, the transition begins. Often, the seller supports the buyer for a period, introducing key customers, explaining processes, and sharing industry insights. A well-managed handover not only benefits the buyer but also protects your legacy.

Donâ??t Overlook Tax Implications

Taxes can significantly reduce what you actually keep after selling your business. The deal structure matters: selling assets versus selling shares often leads to very different tax

outcomes. For example, buyers may prefer asset sales for depreciation benefits, but sellers may face higher taxes compared to share sales.

Capital gains treatment can also make a big difference. In many cases, holding your shares longer or structuring the sale correctly lowers the tax rate. For instance, two business owners selling for the same price may walk away with very different net proceeds simply because of how their deals were structured.

The lesson? Involve a tax advisor early. Careful planning often saves more money than haggling over the last few percentage points in price.

A Few Final Thoughts

Selling a business is one of the most important financial transactions youâ??ll ever make. By setting clear goals, understanding valuation (including tricky factors like valuation discounts), improving your company before listing it, and preparing thoroughly for due diligence, youâ??ll maximize your chances of a smooth and profitable exit.

At Excellent Business Plans, we believe preparation is everything. So keep planning and good luck with selling your business!

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