

4 Questions to Ask Yourself Before Selling Your Company

Selling your business, no matter how long you've had it, can be one of the most important decisions of your career. Here are a few basic questions you should answer well before signing on the dotted line.



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Are you thinking about selling your business? Many people opt to go this route, hoping for a large financial gain afterwards. Some people even start a business with the goal of selling it to a specific buyer.

No matter whether you're starting with the end in mind and trying to develop a business to be sold, or if you're contemplating parting ways with your life's work, there are some important questions you need to ask yourself.

Here are five of these crucial thinking points. Your answers may confirm your decision to sell, force you to pull back, or at the very least prompt you to keep thinking.

Am I Ready to Sell?

Financially: Do you have at least 3 years of accurate tax returns? Have you assured that they show maximum profitability? These elements will help you when negotiating a price for your business.

Operationally: Have you thought about what will happen to your employees if your company is sold? Will they stay on with the new company, or be let go? Selling a business affects others as well.

Emotionally: What will you do next? Are you a serial entrepreneur who will move on to the next business model? Even if a large financial package comes your way, parting with a business can be difficult -- especially if there's nothing for you to move on to afterwards.

How Will a Buyer Value My Business

Your Business Valuation: Your business may not seem as profitable as it is if you run multiple tax write-offs through the company. Things like country club memberships, car allowances, and other write-offs boost your expenses.

Buyer's Business Valuation: Higher expenses cut into profit margins. Your business might be undervalued by an outside buyer if there are costly write-offs running through the business.

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Can the Business Thrive Without Me or a Key Customer?

Without Me: Someone inquiring about buying your company will most likely have a team of people focused on due diligence, which includes looking at your finances, your business model, your competitors, and your role in the organization. Hopefully, your business can still produce revenue when you're on vacation and isn't entirely dependent on your work. If so, be prepared to be asked if you'd be available to stay on as a paid consultant after the business sale. This could be the difference between selling your business or not --- and even increase its value.

Without a Key Customer: There are many schools of thought around how much percentage-wise one or two customers should make up of your revenue stream. Obviously, diversification in customers is key. And depending on your industry and business model, potential buyers may only want to see 5% of your revenue comprised of one customer. It's important to know if you're in a position where a few key customers drive your business --- both for a potential sale, and for yourself in the event that you choose not to sell.

Are There Any Other Exit Options?

Employee Stock Ownership Plan (ESOP): If you're contemplating whether to get out of the business completely, consider exploring an ESOP. This plan typically allows employees to buy portions of the company from you over time.

Private Equity: Maybe you're thinking about selling because you feel as though you've reached your potential or plateaued at the current profit/loss pace. Consider shopping a portion of your company to a private equity firm that could help you move towards a transition while bringing money into the company.

Other Options: There are many, many ways to exit your business. From liquidation to merger/acquisition to leveraged buy-outs, there is an option for what you want to achieve. However, half the battle --- or more --- is knowing what you want your life to be like after you leave your business. Whether you definitely want to cut ties or just ease your way out, understanding what you want first is the critical first step.

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