5 Mistakes in Selling a Business

Selling their company is usually the largest and most challenging financial transaction of a business owner's life. For most owners, selling a business only happens once and selling the business represents the culmination of their life's work. Often the business bares their name and holds a place in their heart right next to the kids. For these reasons, selling the business is not just a technically challenging process, it's also emotionally complex.

When the selling process works well, everybody walks away happy. The seller knows that he or she got the best available price and terms under the circumstances, while the buyer feels like the deal was fair. But when the selling process breaks down the results can be disastrous. Here are 5 common mistakes to avoid in order help you achieve your goals and reach the best possible outcome:

1. Unrealistic value expectations

It is shocking how many private company owners are surprised by how much their business is really worth. More often than not, business owners tend to overvalue their companies, and the problem with this is that in a sale situation they will be reluctant to accept a fair offer if they believe it is too low. At the end of the day, the business is worth what a willing buyer is willing to pay and a willing seller is willing to accept. It's critical that they understand what their business is really worth before they start the sales process. If the value is lower than expected, then maybe they have time to do certain things to help them increase the value before selling the company.

2. Lack of advanced preparation

They say that failing to plan is planning to fail, and this holds true in many areas related to the sale of a business. Most business owners want to extract maximum value as noted above, but they also need to take income taxes into account. Selling the shares of a business can result in a very different income tax bill than a sale of business assets, so it's important to understand the differences.

Planning in advance, may mitigate the tax burden. Also, the sale process typically takes 6 – 12 months, and some business owners are shocked by how much time is consumed and how intense is the process. Cleaning up the balance sheet also helps ensure that the owner doesn't leave any money on the table. These are just a few of the small things that can go a long way with a little advanced preparation.

3. Waiting until you must sell

None of us truly knows the future, so this one can be challenging. However, it is unfortunate that many business owners wait until a negative life event (poor health, divorce, death, etc.) arises before they decide to sell. When they hang on too long, they lose the ability to wait for an upward cycle in their industry, and value erodes very quickly in these circumstances. The best time to sell is usually when you don't have to. You'll know it's time to sell while you're still having fun, sales and profitability are growing, your reputation is stellar, and your health is good. Waiting until you have to sell can be troublesome.

4. Lack of a selling strategy

Professional athletes have strategies for winning their games, so you should have a strategy for the sale of your business. Timing is important: your company's performance, the economic environment, and your industry's outlook all make a difference because it's harder to sell during challenging times. Understanding the different potential buyers is important: strategic buyers will beright for some businesses, while financial buyers will be better for others. Know the difference. Finally, consider price, confidentiality and time; you can have your choice of any two, so it's critical that you decide what's most important to you.

5. Confidentiality

Selling a business is unlike selling real estate, mainly because people are a big part of every business. Many employees don't like change, so if they find out the business is for sale they're more likely to leave and turnover is usually bad for business. Similarly, if customers and suppliers know that a change in ownership is coming, then that sometimes opens the door for them to reconsider parts of their relationship with your business. There are some circumstances where confidentiality cannot be absolute (such as a car dealership or other franchise), but it is better to err on the side of caution with regard to information sharing.

Of course, selling a business is a complicated process and you need to avoid the common pitfalls that are frequently encountered. A professional advisor who specializes in the sale of private companies can help you steer through these and many other challenges that will inevitably arise. This article is intended to be very general in nature. It is important to consult with professional advisors when considering selling your business.

For more information, please speak with your BMO financial professional.

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09/22-1012_ACC ID6936