

## **Run Your Business Like You Have To Sell It.**

**Author's note:** While this article was written mostly for business owners, you will learn some of the pitfalls and warning signs to look out for with businesses you may consider purchasing. As well, it will provide you with some benchmarks to evaluate how to implement these suggestions once you own the business.

Industry statistics indicate that the average small business changes hands every five years or so. If you're thinking about buying a business, or own one now, the day will come (faster than you think), when you'll want to sell.

By positioning your business to operate in a certain manner starting today, you'll not only sell it for more, you'll actually make more money between now and then.

The key to selling anything is to make it easy for someone to buy. This is especially true when it comes to a business. There are certain things that have an enormous impact upon the eventual price you will obtain.

### **A Problem Later Is A Problem Now:**

If there's something in your business that would turn off a potential buyer, chances are it's also hurting your business today. Typical examples are high customer concentration, the possibility of losing a key supplier or employee, contingent liabilities, past claims, leases due to expire, inaccurate inventory, poor monitoring systems, etc.

While trying to build your business, even if you have no plans to sell it, look at it through the eyes of a possible buyer. By simply identifying possible issues, and fixing them, your business will improve immediately. Likewise, these matters will not come back to haunt. Don't think they'll disappear, or a savvy buyer won't uncover them. They'll stick around and hurt you today and down the road.

### **Keep Good Books and Records**

Any business broker will tell you that a business with super clean books gets the most action, and usually the purchase price is very close to the asking price. When the time comes to sell, a business with clean books and records will generally sell in the shortest time frame possible. In fact, this is usually the number one reason why deals fall apart (outside of major, sudden surprises).

In operating your business today, keeping great books will allow you to always have a true grasp on your cash flow and the ability to properly analyze expense and other activity.

## **Systems, Policies and Procedures:**

I once read that a company's manuals, policies and procedures should be explained in such a way that the lowest level employee can understand them. If you incorporate a methodology to deal with every possible scenario that comes up, and modify it continuously, think about the positive impact that can have when the time comes to train a new employee, expand the office, or open a new location. Instead of wasting endless hours getting people up to speed, all you need to do is "throw the book at them".

Similarly, every buyer is concerned that too much of the business may be new to them or that they won't ever be able to grasp the guts of the business. With top notch manuals, systems and procedures, this concern will be completely eliminated so they can focus on replacing you effectively.

### **What happens if you get hit by a cement truck tomorrow?**

Can anyone step in and run the business? If they can't, and something happens to you, the business will go down the tubes quickly. Not only will they forfeit your income, they certainly won't be able to sell it. So, if you are you "the business", better start working on your systems, or be certain that you always look both ways before you cross the street!

Unless an individual comes from a like industry, or is one of your current employees or partners, they will be worried about the transfer of your knowledge. Regardless of how simple your business model may be, training a new owner to do what you do everyday is crucial. The majority of people buy businesses that are in new industries (I don't necessarily agree, but that's the fact). As they go deeper into evaluating your business, they usually get nervous by thinking about all of the things they don't know. If you don't have a simple mechanism to show the new owner how to get up to speed quickly, or if they fail because your job role was too overwhelming for them, you too can suffer if you've participated in the financing.

### **Unreported Income – You Can't Suck and Blow!**

If you're in a business where you remove "cash" and don't report it to the IRS, well of course, that's your business, and your risk. The problem if you intend on selling the business, is that you're only cheating yourself. Some people claim that as long as you can "prove" the figures you'll be fine but it's not that simple. You may not want to prove the figures. If you've hidden it from the IRS, do you really want a complete stranger knowing about your "dirty little secrets"?

Furthermore, for every dollar you steal, you're probably saving thirty cents or so on taxes. On \$30,000 a year, over for five years, you've saved yourself a grand total of \$45,000 plus payroll taxes. Now, if you take the same \$30,000 per year, and record it properly on your books, the total amount will be added back to the total figure that a buyer will use to value the business, including the payroll taxes. Here's the kicker: businesses sell at a multiple. That same \$30,000, will have a two-three times multiplier

attached to it. On the high side that \$30,000 will increase the value by \$90,000. That's double what you saved by not reporting it.

From an operational standpoint, that same money kept in the business can be used for all kinds of marketing or business building. Use it right, the money can have a significant impact on the business, which again will result in more money while you own it, and two to three times more when you sell it. Sure "cash" is sexy, but in reality, it's nothing more than a temporarily high, just like a "one night stand."

Well all is said and done, if you approach the daily running of your business like you have to sell it tomorrow, you'll find yourself implementing strategies that will immediately improve your business, and will pay you multiple dividends down the road when the day arrives to sell it.