

23 MISTAKES PEOPLE MAKE WHEN SELLING A BUSINESS

What is unfortunate is most people who sell their business or company do not get the right information on how to sell their business for the maximum amount. The way they find an agent or business broker to sell their business is usually thru the internet or a directory. They find a website or get a phone number without really knowing what sort of person is going to sell their business. Here are some common mistakes below to avoid when selling your business/company.

1. Employing any broker without knowing their background:

Most people do not realise that 95% of business brokers have never had a business and that they only need to have completed a real estate agents licence to be allowed to sell your business. This is ridiculous. What does learning how to sell real estate have to do with knowing how to sell a business, and especially for its maximum value? This practice should be outlawed as it is like giving a second hand car salesman permission to give someone financial advice on what they should do with their superannuation.

2. Not having all the right documents and forms in order:

This is detrimental to a business when selling. In order to get the most for your business you must have all the relevant financial figures and documents available for the potential buyers to see. Hesitancy to release information is often interpreted by buyers that you have something to hide.

3. Not knowing how to present your business and all the documentation in a favourable way:

The more professional and organised in the way you present the business, obviously the more opportunity you have to get a better price for your business. We know this sounds like common knowledge but you would be surprised about how often we see businesses with their documentation in a shambles.

4. Telling a buyer that your business says it earns this much on paper but it really earns a lot more in cash:

People make a big mistake when they say that they only pay so much in taxes but they earn a lot more in cash and expect them to believe you and take your word for it. If you were buying a business and someone told you this, would you take their word for it? There are certain things that you can do to prove this if you know what to do, but just saying "I get this much in cash and take my word for it" will not work. By understanding how to prove this you can manage to get a significant amount more for your business.

5. Not selling to the right buyer

People make the mistake by just finding a business broker and discussing a price then just advertising it on the internet crossing their fingers and hoping someone will be interested. This is sadly how most people sell their businesses/companies. This definitely does not produce the best result for the seller. If possible and the business broker knows what they are doing (unfortunately all of them will say they do, but do not) the best case scenario would be to sell to a strategic buyer. We have seen businesses sell for more than 4 times what the business owner wanted just because we knew where and who to sell their business to.

6. Not getting a valuation:

You should always use a professional business valuer before selling a business. The valuer is an expert, providing a specific professional service in return for a professional fee. This means that the valuer has a duty to conduct proper research, and to use sound and professional judgment. A valuers assessment is always in writing, and must be able to withstand scrutiny by other professional valuers and, if necessary, by a court. All of this means that the valuer is a very reliable partner when it comes to determining the current market value of your business. Your valuer will also give you professional guidance without any ulterior motives when you are considering offers.

7. Listening to Bob down the road on what your business is worth:

Many people listen to couch experts who do not have a clue what a business is worth. As you probably already know, people love to give opinions on subjects and things that they really have no clue about. They may have good intentions but those intentions may end up costing you a lot of money

8. Telling everyone you are selling:

Avoid losing key staff and suppliers by keeping your business sale a secret. The selling of your business is a highly confidential matter. You should ensure all safeguards are in place to protect your company. One word to your suppliers, employees, or customers that you are selling the company can have repercussions on your business operations which in turn can devalue your business.

9. Not having key contracts in place:

You should have important contracts in place. There are too many to explain in this report but not having key contracts in place will also have a very big impact on what your business sells for. By just having a couple key contracts in place you can more than double the value of your business.

10. Not having systems in place:

Many business buyers want to buy a business and not have to work in it if they do not have to. By having the right systems in place your business can be worth significantly more and also put you in a position to sell your business a lot quicker.

11. Believing that someone is going to come in and pay 100% cash upfront:

Most business sales (there are a few exceptions but not many) require the seller to “carry paper” for some percentage of the sale price. If you’re not ready to consider this likelihood, you may not have realistic expectations. And if someone tells you they can sell your business for 100% cash, that’s an indication you should not trust them. If you do manage to get 100% cash straight away for your business, there will be 3 key reasons for this. You are either selling your business for a lot less than it is worth, the buyer is not very educated and is taking a big risk or you have a key business that someone really wants. Usually, a buyer will want to pay a percentage of the sale price say for example 75% up front and then 25% 6 months later.

12. Setting Selling Price Too High:

This is a common mistake that people make when selling their business because they are too afraid to sell their business for less than its worth. Pricing your business too high will just drive away the real buyers and they will move on to the next business. You will be left with just lookers and more times than not, you will have to sell the business for less than it is worth because all the Real Buyers are gone. Getting a valuation will help prevent you from selling your business for less than it is worth.

13. Setting Selling Price Too Low:

If your business sells too quickly it could be a sign that it is underpriced. Getting a certified valuation can save you tens of thousands of dollars and prevents this from happening to you.

14. Business Sits On The Market For Too Long:

You should always try to sell your business within 90 days. If you have not done this, the qualified pool of buyers will more than likely have dried up. Also, if buyers know that the business has been on the market for more than 90 days, they are more than likely going to really try to crunch you down on price.

15. Falling For The Highest Price Agent/Broker:

This is one of the most common traps business sellers fall into. The broker who quotes the highest selling price may be just trying to get you business and once they have signed you up, they will then start conditioning you. The explanation about conditioning is explained later in this report.

16. The Quote Trap:

The quote trap is very similar to conditioning. Basically it is a price the agent will tell you that they will get you for your property but once you have signed they will try to bring you down in price.

17. A Poor Negotiator:

The agent you employ must be a good negotiator. If you have an agent who is not a good negotiator, this will generally get you a lower price for your property.

18. Rejecting Early Buyers or Failing To Take The First Offer Seriously:

Many sellers make this mistake believing that because it is the first offer that many more will come in at a much higher price. Unfortunately this in a lot of cases is not what happens and the first offer they got ends up being the best offer they end up getting. Carefully consider every offer you get and negotiate with every possible buyer to achieve the maximum price for your property.

19. Not Responding To All Offers:

You should respond to all offers. Do not take it personally if a ridiculously low offer comes in. People have different tactics in the way they bid for a business and we have found that sometimes, the people who start off low end up paying more than the seller previously wanted.

20. Emotions Getting In The Way:

Don't let this happen to you. As you would already understand, the person who loses their cool in negotiations will generally always end up losing. There's a good chance that if you let your emotions get in the way, it could end up costing you a lot of money.

21. Becoming A Victim Of Conditioning:

Conditioning is rife in the business brokers industry. One of the tricks agents employ is to give you a certain price they can sell your business for and when they have signed you up, they will start finding flaws in your business in order to get you to lower your price. Another one is bringing in people to inspect your business and later on tell you that these people were interested but they all said it was overpriced. There are many more tricks they employ to get you to lower your price and too many to mention here.

22. Not Having The Right Clauses In The Contract:

Not having the right clauses in your contract can be detrimental to you. You must always put in the right clauses to protect yourself and to give you more power in the selling process.

23. Dangers Of Not Using A Third Party when selling:

When using a third party it gives you more perceived power in the sales process. It also helps when negotiating and takes out the risks of any agents trying to use any industry tricks on you because the agent knows that you have professional help from people who understand the industry. Also a third party can help you to get the right clauses into your sales contract to help protect you and many other benefits that are too many to mention here.

By knowing what to do with your business and how to structure it for sale, you may be able to get up to 4 times more than you thought you could.

If you are thinking about selling your business and would like to find out how you can maximise your sale price, please feel free to call us **1300 00 2734** for a free no obligation consultation to find out what we can do for you or alternatively go to our website **australianbusinessbrokers.com.au**.

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