Two biggest mistakes when buying or selling a business

The biggest mistake buyers make is not considering return on investment. A buyer should look at a business purchase as an investment. Compare that investment to other uses of the same money.

Example - a conservative mutual fund returned around 7% over the last five years with no other effort but making the investment. How does that compare to the business you want to buy? How much effort will be required to get that return?.

The biggest mistake sellers make is not having an exit plan. Leaving a business is exactly like starting a business - you need a plan.

Three must-haves for an exit plan

1. **Prepare your finances** - this is the one that kills the unprepared. A seller needs to present a clean, comprehensible, attractive financial picture of the business.

   A seller wants to show an attractive return on investment, to answer that one buyer question above. It generally takes several years to transition from “minimize taxes” to “make a show pony,” so give yourself some time to get that done.

2. **Look at realistic options for your business** - some businesses in some sectors just don’t hold very much value. It’s important to be clear on what you have to sell.

   Businesses with valuable assets, a solid team and an attractive market of repeat customers will bring the best selling price. Others bring less.

   I’ll use the business my wife and I own as an example. A personal services business with few assets has *very little* resale value. We are not planning on funding our retirement with the sale of that business. Many small businesses are limited to either a marginal selling price or liquidation. If you own a low-resale-value business, it might be best to prepare for retirement by investing proceeds rather than cashing out in a sale.

3. **Have a marketing plan** - If you have a saleable business, who will you sell to and how will you get the word out? Overlooked potential buyers include employees and competitors.

   Good partners in promoting your business sale include financial advisors, commercial loan officers, economic development professionals and CPAs. In other words, people fluent in finance who talk to people who have money. These people will also keep your information confidential.