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With four specific services, The Center provides complete unbiased planning. The Center does not sell any products; its main purpose is to provide advice. Local experts are retained to implement the plans developed by the Center. The Center for Financial, Legal & Tax Planning is located at 4501 W. DeYoung Street, Suite 200, Marion, Illinois 62959. Phone 618-997-3436; Fax 618-997-8370.

Dr. Bart Basi

Maximizing Your Business' Value:

Improving Your Operation and Profitability

The time is ripe to sell a business! With interest rates being low, the growing economy, capital and ordinary gains tax rates being low, and tax rules as they are, now is the best time to sell a business. Sellers under these circumstances will get maximum value for their business and buyers will be able to borrow money at low interest rates to help in financing the acquisition.

Still, with all of these favorable market conditions, financing, and tax conditions in place, sellers can do even more to maximize the value of their business to potential buyers. Specifically, sellers can: 1) Improve the operation and profitability of their business, 2) Recast their financial statements, and 3) Have their business valued by a professional.

This article will focus on improving the operation and profitability of your business and will be the first in a three-part series on the topic of maximizing value. The key thing to remember in maximizing value is to be buyer oriented while not losing sight of your goal. Business buyers want good cash flow, solid earnings, an easy ownership transition and they want the operation to be a turnkey operation, just to mention a few wants of buyers. On the other hand, you, the seller, want low taxes on the exchange, an easy transition, and above all, value maximization. Reading this article will inform you as to what is involved in this very important process.

Getting Started

The first thing you will want to do when adding value to your business is to take a hard look at the operation as a whole and ask yourself questions such as: Who can help me? What are my business' strengths? What are my business' weaknesses? What can I possibly improve? What is just going to have to be eliminated? After examining the business and answering those questions, you can then begin the process of maximizing value.

Choosing Professionals

The absolute best time to get professionals involved is at the beginning. Experienced professionals can help the process along in ways that you cannot imagine. Attorneys and accountants are excellent to have on board from day one. Just be sure when choosing a professional that they have a background in tax law and handle business sales for a living. An attorney that defends DUI cases and practices family law is probably not the best choice for an attorney in a business sale.

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Probably the best way to find an attorney or other professional is through word of mouth. If you are a member of a business association, members are happy to provide you with recommendations on who to choose as a professional. This way you can get a thoughtful recommendation regarding the professional.

Many times professionals also give seminars and lectures at these associations. Being that they are affiliated with the association is usually some indication that the professional is familiar with the issues that businesses in your association are faced with. Try sitting in on these seminars to preview the professional and see if you can talk with him or her afterwards. To find relevant associations, you may look up associations that are relevant to your business on the internet.

Whoever you choose, make sure the professional is someone you feel you can work with and will work hard for you. Sometimes, the task of maximizing value and selling a business can be an arduous event. Therefore be sure you and the professional are comfortable with each other. Once you have looked at your business and chosen the correct professionals to work with, the next step is to begin the work which will increase the value of the business.

Improving Income

Before the sale of a business, you will want to increase business income to add value. Income of course, is revenue minus expenses. Unless you feel that one or both variables are at their pinnacle of performance, you will be best served by attempting to modify both of them.

Increasing revenue tends to be a longer term strategy than cutting costs, but if you have two or three years to plan, you will be well served by it. You will want to analyze all aspects of your revenue situation. For some this may mean more advertising, hiring or firing salespeople, or simply being open more hours if you are a consumer level business. Manufacturing and farm type businesses may want to invest more in machines and investments that increase output. If you do not have enough labor to carry the load, consider hiring more people. The bottom line is, raise your revenues. In one case, it was recommended that the owner buy more customers from another business.

The other parts of the equation, expenses, can usually be cut quickly and easily. One of the easiest and most substantial expenses to cut is your own system of company perks. If you are contemplating laying people off, now may be a good time to do so. Your accountant can also help you cut expenses. Suggest to your accountant that he capitalize some assets as opposed to expensing them immediately. Companies with low expenses are attractive to buyers, because if anything goes awry with the revenues, the new owner will be able to handle the downturn without losing too much money.

Improving Your Assets

Examine the assets in your business and their productivity. Buyers want to buy businesses that have productive and profitable assets. Non productive assets and obsolete inventory do not add value to your business in the eyes of a buyer. Personal property should also be removed as well. Your company car may look great when reducing your tax liability; but to a buyer, your personal car is of no interest. Therefore, remove assets from your company that are not productive or profitable and therefore run up the cost of your business while not adding value. The losses you take now could be netted against the gain from the sale of business, creating a tax asset for you to use.

Real estate is also another big consideration as far as assets are concerned. The real estate should not be part of the sale, remove it from the business. If you think the real estate should be part of the deal, it may be wise to talk to your professional. When buildings are sold, they tend to generate income which is taxed at a higher rate. Therefore, it may be better to hold onto the property personally as opposed to selling it in a business. Also, many buyers want to buy productive assets and not real estate.

There is also the maintenance aspect of assets. New buyers tend to like to see all assets in good working condition. Look at all your assets and fix what needs to be fixed for efficient operation of the asset. Assets which are not broken, but are currently not being operated, should be checked to see if they are operational. Certainly you will not provide a warranty that everything is in perfect working order, but operating equipment is worth more to a buyer than nonoperating equipment.

Also included in assets are accounts receivables. If you have receivables that are overdue, you will either want to collect the accounts or write them off as uncollectible. Buyers tend to want accounts receivable that are clean and are going to require no effort or legal action on their part to collect. A clean accounts receivable will add value to your business.

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Reducing Debt

A company that has little debt is the sign of a healthy company. Buyers like to see little debt because it is a sign of health and past profitability. By cutting your perks, you can send money which would otherwise go to you to liabilities such as accounts payable and credit cards. Other long term obligations such as auto and building payments may not be able to be reduced, but if that debt is the only debt you have, it could be acceptable to buyers. Monthly payments on debt tend to confirm the existence of the assets, and if a buyer is going to make money on the assets which he is paying for, the debt verifies the existence of the asset.

Long term obligations such as pensions can be frightening to prospective buyers. Since pension liability has become so large, many buyers will not look at a company with large, looming pension payments. It is best to offer your employees a present value amount to get out from under the payments and perhaps close out the fringe benefits. United Airlines recently received approval to eliminate their pension program, essentially eliminating millions of dollars of debt from their books.

Eliminating Potential Legal Liabilities

Other than financial liabilities, there are taxes, lawsuits, and environmental liabilities. No buyer wants to see a potential lawsuit. If your company holds real estate, be sure to have an environmental Level I done on the property and have the report handy for a buyer to look at.

Pending lawsuits greatly dampen the value of a business and they take a long time to resolve. Waiting until lawsuits are resolved is a good strategy if you want to bring the value of your business to an optimal level. Settling can be costly. Often, attorneys will want more to settle a lawsuit in advance as opposed to right before trial.

The IRS can be another liability buyers do not want to be involved with. Tax liabilities tell a buyer that this company was not very profitable or the cash was insufficient to handle the taxes payable. If the company had been profitable and provided positive cash flow, the taxes would have been paid. Therefore, you will want to see an attorney to deal with tax matters before you attempt to sell your company and be sure these matters are settled.

Employees

Make sure your rank and file employees are employees that a future employer would want. If one employee is having problems or is underproductive, reform or replace that person. Walking into a potential personnel problem is not the desire of buyers. On the other hand, if you have star employees, be sure to emphasize their strength to a potential buyer.

If your company is a business that will have an independent manager from the buyer, you may be well served by hand picking a manager from your company and grooming that individual. Having a manager ready can add value to your business. I would strongly recommend grooming an individual to take the reigns of the business for many other reasons as well.

Housekeeping

Last, but not least, clean house. It will pay off big to clean and keep the physical location of the business clean. Further, it may be beneficial to redecorate the areas the public sees and generally make the place look nice. Remember, a first impression is lasting.

Conclusion

There is plenty of value to be gained by fine tuning your business. Ideally, these changes should be started four years before the business is put up for sale. If you have that type of time frame, you can maximize your value. Otherwise many of the changes suggested should be implemented as rapidly as possible. If you are considering selling your business, consider these points and don't hesitate to contact the professionals at The Center for assistance in strategic planning and all other aspects of selling your business.