

TODAY'S BUSINESS SCENE

the newsletter for privately held businesses



Arizona Business Sales, located in Scottsdale, Arizona, established in 2000, is a full service business brokerage firm specializing in the confidential sale and acquisition of closely held private companies and commercial real estate. We have been providing buyer and seller representation services in the main street and lower M&A markets, with transaction values between \$500,000 and \$5 million, many containing a real property component. We represent clients in all cities in the Phoenix metro area as well as Flagstaff, Prescott, Sedona, Kingman and most other cities in Arizona.

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Preparing For Your Eventual Retirement

Many business owners are truly committed to their businesses. As a result, it is very difficult for them to step away even when they approach retirement age. It is not uncommon for business owners to keep working into their golden years. But the truth of the matter is that at some point almost everyone will need to embrace retirement whether it is for health issues, moving to a new location, or simply for greater peace of mind.

If you see this path approaching for you in the near future, it could feel overwhelming. After all, most people have not sold a business before. As a result, they feel unclear about the process and don't know where to start. However, everyone should be thinking about the eventual sale of their business because this future event should determine many of your current activities and decisions.

Let's take a look at some things you can do well in advance to ensure that an eventual sale of your business goes as smoothly as possible.

Automate Processes

When prospective buyers look at your business, they will want to be able to easily envision it operating smoothly without you involved. Because a good portion of business owners are so integral to the functioning of their businesses, it can be difficult for them to figure out how to decouple themselves from operations. In some cases, this process can take years.

Now is a good time to consider this issue and what you can do to make sure your business can function without you one day. Give some thought to who at your organization could be a second in command. When a buyer sees that a competent and knowledgeable employee will be staying on to assist them, it can go a long way in allaying any concerns.

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Preparing For Your Eventual Retirement (continued)

Put Yourself in the Buyer's Shoes

Imagine you were buying your business. What kinds of issues might be of concern to you? Chances are these will be the same issues that could concern potential buyers. Once you have identified any spots of weakness, you can start to zero in on figuring out how to handle them.

First and foremost, you will want your buyer to feel confident that there will be a smooth transition and that they can almost

immediately begin to profit from their purchase of your business. Anything that you can do to help ensure that is true will benefit the sales process.

Business brokers and M&A advisors are experts in the world of buying and selling businesses. They will help you to properly evaluate your business and look for these areas of weakness. Through this means when you do decide it is time to retire, the process will go more quickly and seamlessly.

A photograph showing four business professionals (three men and one woman) in a meeting. They are seated around a table, looking at documents and talking. The setting appears to be a modern office or conference room.

Storytelling and Its Role in Selling a Business

When it comes to selling a business, there is more to it than just relaying the facts. It's also important to emphasize the story behind the business. Business brokers and M&A advisors are also storytellers, as they must convey to buyers the story behind the business and how it can ultimately be transformed.

It is through storytelling that humans organize the information they have about the world. In short, storytelling is an exceptional way to learn lessons in life and a great way to frame information about a business to sellers.

Telling Your Story

Everything begins with the financials, in short, the facts of the business. When a business broker or M&A advisor begins working with a seller, he or she will look to gather those details. Once that information has been gathered, it is possible to begin to create a story. That story can be presented in many ways, including through a confidential business review or confidential information memorandum.

While many, if not most, buyers and sellers may think that when it comes to business, they are cold and methodical like a reptile on the hunt, the truth is more complex. Human emotion always comes into play. It is no accident that well-crafted stories, with their power to motivate and guide, play a role in the art of buying and selling businesses.

Decisions are Guided by Emotion

If we want to make the best decisions, it is important to consider the role of emotions in our decision-making. "In order to have anything like a complete theory of human rationality, we have to understand what role emotion plays in it," said scientist Herbert Simon who is an American Nobel Laureate. [1]

Good stories grab the imagination and enable people to expand their definition of what is and is not possible. When buyers are considering buying a business, it is important that they can picture themselves as being the hero that transforms that business and takes it to a new level. It is a story of evolution and reaching new heights while simultaneously achieving one's own goals.

It is no accident that so many of today's mass culture storytelling revolves around sequels. The notion that there is a "storytelling continuum" where a buyer can plug into something that already has a history can be a powerful motivating force. Most epic stories have the hero as part of some sort of continuum. In other words, the hero does not simply appear out of nothingness. It is the hero's mission to transform the world, in some fashion, for the better.

[1] <https://www.forbes.com/sites/forbescoachescouncil/2018/05/09/how-your-emotions-influence-your-decisions/?sh=7bda49da3fda>

What Will Your Buyer Be Looking For?

The buyer loves your business; it's just what he or she has been looking for. He has reviewed your financial statements and has made an offer contingent on several items. You've reviewed the offer and it looks fine, so what's next? The contingencies in the deal mean that the buyer or his or her advisors have some concerns. In larger deals, this process might be called due diligence. However, in the smaller business sale, the items of concern are usually spelled out as opposed to a general review of everything. The reason for this is that larger businesses or companies have a lot more areas of concern than the typical smaller business.

Most contingencies concern the review of financial statements and/or business tax returns. Others may involve lease issues, the seller staying on for a set period of time, or some very specific issue such as repaving the parking lot, if the landlord won't or isn't required to.

Unfortunately, some contingencies may be hiding other ones such as a list of fixtures and equipment included in the sale. Sounds easy on the surface, but the seller forgot that two pieces of equipment currently not in use need repair or the walnut desk in the office belongs to Grandfather Smith and is not included. Or, while reviewing the lease, the buyer discovers that the landlord requires that the business must close by 9:00 PM or some other restriction applies and was not disclosed. Deals have fallen apart over similar issues.

Most contingency problems can be resolved prior to the business being placed on the market. The seller should do all of the following:

- Check the status of all furniture, fixtures and equipment (FF&E). Remove any that are not included in the sale or are inoperable if not in use – or make repairs.
- Review any contract such as the lease, any equipment leases, and contracts that will be assumed by the buyer. Make sure there aren't "clinkers" in them. If there are, disclose them to a potential buyer out front – and be sure your business intermediary is also aware of them.

- Be prepared to answer questions such as:
 - Are there any environmental, governmental or legal issues?
 - How long will you be willing to stay and work with a new buyer – at no cost?
 - Will the employees stay?
 - Why was last year the worst one in years?
 - Why was last year the best one in years?

The list could go on and on, but sellers need to be ready. Buyers don't like surprises. A business broker professional knows the process like a book and can be invaluable in preparing the business for the marketplace.

Why Is Confidentiality So Vitally Important?

When it's time to sell a business, you will want to keep confidentiality first and foremost in your mind. The reality is that many deals do not succeed when confidentiality is breached and others learn that your business is for sale. Let's take a look at why this is the case.

What Can Occur When Confidentiality is Compromised?

If vendors or suppliers find out that your company is for sale, it can negatively impact your business in different ways. One common occurrence is that vendors begin to change the terms they have established with you. Even a small change might end up not being minor at all, as it could impact cash flow. The same can be said for word of your business being for sale reaching your creditors, as they could also suddenly change their terms.

Another major issue that could be caused when confidentiality is breached is that your employees and customers might begin to worry. Employees could even start looking for new jobs. Your customers might worry about the new ownership and preemptively stop patronizing your business.

It goes without saying that you won't want your competitors knowing that you are selling your business. This might make

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them more aggressive, and they could even start using this knowledge to take your customers.

On some occasions, business owners set out to sell their business on their own. Unfortunately, this decision can put them at higher risk for confidentiality breaches to occur, which start to cause things to go wrong. When you are in the process of selling your business, you will want everything to appear as steady and reliable as possible.

Keeping Up Appearances

When a buyer is carefully vetting your business for a potential acquisition, you won't want anything showing up on the radar that could give them pause. It's important to show that the business is continuing to operate in a successful manner and there have been no recent changes.

The good news is that business brokers and M&A advisors have proven strategies that will keep the news that your business is for sale confidential. Your brokerage professional will be sure to vet all prospective buyers, and they will use the most reliable confidentiality agreements that will protect your best interests.

