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## Selling Your Business Requires Tough Steps



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Small business

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Planning to kick back and retire? Planning on selling your business to finance those golden years?

Hope you've already started planning — and that the process embraces more than the business' balance sheet: There's the not-so-little matter of how well you've prepared the business to run when you're out of the picture.

“The strength of your bench determines the value of your business,” says Nick Howard. “A third party buyer will want some bench, so you have to identify your key talent and prepare your team for transition.”

Howard is a psychologist and business coach whose practice, Leadership Focus LLC, is in Plainfield. He also is an adjunct staff member at Joseph Associates International Inc., a business broker with offices in Naperville and Chicago.

“It's hard for business owners to embrace the fact that they are replaceable,” Howard says. Nonetheless, he adds, the owner's ability to overcome the idea that “the business only works when the owner is there is the difference between a great retirement or a painful one.” The necessary planning ideally starts four years out.

The business' financials matter too, of course.

“My buyers look at a five-year minimum time frame. Buyers buy cash flow,” which means that many smaller businesses “must spruce up,” says Tim Johnson, a partner at the Naperville accounting and consulting firm of DiGiovine Hnilo Jordan & Johnson Ltd.

Getting the balance sheet in order takes time. “Many small businesses have overhead they don't need,” Johnson says. Typical are such “built-in perks as full health insurance coverage — which is just not the real world.

“The company car may be a Cadillac when something less expensive will do, and there may be four people doing a job that three can do. Owners know where the problems are,” Johnson says.

The fact is that many small businesses, especially family-owned ones, often can pare expenses — and must do so to present a good balance sheet to prospective buyers.

“You may spend the first two years cleaning up the operation,” Johnson says. “You'll have to drive up sales and drive up margins.” You might, he adds, even have to “fire the kids, especially if they're overpaid by market standards.”

Most business owners ultimately do understand the financial realities of selling the business to finance retirement. Getting a grasp on building the bench is harder.

“It's difficult for owners to have a vision of how the business will run without them,” agrees Howard. “But they have to think about this.”

Having a team in place that can run the business for a third-party buyer — or perhaps buy the business — “can mean a difference of hundreds of thousands of dollars” when it is time to sell, Howard says.