

Loose Lips Can Sink Ships When Selling

If you're thinking of selling out, keeping certain aspects of the deal secret can make or break the sale. Consider this scenario: During negotiations with a buyer, news leaks out to your employees, vital customers and competitors. Managers and customers jump ship and as a result, so does your buyer.

This scenario isn't as far-fetched as it may seem, warns Steven Platt, a merchant banker at S.K. Platt & Co. in Highland Park, Ill, who specializes in financing, buying and selling privately held growth companies. "The implications of leaked information during the sale of a division or company can be devastating, both internally and externally," he says.

Platt recommends taking some precautions to safeguard the sale. For starters, he suggests owners insist that all potential buyers sign a nondisclosure agreement before allowing investigations into the company to begin. "These documents are not complicated, but they need to be highly restrictive," advises Platt.

Clauses should include guarantees that potential buyers (a) will not attempt to hire any of your employees out from under you; (b) will not disclose in any way that sales negotiations have occurred; and (c) will have only limited access to proprietary information, such as technological secrets, during the investigation.

Secondly, Platt urges owners to take control over the amount of financial information they release, especially during the early stages of negotiations. "It can be very damaging for private companies to release financial information or financial statements — especially if negotiations fail to result in a sale," says Platt.

He strongly urges owners to release only financial summaries (rather than audited statements) in the beginning stages of putting together a deal. Lastly, work out a deal that is mutually beneficial in terms of the buyer's access to your customers that protects the interest of both parties. For

example, Platt suggests two possible approaches: "Agree that before closing the deal, the buyer will talk to your two biggest customers — but not before the morning of the closing."

If this approach is simply unacceptable and too rigid for the buyer, yet you are satisfied with the terms thus far, here is an alternative to consider. Agree to tell your customers you've hired an independent consultant who's going to call on them with some basic questions and make certain that when the calls are made, the buyer identifies himself or herself exactly that way.

This allows you to maintain your confidentiality and if the deal falls through anyway, it could provide you with some valuable feedback from your customers about what you're doing right as a business owner and reveal areas of improvement you might not have thought about before. This information could also come in handy for future sales presentations to other potential buyers.

There are many other common blunders entrepreneurs make when selling a business, according to Allbusiness.com, a small business advice web site. In addition to letting information leak, another common mistake is setting the price too soon. The site recommends careful assessment of the value of your business with an accountant or financial advisor, and your attorney to avoid the pitfall of selling yourself short. The rule of thumb to remember is, you can always come down, but generally cannot go back up once you have set a price.

Many entrepreneurs try to go it alone in the selling process, but the site warns that doing so can be a costly error. It advises seeking out sound business and legal advice from professionals who are experienced with selling businesses. Selling a business, after all, can be a complicated process and not one to take on without expert assistance.

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- The average American house built in 2005 was 2,349 square feet in size, a 12% increase from ten years ago. The median price of existing homes in America has also increased to \$218,000 — a 14.1 percent jump from last year.
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If the segment of your business that isn't profiting has got you considering selling out, here's another option to consider, a partial sale. This will enable you to focus your efforts on the work you enjoy and provide a financial boost you can use to invest in it.

Making a partial sale can be tricky, because you will need to break out the financial information and prepare a two-year profit and loss statement

for the separate business segment you are selling. To ensure you can provide an accurate financial snapshot of that business, you might want to hire an independent accountant to perform the work or at least review yours.

When looking at potential buyers, don't overlook vendors or others you already work with on a cooperative basis. If some of your associates work with larger corporations that deal in similar markets, pitch the segment to them. Your business may be worth more to a larger corporation than an individual buyer as it will likely have the resources and network to turn profits quickly by folding it into one of their business units. In addition, a larger corporation trying to grow quickly in a strategic area may be willing to pay a fat premium to expedite acquiring market share.

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