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**Exit Strategy:**

*When is the best time to sell?*

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"Is this a good time to sell my business?" I get asked this question a lot. Those who know me well, know that I have a habit of answering a question with a question. So I ask the business owner, "are you talking about seasonal timing, the economy, the lending environment, the current industry appeal, their business placement on a business cycle, or their specific internal and personal issues unique to their business.

**The Economy** - This is a tricky one. It might even sound counter-intuitive. For most small businesses that are doing well, the best time to sell is when the economy is NOT doing well and un-employment is high. This is because people are out buying a job. They are not leaving the security of employment and take a risk on a business. They are looking to taking control of their destiny. However, if your business takes a hit to its cash flow during in a down market, then the valuation takes a hit too.

**Lending Environment** - When rates are low, business valuations are high. Example: A loan payment of \$2000/mo. for 10 years at 7% supports a \$172,253 loan vs. at 10% interest a \$151,342 loan. When rates are low it also seems that lenders are looking for loans and are less conservative. So the best time to sell given this criterion is before you think rates are going to climb.

**Industry Segment** - Most industries have their ups and downs.

Some are short like the cigar stores, coffee houses, exercise franchises, cell phone agency stores; some long like shoe manufacturing. Sellers have little control over this.

**Business Cycle** - The best time to sell is when the business is in a stable position and before cash flow starts to decline. Prior to that there is potential in value that won't be realized; after that value that, maybe never recovered. Unfortunately we see sellers who wait too long, hoping that next year will be better. After a few years of this



the decline in the business is substantial. Occasionally we have sellers who want to sell after a few months in the business ... I want to scream "what are you crazy?" As long as they understand that they don't have a business to sell but instead have assets to sell, then we can proceed. (See Business cycles issue 4 - <http://www.balfourcommercial.com/cover%20Article.pdf>).

**Unique Internal Company Considerations** - The closer the business is to being able to sell as a turnkey operation, the better. The more the business is in crisis and dependent on the owner, the worse. Unlike the topics above, this is where an owner can work and position their business for sale. A business that has people, policies, procedures, pro-

fits, and systems in place is the business people want to buy. I have often advised people to call me two years before they want to sell so we can look at this area and 'position' the business for sale.

**Personal Considerations** - This is usually the most important of all. Passion. Passion is what drives most businesses. When it's gone its gone. It will reflect in declining sales, declining profits, declining moral, declining market share, declining energy, missed opportunities, and perhaps in declining health. Passion alive sparks creativity, is contagious amongst personal, a business looks blessed w/ 'luck', and energy is bountiful. The owner feels he is in control of the business vs. the business being in control of the owner.

So when is the best time to sell? The optimum would be before you run out of passion, before interest rates rise, when the business is close to a turnkey operation, when the economy has high unemployment but is seeing improvement, and the business is highest on profit.

Oh, if it were only that easy. The best time to sell is when you are ready. Preparing to be ready is a wise business decision. Theorist say, "you should be preparing to sell before you buy". Ya, right. Guess that's why they aren't entrepreneurs. Give us a call. We'd love to help you 'prepare' your business for sale.