

TODAY'S Business Scene

THE NEWSLETTER FOR PRIVATELY HELD BUSINESSES

Volume 3 Issue 1



Planning for the eventual sale of your business is time well spent. Here are some simple steps:

- Get an Annual Business Appraisal
- Get to Know a Business Broker
- Keep Financials Current
- Report all Income

Regardless of when you plan to sell your business these four items will take you a long way in receiving the highest possible selling price in the shortest amount of time.

Since the average business takes nine to twelve months from listing to closing it makes sense to have your homework done.

If you are a North Carolina based business owner you can have a Certified Enlign Business Broker meet with you without cost or obligation. During this meeting you will learn how business brokerage works, what the costs might be, how much you may be able to sell your business for, what buyers are looking for (and avoiding) as well as what steps you can take now to maximize the value of your business when you are ready to sell.

Take the first step to insuring the successful sale of your business and call us today at 919-341-8625 or visit www.Enlign.com to set up a confidential appointment.

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Why Your Business Is Valuable

Some business owners don't realize that, in spite of all of the problems with their business, it still has value. Most business owners face constant problems in running their business, no matter how much time they put in; or how much money is invested; or how efficient they have made the business operations. It is, as they say, "the nature of the beast."

Operating a business is not an easy job, so when it comes time to sell, business owners tend to look at only the negatives. "Who would want all of these headaches?" they ask themselves. However, by looking at the positives, especially from a buyer's vantage point, a business owner can see the value he or she has really created. By purchasing an existing business, a buyer eliminates many of the problems encountered when starting one from scratch. As the media constantly point out, the failure rate in starting a new business is very high. Failure is reduced considerably when one buys an existing business. Here are just a few of the reasons: *Continued on Page 2*



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Some Dangers in Choosing a Business Broker

Selling a business can be the largest transaction of a business owner's career. Therefore, it's extremely important that the business broker be competent, ethical, and experienced. Here are just a few of the things you should look out for when choosing a business broker to represent you.

Co-Brokering

Co-brokering is when the listing agent of a business is willing to share his commission with another broker representing a buyer. Most business brokers won't. Make absolutely sure yours does. Here's why:

- A business broker who is unwilling to share their commission is excluding some of the most qualified buyers.
- The broker is putting their own needs (the commission) ahead of yours (selling the business).
- The broker is increasing the time required to close – delaying the completion of your exit strategy.

Licensing

North Carolina does not have a licensing program for business brokers. What this means to you:

- ANYONE can claim to be a

business broker and act as an intermediary in asset sales. Virtually all private companies are transacted as asset sales.

- There is no oversight of business brokers at the local or state level. It is up to YOU to insure that the business broker is appropriately qualified to represent you and your business.
- With no licensing requirements there are effectively no barriers to entry for those wanting to 'try' business brokerage. National statistics show that 30% of all business brokers move on to other fields each year.
- Real Estate Agents are licensed to sell homes and/or commercial property - not businesses. Just because real estate agents have similar compensation structures does NOT qualify them to act as business brokers or vice versa.

Experience

The business broker you select will be representing you and your business. Insure that they meet t following minimum criteria:

- Current member of the International

Business Brokers Association (IBBA) or American Business Brokers Association (ABBA) – preferably both.

- Has at minimum 2 years of experience working with business owners, marketing businesses for sale and closing transactions.
- Have either owned a business, previously bought a business or previously sold a business (with and without a business broker). If you find a business broker who has accomplished all four you've hit a home run.

Visit www.Enlign.com for a complete list of questions when interviewing a business broker and 3 additional FREE reports.



An Established Business

An existing business is a known entity. It has a historical track record. It has a customer or client base, well-established vendors and suppliers. It has a physical location, furniture, fixtures, and equipment in place. The term “turn-key” operation is over-used, but an existing business is just that, and has a host of other attributes.

Business Relationships

In addition to the existing relationships with customers/clients, vendors, and suppliers, most businesses have experienced employees who are a valuable asset. Buyers may already have established relationships with banks, insurance companies, printers, advertisers, professional advisors, etc. If not, the existing owner does have these in place, and they can readily be transferred.

“A Pig in a Poke”

Starting a new business is just that. No matter how much research, time, and money are invested, there is still a big risk in starting a business from scratch. You don’t necessarily get what you see. The existing business, however, has a financial track record and established policies and procedures. A prospective buyer can see the financial history of the business – when sales are the highest and lowest, what the real expenses of the business are, how much money an owner can make.

Price and Terms

With an existing business, the seller has everything in place – the business is in operation and a price is established. Opening a new business from scratch can be the proverbial “money pit.” Purchasing an established business, the buyer knows exactly what he or she is getting for his money. In some cases, the seller is also willing to take a reasonable down payment and then finance the balance of the purchase price.

The “Unwritten” Guarantee

By financing the purchase price, the seller is saying that he or she is confident that the business will be able to pay its bills, support the new owner, plus make the payments to the seller.



The Prospective Buyer

It is important that potential sellers understand just what buyers go through to become business owners. Statistics reveal that only about 1 out of 14 would-be business buyers actually buy a business.

If the prospective buyer is employed, he or she has to make the decision to leave the job. Then there is the necessary financial commitment, including any loans or assumption of debt relative to the purchase of a business. There are also the issues of family and personal responsibilities – an unsupportive spouse can nullify a purchase. Another factor to consider is that most buyers are first-timers, and since they have never owned a business, the prospect of doing so can be daunting.

The real sticking point, however, is whether the prospective buyer can make the leap of faith essential to purchasing their own business. The inability to make that leap is why many who want to go into business for themselves don't.



Are Your Employees Your Future Competition?

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othing is more shattering to a business owner than to have a valued employee announce that he or she is leaving and opening a competitive business. If the business owner doesn't have anything in writing covering this situation, all an owner can do is wish them luck or throw them out the door – depending on his reaction to the news. By then it's too late to do anything.

What could have been done? Unfortunately, the business owner hires someone and over the years, a relationship is established so that the owner feels that the employee will be there forever. When the person was hired, the owner didn't know whether he or she would or could do the job, and by the time it was established that he could, it seemed that asking for an agreement was unnecessary or would even be considered an insult by the employee.

It would be prudent for an employer to require anyone hired for a key position to sign some type of agreement containing the terms under which an employee could leave his or her employment. Such an agreement is commonly termed a "noncompete agreement."

In an article titled "Lose the Employee, Keep the Business," by David Koeppl, in the New York Times, there are three basic ways of handling the noncompete issue. Koeppl writes, "The legal protections fall into three categories. Noncompete agreements bar employees from competing directly with their former bosses. Nonsolicitation agreements prohibit them from recruiting employees or clients of the business

they left. Nondisclosure agreements (also called confidentiality agreements) forbid them from using information they gleaned at their former workplace. A single employment contract can include all three provisions."

The laws governing noncompete issues vary by state, so

the best thing to do is to consult

your legal professional for what works in your state. A noncompete agreement can be completely nullified if not done properly. For example, if a court should rule that the length of time in the agreement is unreasonable, the entire agreement could be nullified. It's important that any agreement be reviewed by a legal professional to ensure its legality.

Going to court is certainly an option if the agreement is breached, but it can take a long time to get there, and proving how you were actually damaged is difficult. Certainly, if a violation of the agreement occurs and damage is done, then litigation is warranted. What an agreement can do is make an employee think twice before breaching the agreement.

Also, keep in mind that an experienced person would not sign a noncompete, since if the job didn't work out, for whatever reason, they

would not be able to work for anyone else. However, the courts are reluctant to prevent a person from working in their field. In fact, courts are reluctant to stop anyone from working – period. In a case where someone is bringing experience to the job, it might be better to just prevent them from taking any of your employees and/or to prevent them from taking your business information with them.

All business owners should take these non-compete issues seriously when hiring key employees or when promoting an employee to a key position. It's always difficult when a valued employee leaves, but it can be a lot worse if they take your business model or documents, etc., as well as one of your other employees, and then opens up across the street.



"If the business owner doesn't have anything in writing covering this situation, all an owner can do is wish them luck or throw them out the door – depending on his reaction to the news, which most likely isn't good."