7 Critical Mistakes Sellers Make

[UPDATED]

1. Not knowing what the business should sell for

One of the most costly errors a business owner can make is not knowing the approximate price of his or her business prior to entering the selling process. Although the marketplace ultimately determines the final price, an owner needs to know what the approximate price his or her business is prior to placing the business on the market.

Before making the decision to sell, owners should work with someone qualified to place a price on their company.

An experienced business broker has both the technical ability and the market experience to produce the most realistic pricing opinion. The business broker will also be the only alternative for supporting his or her opinion by selling the business.

Fair Market Value

- Asking Price is what the seller wants
- Selling Price is what the seller gets
- Fair Market Value is the highest price the buyer is willing to pay and the lowest price the seller is willing to accept.

2. Not preparing the business for sale

Determining the starting price point is only the first step. Prior to exposing the business to the marketplace, preparation is necessary. A business is certainly not a house, but the same attention to appearance prior to sale is necessary.

Financial and legal affairs should be current. Anything a potential purchaser might want to see should be up-to-date, accurate and available for review.

Momentum is very important in business transactions and can make or break a deal. The constant need to develop information for a serious prospect will destroy momentum and with it, possibly, the deal.

Demonstrating preparedness places the business in a favorable light and prospective buyers will feel comfortable that everything is in order.

Being unprepared can delay a closing, create costly expenditures to play catch-up, and cause prospective purchasers to lose confidence in the deal itself.

Too much time almost always works against the deal happening.

3. Not being able to see their business through the eyes of a buyer

This can be very difficult for any seller. It is only natural to see one's own business in a most favorable light and overlook the blemishes or problems inherent in any business.

Sellers have to approach their business realistically, knowing that a potential buyer will be doing the same.

By recognizing the deficiencies of their business, sellers are in a much better position to deal with the concerns of the buyer.

In fact, the best way to handle any potential problem areas is to bring them up in the very beginning.

4. Not understanding the structure of the deal

Regardless of the size of the deal this could be the scenario: an offer is presented, the seller takes one look at the price, immediately says "no" and refuses to look any further.

The price, within reason, is immaterial. The real crux of the deal is how it is structured. Consider the negotiating axiom "You can name the price if I can name the terms."

The terms and conditions are important. A seller may be ecstatic about price only to find that the devil is in the details.

5. Being your own worst enemy

Many business owners feel that no one knows their business like they do. They think they can do a deal by themselves.

They don't need, or want, any help. They think they are lawyers, accountants, business brokers and outside advisors all rolled up into one person.

Then when the going gets tough, they become impatient and inflexible. They then blame others, usually the buyer, when the deal blows up. As the old saying goes: "The attorney who represents himself has a fool for a client." The same could be said for the business owner who thinks he can sell his or her own business. Not using outside advisors, such as a professional business broker, is a serious mistake.

6. Waiting too long to sell

Too many owners wait until the last minute to decide to sell their business.

They wait until business is down, or they are completely burned-out, or their business partnership has soured completely. The time to sell is before the emergency happens. The time to sell is when business is good.

The time to sell is prior to when exasperation hits. The old adage is that a business owner should think about and plan the eventual sale of the business the day after it is started or purchased.

7. Not being able to walk away from the deal

Too many sellers get so involved in trying to put a deal together that they don't see the big picture. They don't realize that the deal isn't a good one.

In other words, it's time to walk away from the deal and go on to the next one. Many sellers don't want to let the deal get away. Since they have invested a lot of time and effort, and probably expenses, it's often difficult to just end it.

However, in some cases that's exactly what must be done. If the deal isn't right, and can't be fixed, there is no other choice. It's much better not to do the deal than to do a bad one!

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