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10 steps for preparing your business for profitable sale

The first wave of baby boomers will turn 65 in 2011 and many are already contemplating the sale of their businesses.

If you are one of these boomers, or are just burned out and thinking of selling, you can greatly increase the value of your business by first executing 10 key strategies to prepare your business for sale.

Some of these actions can be implemented quickly, while others take years to execute properly. All will generate a strong return on investment when you sell and in the meantime will improve your profitability and enjoyment of the business.

1) Improve financial performance. If value in real estate is driven by "location, location, location" it's driven in business by "financials, financials, financials." Given Hawaii's high cost of living, you should be making at least \$100,000 annually in owner salary plus profit to attract strong buyer interest. Buyers also seek steady growth and high gross and net margins.

2) Clean up your books and records, especially your tax returns. Your sale price will be driven by what you can prove, not on what you earn. In the world of small-business sales, proof primarily means your business tax returns. Buyers will believe your profits are real when you pay taxes on them. They understand that reasonable "discretionary expenses" such as personal travel and auto expenses will be run through the business, provided they are documented. You will get no credit for "off the books" cash sales. Don't cut corners; invest in a good CPA.

3) If your business is location dependent, lock up a favorable, long-term lease. When renegotiating your lease, make sure the lease is assignable without excessive restrictions or penalties. Some landlords are slipping provisions into their leases that give them 50 percent of your sale proceeds as payment for assigning the lease. (Hawaii is the only place in the country in which landlords have the power — and the gall — to do this.) Don't let your rent rise at a faster rate than your sales, or the resulting margin erosion will greatly reduce value. No matter how good your relationship with your landlord, never just assume he will extend your lease or let you assign it to a buyer. Get it in writing.

4) Retain your customers. If just a few of your customers account for a significant portion of your revenue, buyers will make lower offers or offers with deferred payments contingent upon customer retention after the sale. Add new customers to diversify. And get customers under contract with a provision allowing you to assign the agreement to a qualified buyer.

5) Diversify your product/service base



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and create recurring revenue. Buyers love to see multiple income streams and regularly recurring revenue. They are leery of seasonal and tourist-dependent businesses. Businesses such as security alarm companies and property management firms, which get paid monthly by hundreds of customers, sell for exceptional

premiums. Add services with recurring payment features, such as maintenance agreements and retainers for professional services.

6) Invest in your employees and management team. In Hawaii's tough labor climate, human resources can be one of the most value aspects of any business. If your company is dependent on any one employee, recruit and/or train others to lessen the risk. Get rid of problem employees, address labor disputes and gradually replace family members in the business.

7) Strengthen your systems. Do what you've been promising for years — fix operational, marketing and administrative systems to document and institutionalize best practices. These systems will increase buyers' confidence that they can manage your business successfully. Franchised businesses consistently sell for a significant premium, in part because of their outstanding systems.

8) Build barriers to entry. If you haven't already done so, negotiate exclusive rights to products, markets or partners, as exclusivity leads almost invariably to higher and more secure margins. Invest in equipment, technology, patents, copyrights and the like that exclude competitors or differentiate your company.

9) Maintain and upgrade equipment and facilities. There is a natural tendency among owners contemplating retirement to cut back, but such neglect will quickly become apparent to buyers who will deduct value accordingly, especially if it leads to falling customer satisfaction.

10) Make the business less dependent on you. If your business cannot run without you, it has little value to someone else. If you execute all of the nine strategies above, your business will naturally become much less dependent on you. You will be able to work fewer hours, take longer vacations and still make good money. You will have made your business supremely salable and, ironically, one you may no longer want to sell.

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