



How to sell your small business without a broker (and why you should, maybe)

Most business owners think that in order to sell their business, they need to use a broker. It is the established norm, but it is also one of the main reasons why 80% of small businesses don't actually sell. Just take a look at any broker website and you will see small businesses for sale that were listed over a year ago.

I should make clear at this point that there are many very good business brokers, and I have excellent relationships with lots of them. For larger deals, they're great. For smaller businesses though, not so much.

In my opinion, at the small business end of the market, their business model is at best flawed, and at worst, downright unfair. Most will charge up-front fees for listing your business for sale, will want an unfair percentage of your selling price, and will do very little to help sell your business, other than putting you on their website. They'll tie you into a long-term contract that will require you to pay them, even if you find a buyer yourself. And they sell you the dream of an unrealistic asking price in order to get you paying that up-front fee and into that contract.

In fact, if your turnover is less than £1m or your profit is less than £100,000 per annum, it is simply not worth engaging a broker as they, by and large, won't put the work in to sell it.

How can I sell my business without a broker?

The truth is, more often than not, you already know your buyer. That could be a customer or a supplier or a business rival.

Most small businesses are sold in trade sales, selling to another business.

Draw up a list of potential buyers and then you can professionally and discretely approach them. I and my team regularly do this on our clients' behalf and take all the pain out of the selling process.

How much is my business worth?

That's the \$64,000 question, as they say.

The truism is that a business is only worth what someone is willing to pay for it – but there is a bit more science you can apply to get in the right ball-park.

The **bad news** for many small business owners is that, to a purchaser, your business is often not worth as much as you think. I and my team regularly help small business owners understand exactly what their business is worth to a purchaser – and help them to maximise their selling value – and get them sold.

Business valuations are mostly based on multiples of past profits. According to business broker **Transworld**, 2x profit is a good rule of thumb.

If you're a business owner reading this and have just fallen off your chair at that number, sorry, but it is the truth.

But there are ways to increase that number, so bear with me.

Any business that owns a freehold is going to be worth more. Scale is also a huge factor in valuation – the reality is, the bigger the business, the smaller the risk – and therefore the bigger the multiple.

BizBuySell produces a report every year that details the selling multiple of all business sales by sector and this can be a great place to start with any business valuation. Some small businesses can get to a

multiple of 5x profit or more. Each business is different, but it is possible to pretty easily improve your chances of getting a bigger exit multiple than you may have otherwise achieved.

You can also only value your business on what it is currently achieving or has achieved in the recent past – you can't take into account any FUTURE performance – **as that is the opportunity that the buyer is buying.**

I regularly see business owners who tend to overvalue their own business (or have been badly advised on a valuation) and only discover that later in the process when they're getting offers worth as little as 10 percent or 20 percent of their valuation. It really is important to be realistic – and I can help with that too.

Generally speaking, business owners don't think about what their business is worth but what they need personally to retire or move on.

Unfortunately, it is also true that most businesses don't actually sell. I am writing a full article on why this is, but it is endemic in the business sales industry.

For a small business owner who has decided to sell, has listed with a broker, and been sold the dream of a massively inflated valuation (and is then emotionally spending that money in their head, thinking about travel plans, retirement plans, etc) **it is natural for them to also have emotionally "checked out" of the business.**

There are therefore thousands of small businesses listed for sale around the UK that are in natural decline because the owners are waiting for the golden pay-check that simply never comes. Too many of those businesses simply end up closing with the owner not getting what they deserve for all their hard work. A realistic valuation and a proactive selling process are essential. That's what I do.

Another fact that most small business owners are unaware of, is that even if your business does sell, it's rare that you get all your money at once. There are earnouts, deferred consideration sums, warranties and contingencies.

All of which are fair for a buyer to propose. There is a huge risk for a buyer when purchasing a small business. It is true that this is reflected in the price – but it is almost always also reflected in the terms too.

Do I need a Solicitor and an Accountant?

The answer to both is that it depends.

Most small businesses will already have an accountant, but in my experience, although many may think it obvious to ask their accountant to value their business – I would counter that it isn't really their area of expertise (depending on the accountant, clearly).

Accountants -

A valuable tool in the selling process and in many cases are a trusted advisor to the owner, so I always try to engage with a business's incumbent accountant in any business sale.

Solicitors -

They are also in the “it depends” category. For larger, more complex businesses, or sales with complicated terms and contingencies, I would always have a solicitor involved. For smaller businesses, definitely not always.

The reality is that the more “paid” advisors you have in the mix, the less money is left at the end of the process for the seller.

Solicitors also have this strange tendency to like to rack up their own bills.

The best advice I can offer is that if you need to engage a solicitor, make sure you negotiate a fixed fee upfront and detail exactly what you want them to do for that. It could be simply that you want them to manage a holding account for the funds and share transfer.

I have managed many business sales without the need for a solicitor but with all the relevant legal protections in place by using simple, jargon-free agreements that are drafted in unison with both buyer and seller.

Produce a first-class selling pack

The key is to make it easy for a buyer to understand your business – both the good bits and the bad bits.

You need to put yourself in their shoes, and the more questions you can answer for them in the selling pack, the more likelihood of you achieving a quick sale at the highest price.

At a minimum, you need the following:

- Last 3 years published accounts (if trading for more than 3 years)
- Up to date management accounts
- Executive summary (factual and not a sales pitch!)
- Asking price (offers from is fine, but you need to give them a starting point)

The above is the bare minimum. The more information you can give a buyer, the better. For example, you don't need to list your clients, but it is always useful to give the buyer a breakdown of how many contracts you have, in what sectors, and what size those contracts are, etc.

You can protect yourself by signing NDAs (Non-Disclosure Agreements) with prospective purchasers before providing your selling pack or prospectus.

The better your selling pack, the more seriously a buyer will take you – and this will also help to drive up the price.

I and my team can help with producing a first-class prospectus to maximize your exit valuation.

Should I list it on a *businesses-for-sale* website?

Honestly, I tend to avoid them because they often simply add unnecessary costs to the seller when doing the above and actively targeting prospective buyers is by far and away the best way to actually sell.

You can get a lot of timewasters on these aggregator sites too.

The most interest your brand-new listing will get will be in the first month before tapering off. You will probably get another bump if you reduce the price several months after first listing – but this tends to indicate that either no-one is interested in your business, or that your valuation was too high in the first place.

Insider tip here – if you have listed, haven't sold, and are thinking of reducing your price – don't... ..remove your listing and add a brand new one at the new lower price. That way you get the additional traffic for having a new listing, without the negative connotations of a price reduction.

What happens once heads of terms have been agreed?

Heads of terms set out the agreement, which can be as simple as a one-page memorandum or run to multiple pages. It's more normal for the buyer to produce the heads of terms, especially if you're not using a broker.

How long will it take to sell my business?

This all depends on how prepared you are up-front.

If you have a full sales pack prepared then the process can be very fast. I've concluded business sales in 2 days.

The most important thing is to be totally honest and transparent. Don't hide any skeletons in the closet as they will always come back and bite you later on.

Buyers understand that no business is perfect and that is normally magnified in small businesses.

Summary

Selling a small business can be a minefield, and unfortunately, it is a fact that most small businesses that have decided to sell, won't sell. They'll probably end up closing a few years later.

That isn't the fault of the seller, it's the fault of the industry.

It often starts with unrealistic valuations which have the compound effect of putting off buyers and creating sellers that are emotionally connected to a figure that will simply never come.

There are published statistics of real business sales that don't generally get shared with sellers at the outset of the process and this is a real shame. I hate seeing small businesses close. Especially when they needn't have.

I and my team are investing in small businesses, acquiring or consulting on small business sales on a weekly basis – and we pride ourselves on sitting on the sellers' side. We have an awesome track record of getting deals done – for the benefit of both parties.

If you're thinking of selling either now or in the future, or just want to understand what your business is worth and how to easily increase its value – just contact us for an informal, impartial and confidential chat.

We look forward to hearing from you.

Craig Bartlett

E: email@craigbartlett.com



<https://thewealthyexitmethod.com>