



Charleston
BUSINESS BROKERS
PLAN • PREPARE • MAXIMIZE VALUE

CASE STUDY

IF YOUR FINANCIAL REPORTING IS A MESS YOU WILL NOT SELL YOUR BUSINESS

I sat at the Seller's kitchen table in their home based business and broke the bad news to them that I could not represent them in the sale of their company as their books were simply a mess and not reliable. Of course, as a follow up I provided the name of a bookkeeper, with CPA skills, who could correct the situation. A few months later I learned that this \$1 million a year revenue business – and a highly profitable business – decided not to engage the bookkeeper because the \$500 a month quote was “exorbitant.” Wow. The cost was slightly higher than ½ percent of their revenue. The good news with this client was that the Department of Revenue audited them for sales tax and they were forced to engage an accountant who had to rework three years of profit and loss statements to arrive at an accurate number for the Department of Revenue. That being done, I had the financials I needed and we were able to put the business under contract with an acquirer for close to \$1 million. That was the first, and probably the last, time I will ever say “thank goodness for a Department of Revenue audit.”

The point of this story is simple. You cannot sell your business if you do not have clean, accurate, well documented financials. It is astonishing; but I would estimate that a full third of business owners who reach out to us to sell their business do not have a saleable business because their financials are a mess. And astonishingly enough many of these businesses have several million dollars in sales. Just try to withstand private equity group due diligence scrutiny with subpar financials. It does not work.

LESSON LEARNED

If you do not have an internal finance department or book keeper then engage a CPA or bookkeeper. Aside from being a fundamental requirement of selling your business, having accurate and timely financials assists you in planning, measuring progress and setting goals for your business. Unfortunately, many business owners view their financials as drudgery and simply neglect them until it is tax time. For the most part, the business owner should not be the company's bookkeeper anyway. Tasks such as bookkeeping, while core to business success, are not core time activities on which the owner should focus. The business owner should hire or contract for those services and simply be a part of the review process for the benefit of the business. And when it comes time to sell, with accurate financials in place, the owner can sell.

TIP (THOUGHTFUL IN PREPARATION)

First understand that bookkeeping is a very useful tool in the management of your business. You have heard the phrase “run your business by the numbers.” Understand that all of your activities are reflected in your financials. Is your marketing initiative producing results? Your sales and revenue numbers will provide you with that answer. Are your cost of goods controlled and consistent with historical performance? Simple cost of goods calculations reflected on your profit and loss statement provide you with that answer. Quite simply, hire an accountant or bookkeeper who will provide you with a monthly profit and loss statement and balance sheet and who will review those statements with you to provide you with guidance on what your numbers are telling you and what action steps you can take to move those numbers in the direction of greater profitability. And to take it one step further, undertake an annual budgeting process so those budget numbers are reflected on your internal financial statements. Those budget numbers are also a reflection of your business activity and objectives and provide guidance to the accuracy of your assumptions and guidance to the effectiveness of your business initiatives.



Established 2000. Experience matters... especially when you are entrusting the sale of your most valuable asset, your company, to a third party intermediary. Expect twists and turns in the business sale process and hold your intermediary to the highest standards of professionalism and communication. Experience in dealing with the complexities of the business sale process really does matter. Achieve the results you deserve by starting with the right intermediary. Call us at (843)849-1175; Email us at info@charlestonbusinessbrokers.com; or visit us on the web at www.charlestonbusinessbrokers.com.