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Editorial

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Seven steps to ready your gourmet business for sale

By Adam Borden

At some point down the road, all your hard work is going to pay off: the long hours during the Christmas rush, the inevitable shortages of product or ingredients, the staff turnover--all of that will have been worth it when you reach the payday of selling your company. Most food entrepreneurs think about this as off in the distance whereas in fact it takes at least several years to prepare one's business for sale. Below are seven key steps-by no means an exhaustive list-that will help you get top dollar when it comes time to think about cashing in.

Hire professionals: Start networking to find a good lawyer, accountant, business broker, and banker for financing. They need to represent your interests well and advocate for you when there are other experts involved in the negotiations. Why bankers? Most buyers do not pay the full purchase price up-front; they require financing, some as long as 20 years or more. As a result, your ability to line up a potential buyer with a banker who understands your business will go a long way to getting you money more quickly.

Clean up financials: Take out personal expenses that you run through the business and keep the books clean like this for several years. Buyers start to look very skeptically at businesses with questionable earnings or at least ones that do not seem transparent. This increased risk translates into fewer potential buyers or a lower offering price.

Positioning: Figure out what is different and unique about your business and strengthen that message. Is your company gourmet? Natural? Retail with a direct-mail component? Or direct mail with a retail component? Evaluate your competitive landscape to better develop a differentiated identity for your company and subsequently make it appear more irreplaceable.

Compile important documents: You know what it's like April 15-selling your business is like that times ten. Have at your fingertips copies of your articles of incorporation, vendor contracts, lease, licensing, certifications, employment agreements and legal agreements. Ready three years of financial statements to show.

Reduce debt: This is a very common problem: entrepreneurs try to sell their business with a lot of debt on their books. As a result, whatever price the buyer offers will be reduced by the amount of that debt. Your $500,000 company is $100,000 in debt, so it is really worth only $400,000. Plan to pay down your debt at the expense of retained earnings to strengthen the balance sheet.

Resolve outstanding liabilities: This issue is usually not as significant for food businesses as for other industries. You probably don't have any environmental hazards, but you might have outstanding lawsuits from an aggrieved employee or customer. These scare buyers, so clear them up before you go. Buyers will err on the side of caution when evaluating potential downside for these claims, and that amount will negatively impact your busi-ness valuation.

Dispose of underperforming assets: I looked at a company this year that had $400,000 in unrelated equipment acquired from a previous owner--sitting in the parking lot--and included in the purchase price. When I asked "What's the story with all this equipment?" the seller said, "It's not related to the business; I just haven't had time to catalog and sell it." Not only was I unwilling to pay for this equipment, but also I started to wonder about the integrity of the owner. Sell the stuff that distracts from the core business. Buyers don't want pack rats.

Adam Borden is a specialty food venture capitalist and will conduct the seminar "When, Why and How to Sell Your Business" at the Summer Fancy Food Show in New York on July 11. He can be reached at adam.borden@bradmer.com.