

# Is Your Business Marketable?

By Paul Cascio

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In almost every business owner's lifetime, there will come a day when the urge to say "Adios" outweighs the desire to hang the "Open" sign. If you're not already contemplating the sale of your framing business, someday you probably will. But, before that day arrives, it would be helpful to know if your business is even saleable. The cold truth, according to the Small Business Administration, is that only 30% of all small businesses nationwide have any resale value at all beyond the liquidation value of its tangible assets.

For the past 11 years I've been in the new and used framing equipment business; I also own a custom frame shop. But, previously I owned a business brokerage and helped people buy and sell businesses.

From my experience as a business broker, I can tell you that the reasons why people choose to sell their businesses are as varied as the businesses themselves. Motives for selling can be either financial, personal, emotional, or any combination of the three.

Among the most common personal and emotional reasons for putting a business on the market are partnership disputes, retirement, divorce, poor health, lost interest or simply a desire to move on to new and greater challenges.

Sellers can offer any reason they want for selling. Unfortunately, some sellers will offer whatever reason they think a buyer wants to hear. Your motives don't matter to most buyers so, as with everything in life, it's better to tell them the truth. Buyers will only accept your stated motives with a healthy dose of skepticism anyway, since it's impossible for them to verify what it is in your heart. Besides, the trials and tribulations of your personal life will have no bearing on whether or not someone decides to buy your business. That decision will be based on objective criteria. It's interesting to note that as a rule, sellers sell for emotional reasons, but buyers buy based on logic.

## **Empathize with the Buyers**

If you want to sell your framing business, the most important thing you can do is to think like a prospective buyer. Only when you view your business with the objectivity of a prospective buyer, will you be able to set a realistic asking price and produce a sale in a reasonable amount of time—less than a year.

More importantly, when you



think like a buyer, you can clearly establish whether or not your business is even saleable. If your business lacks a history of substantial profits and steady growth over the past three to five years, it's probably not saleable except for the tangible and removable assets.

My definition of "substantial profits" is, "producing more net income with less grief than if you were to work for someone else." Why else would anyone want to own a framing business? It's simply not realistic to expect someone to buy a frame shop that's either losing money or is producing only enough for its owner to eek out a meager income.

Trying to sell a white elephant can be an expensive exercise in futility. Only someone who is naive, misguided, or dishonest would waste their time and money hoping to catch lightning in a bottle.

Beware of such people. They rely on what business brokers call "The Greater Fool Theory." This theory states that if you are foolish enough to own an unprofitable business, then surely there exists someone even more foolish, who would not only want to own a money pit, but would (I love this part) also want to pay you for that privilege. Yeah, right.

If your business isn't viable, it's not an attractive investment to a reasonably intelligent person. And anyone who has saved enough money to make the down payment necessary to purchase a business should be presumed to be reasonably intelligent. There are no turn-around specialists in small business. If your business isn't sellable, your

best strategy is often to simply close the doors and cut your losses.

Your mental health will benefit greatly from putting closure on a bad experience. For that reason alone, it's often better to take a cold shower rather than a bath. Face the inevitable and get it over with as quickly as possible. If you're not making the big bucks in December, why would you expect your fortunes to change in January?

Remember to think like a buyer. It will help you save time and make sound judgments and reasonable decisions as to the market worthiness of your business.

### **How to Price Your Business**

Assuming you have a business that would be of potential interest to a buyer, the next question is, "How much is your business worth?"

Again, your ability to view things from a buyer's standpoint will lead you to the answer. However, before you can determine a fair asking price, there are some things you need to know about small business buyers.

You'll need to understand that the main reason why a person chooses to buy an existing small business, rather than start a new one, is for security. Knowing a business has a steady history of generating substantial profits is what makes it valuable to a buyer because it satisfies the buyer's desire for security.

Second, the decision to buy, or not to buy, a business is based strictly on the "Numbers," using math and logic. This makes it unlike other purchasing decisions, which almost always include an

emotional component in the equation. Because of this, completing the sale of businesses can take more than a year, even after you've found an interested and qualified buyer.

The "Numbers" are the pieces of key financial information that enable a prospective buyer to apply mathematical objectivity in determining the likelihood that success will result from purchasing your business.

During my two years in business brokerage, almost every buyer I worked with, relied first and foremost on the "Numbers" when making a purchasing decision. To a buyer, if the "Numbers" don't justify the purchase, the checkbook stays in the pocket. It's that simple.

This doesn't mean that good numbers will guarantee a sale, other factors are also important, but it almost certainly means that bad numbers will prevent one. Once the numbers make sense, a prospective buyer begins to consider other factors, such as length of lease, changes in the market, and personal issues.

In Part 2 of this article, you'll discover a simple formula for pricing a successful business and how you can run your business without the help of a business broker. ■

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