Cashing Out: What Every Entrepreneur Should Know Before Selling a Business

When the allure of selling your startup becomes too hard to resist, a business broker can be your ace in the hole.

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Nearly 550,000 people become business owners every month, according to the Kauffman Index of Startup Activity. Many of these new entrepreneurs get into the startup space with one goal in mind: selling a business.

It's no wonder. After failing to secure backing for a wi-fi enabled video doorbell on *Shark Tank*, Jamie Siminoff went on to build Ring. In 2018, Amazon purchased the company for more than $1 billion.

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Entrepreneurs can make serious money by selling successful businesses, no doubt. But a great deal of work goes into the transaction itself. Finding just the right buyer, for one, can be an arduous task. And the higher the price tag, the more complex the transaction can become.

That's why many people seek out the assistance of a business broker — essentially a real estate agent for businesses. Similar to a Realtor, a broker facilitates the selling process by helping set the asking price, find potential buyers and market the business to the right buyers.

So, is the professional you, yourself, need?

Broker or no broker?

Using a business broker is a personal choice. You'll be paying the broker a commission of anywhere from 10 percent to 15 percent of the sale, so it can definitely eat into your profits. And despite what you think, working with a broker won't necessarily speed up the process. The transaction will more than likely take between seven and 12 months.

A good business broker, however, can eliminate the day-to-day interactions related to selling your business, and the best brokers will prevent those "tire kickers" (people who have no intention of making a purchase) from ever making it through your door. Assuming you choose wisely, this person will know how to craft a unique and compelling narrative about your business to inspire people to pony up the necessary dough — all the while helping you navigate the emotional ups and downs that accompany the selling process.

This then leads us to the obvious question: How exactly do you find the right broker to sell your business? The following are a few things to know when you start your search:

1. Be choosey about whom you work with.

More than 90 percent of consumers say they read online reviews before making a purchase, according to a survey from Influence Central. If you're going to do your research before buying a new sofa or TV, it only makes sense to do your due diligence when hiring a broker, too. Better yet, treat the process as if you were hiring an employee: Interview candidates in person and ask about the business types they typically work with, the number of listings on their roster, etc.

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Let's say, for example, that a broker claims to have 35 active listings ranging in price from $50,000 to $25 million. Impressive, sure, but those numbers could be an indication of an overworked, distracted and commission-hunting broker. A better answer might be, "I sell in X and Y industries, and I have four listings at the moment." This is someone who likely has a client's best interest in mind.

2. Inquire about marketing practices.

Using business-for-sale websites as the crux of a marketing strategy isn't typically the sign of a quality broker. *Business News Daily* reported that Businessesforsale.com alone averaged roughly 73,000 business listings around the world — not exactly the best way to drum up demand for your business.

Instead, look for a broker who uses a mix of inbound and outbound marketing strategies. In addition to online sites, this might include anything from a proprietary email list, to confidential inquiries, to industry-specific, targeted ads. The goal here is to attract buyers for your business, which calls for a broader marketing plan.

3. Network, network, network.

As with anything in business, the best results often come from networking. If you're thinking you might want to sell, start attending industry events and asking your peers whether they know any potential buyers. Seek input from your attorney, CPA and other business professionals — you never know who might have the right connections.

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Also, vet brokers early in the process to get a sense of their professionalism. Someone who won’t give you the time of day until you’re ready to sell will treat prospective buyers the same way. And with a 6.5 percent year-over-year decline in small business transactions, according to the *BizBuySell Insight Report*, your broker choice matters.

Business brokers with high levels of professionalism and experience can keep sellers and buyers moving forward with a deal, even when all seems to be lost. For first-time sellers or inexperienced owners, in particular, a broker can be a helpful guide. The important thing is to understand your needs, do your homework ahead of time and stay involved throughout the process.

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