EXIT PLANNING: WHAT STEPS SHOULD A SELLER TAKE TO MAXIMIZE SALE VALUE WHEN SELLING A BUSINESS?

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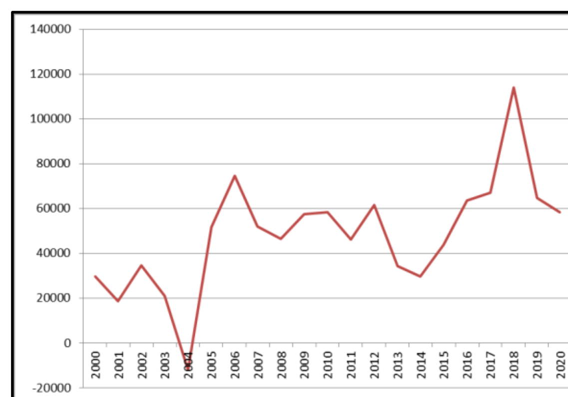
ABSTRACT

When elder entrepreneurs establish their own business, they will be able to put their previous knowledge to good use in new and exciting ways. Because business founders will sell their enterprises when they retire, the aging population and the concomitant increase in the number of older entrepreneurs will result in increased M&A activity. This article gives a quick review of the most crucial measures that anyone can take to position themselves for future sales success. Prospective sellers should concentrate on a few essential processes, according to the author, in order to have important points to negotiate the sale and command the greatest selling price. The article focusses on the situation in Europe.

Key words: M&A Deal, Middle Market, Accounting Measures, Sale Price.

INTRODUCTION

In the coming years, the average age of the workforce in Europe is likely to rise dramatically. The aging workforce will have a significant impact on future M&A demand in the middle market. Adults aged 50 and up have been launching new firms at an increasing pace for more than 20 years. Many of these new entrepreneurs are launching profitable enterprises using talents they've acquired over the course of their careers. In France, for example, by 2008, 24 percent of the private sector workforce (excluding agriculture) was above the age of 50, up from 20 percent in 2000 and 17 percent in 1995. The graph below depicts the erratic but growing demand for mergers and acquisitions around the world (Figure 1).



Source: Deutsche Bundesbank (2020)

FIGURE 1
INVESTMENT IN EQUITY STAKE (IN BN. EURO) ALL OVER EUROPE 2000-2020

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The author recommends that prospective sellers and their advisors focus on different critical steps, intending to have key points to negotiate the sale and get the highest selling price from a European perspective.

LITERATURE OVERVIEW

Salamzadeh & Kesim (2017) investigate enterprising communities. Finegan (1991) outlined why private corporations are favored in 1991: fewer transparency requirements, a greater focus on ownership and control, and informal dispute resolution procedures. It was described by Zingales (1995) as a value-maximizing strategy for keeping the company private and bargaining the entire company with a possible buyer. Boone & Mulherin (2009) examined what would be the best strategy to sell a firm in their article. They argued that auctions are preferable to negotiations and controlled sales. They discovered that a controlled sale among a small number of carefully selected bidders is the preferred option for a surprising proportion of businesses. To approach buyer value from the perspective of value-based selling, the current literature surrounding the concept of company value, its definition, and sources is briefly reviewed. Value, as covered in the management literature, is considered to be customer-focused and evolving, and subject to other alternatives (Flint & Woodruff, 2001; Khalifa, 2004; Sánchez-Fernández & Iniesta-Bonillo, 2006; Woodruff, 1997). Customer value can be classified as either a desired or a perceived value. Desired value refers to what the buyer wants to have from a product or service offering in a specific use situation to achieve the buyer’s desired goals (Flint & Woodruff, 2001).

When building new offerings, thinking of value as a total of benefits is essential, but it's incomplete if no mention is made of the buyer's sacrifices in purchasing the offering (e.g. Sanchez-Fernandez and Angeles Iniesta-Bonillo, 2006). Managers struggle to apply the abstract concept to operational decisions because the question of value – what form does these advantages and sacrifices take – goes unanswered. This constraint is addressed by a buyer's perceived value, which encompasses both rewards and sacrifices (e.g., time, effort, etc.) associated with the transaction between buyer and seller.

The net value attained after all benefits and sacrifices in the search, purchase, and use of the offering is known as customer perceived value (Graf & Maas, 2008). The two concepts, desired value and perceived value, are not mutually exclusive. Value can no longer be determined by interpretation once the offering has been delivered; instead, it can be measured and defined. The benefits that arise or the value that is created take on a life of their own. The way value is presented in the selling function changes depending on the selling strategy.

Value-based selling is all about understanding and proactively improving the customer's business.

Customer attractiveness for value selling may be measured on two levels: the customer's desire to collaborate and the relationship's value (Kaario et al., 2003). Value-based selling necessitates a thorough grasp of the consumer and their priorities. It also necessitates a proactive approach to assist customers in reacting to environmental changes and demonstrating how the altered service may assist customers in creating value.

Agency Problems and Managerialism

Mergers might become the manifestation of agency problem, not the solution. Managers are (wrongly) motivated to increase firm size to increase compensation free cash flow. Managers are also (wrongly) motivated to increase firm size to increase compensation. A takeover threat is a means of disciplining opportunistic managers when compensation

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schemes and managerial labor market fail to solve the problem. Slow-growing businesses pay out any excess cash.

Data and Methodology

Data for this study was gathered from a variety of sources using a variety of methods, including:

- observations
- company papers such as sales material
- self-calculations

We looked for common patterns in all of the cases and studied the differences between them as well as the explanations for the differences. To fine-tune the study, the preliminary findings were compared to existing knowledge and confirmed with relevant informants (Table 1).

Table 1
VALUE-BASED SELLING (ADAPTED FROM TÖYTÄRI ET AL., 2011; ANDERSON & NARUS 1998)

Application gaps in value-based selling	Relevance of a cross-case analysis
Finding the right seller	In both cases, informants insisted on carefully picking buyers at each facet of the investigated triads.
Salesperson-centricity	The importance of the seller was represented in a comparable way regardless of team composition or deal size.
Reciprocal quantification and iteration	Despite the differences in the two scenarios, the obstacles of developing the value-based selling process without reverting to traditional centered sales mode boiled down to the reciprocity of quantification.
Credible referencing	While it is well known that reference is important in project management (Jalkala et al., 2010), the case study reveals that it is also important in value-based selling in business models.

Motives to Sell a Business

M&A activity usually aims to gain strategic benefits, increased operational efficiency, and a stronger competitive market position. These accomplishments produce financial results and/or value creation as a result and/or by product. The acquirer’s superior management improves efficiency in target in similar business-horizontal mergers, economies of scale, complements organizational capabilities and allows vertical and horizontal mergers. When environmental changes necessitate fast adjustment, realignment to shifting environments is necessary. Acquisitions becomes a springboard for diversification into new (connected) areas. High market share is a business benefit and larger companies have market dominance.

Different authors provide various reasons for wanting to sell their company. Niedermeyer et al. (2010) created an explanatory model that incorporates many components. When compared to a non-family business sale, the model demonstrates that a family's evaluation of a business sale takes longer and is often different. Unlike the traditional model of family company succession, the departure choice can also encourage new entrepreneurial activity. The authors demonstrate how satisfaction might influence the actions of new

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ventures. They offer a case study to demonstrate how the approach might be used to analyze a family company sale in general.

The Wella case, a multi-billion dollar German family business started in 1897 and sold to Proctor & Gamble in 2003, is an example of a family business transaction (P&G). Due to a shareholder agreement indicating that only a unanimous choice occurs in a business sale, all shareholders decided to sell together. In this case, the high price offered met the family's expectations. As both the seller and the buyer followed a rather financial, but long-term idea, there was a high level of objective congruence between them. At the same time, the above-mentioned shareholder agreement was the only restriction on a buyer's freedom of choice. As a result, the Wella family’s first contentment can be defined as medium to high.

Selection of the Potential Buyer

The market for privately held businesses is restricted and segmented, according to Mullins et al. (2006), with potential purchasers falling into the following categories: liquidators, owner/operators, strategic buyers, and investors. The liquidator is looking for a problematic or bankrupt company that can be purchased at a low price. Price, location of the business, ease of operation, and cash flow stability will all be important to the owner-operator. The purchaser's motivation is likely to be used to determine the price's reasonableness. A strategic buyer could be a company looking to buy a company to help it implement its strategies more quickly or cheaply. The investor is one of the most discerning buyers, assessing a company based on its capacity to create cash flows that fulfill pre-determined parameters (Koller et al., 2010).

To find possible purchasers, the M&A company should take the following processes:

1. Identifying potential purchasers;
2. Gaining a thorough understanding of the potential buyer's business and the positioning of the firm's offering in order to have a positive impact on the buyer's bottom line;
3. Involvement of the buyer in the process of determining value and defining common goals;
4. Collaboration with a potential buyer to quantify the business impact;
5. Establishing a link between pricing and actual worth;
6. The significance of a case reference

Business Value depends on how and why it is measured

Project finance is where the economic paradigm of firm value got its start. The value of any project is the sum of anticipated cash inflows, net of outlays, discounted to present value at a risk-adjusted cost of capital, according to one of microeconomics' most widely recognized principles. By extension, a company's worth is equal to the sum of expected cash inflows from all future and present projects, net of predicted outlays, discounted at the company's weighted average cost of debt and equity capital (Orgeldinger, 2006).

The so-called fair market value is the standard value. A business sale of 100 percent ownership interest on a going-concern basis is the underpinning of value. The company should be sold to the highest and best bidder, with the expectation that it would continue to operate under new ownership. For example, a tiny business has produced a product that a huge public corporation is really interested in. The corporation has already been approached about purchasing it. In this scenario, a synergistic buyer uses the investment standard to determine the business's worth. These kinds of buyers are generally willing to spend a higher price for a firm they want. They regard business purchases as having distinct advantages. In

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their paper Salamzadeh & Kirby (2017) prove how value creation helps the individual or entrepreneur to exit.

How Can the Value of a Business be Determined?

It's not an exact science to figure out how much a company is worth. There are several methods for calculating value, each of which is dependent on the circumstances. For a prospective buyer, value is a forecast of future cash flows. Buyers desire to buy cash-generating firms so they can get a return on their investment. The size and industry of the company, as well as its growth potential, risk profile, and quality, will all influence its value.

For gifting, estate or tax planning, divorce, or instituting an Employee Stock Ownership Plan, owners will typically need a certified business appraisal ($15 to $20,000 cost) by a CPA/CVA (ESOP). This is not essential prior to selling a business, but it can be useful at any time. To evaluate current value and establish ways to improve value, the appraisal should be done before or at the same time as the creation of a business owner's departure plan. For other uses, a cost-effective and straightforward assessment of value can be obtained to determine what the firm is worth and whether one will be able to support retirement plans.

Investors' expectations of a company's future earnings are reflected in its market value. A larger, more liquid asset, such as a share of stock, cannot be evaluated as easily as a smaller, more liquid asset like a share of stock. There are a variety of methods for calculating a company's market value that can correctly reflect its genuine worth. The company's market capitalization (stock value and outstanding shares), examining comparable companies, or applying industry-wide multipliers to establish market value are some of the easier techniques.

Finding the Market Valuing Comparable Companies

If a corporation is privately held, this valuation method works effectively. Examine the sales prices of similar firms to determine a company's worth. If a company's value is primarily held in intangible assets, and investor overconfidence or speculation drives the price up far beyond sensible limits, market capitalization may be perceived as unrealistic.

The company's previous financial statements may need to be normalized or adjusted because business owners have substantial choice in how they use the business assets and what income and expenses they recognize. The goal is to create a precise link between corporate assets, expenses, and the amount of business income these assets can provide. Normalizing adjustments are required for business valuation on both the balance sheet and the income statement.

Assume that two recent Miller Enterprise mid-sized industrial companies were sold for $900,000 and $1,100,000. The sum of these two sale prices equals $1000.000. This could lead you to believe that Miller Enterprises' market capitalization of $1,300,000 is an overestimate of its worth. The varied values are now determined by their proximity to the target company. When estimating the average sale price, give this company's sale worth more weight if it is of comparable size and structure to the one being estimated.

Business valuation is a type of economic study. The financial performance of the organization provides important inputs to the process. The income statement and the balance

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sheet are the two most important financial statements for business valuation. Three to five years of historical income statements and balance sheets are required to do a good appraisal.

A Very Short Example of Company Valuation with Multiples

The multiplier approach is the most appropriate method for valuing small enterprises. To arrive at a value for the firm, this method multiplies an income figure, such as gross sales, gross sales and inventory, or net profit, by an appropriate coefficient. Because it ignores several essential elements in calculating a company's actual value, this form of estimate is best utilized as a very rough, preliminary valuation tool. Average the sale prices after you've found recent sales of similar firms or valuations of similar, publicly traded companies. This average value can be used as a starting point for calculating the company's market worth.

The multiplier approach of valuing a firm necessitates annual sales (or revenues). Knowing the company's entire asset value (which includes the value of its existing inventory) as well as profit margins might aid in value calculation. On a company's income statement, sales or revenues, commissions, and inventory expenses are all disclosed. The coefficient will differ depending on the industry, market conditions, and any unique concerns inside the company. This value is fairly arbitrary, but you can get a good estimate from a trade association or a company appraiser. BizStat's valuation "*rules of thumb*" are a nice illustration.

The proper financial data to utilize in a calculation will also be specified by the coefficient's source. For example, the most frequent starting point is total annual earnings (net income). Typically, businesses are sold based on predicted cash flows or EBITDA (earnings before interest, taxes, depreciation, and amortization). The process of recasting earnings includes adding back one-time or non-recurring charges, as well as documented personal expenses. Only a small percentage of owners keep track of personal spending each year, and most buyers are unwilling to accept such deductions without it.

EBITDA is multiplied by a factor known as a multiple. This multiple reflects a prospective buyer's assessment of the riskiness of the firm as well as the rate of return he or she expects on the investment. The larger the multiple, the lower the risk; the higher the risk, the lower the multiple. Multiples differ by sector, business, and company size, and numerous factors influence the buyer's decision. The multiples are usually sourced from industry databases such as Key Value Data, RMA Valuation, and so on. Here are some examples of how multiples work:

- Recast EBITDA $2,000,000 X multiple of 5.00=$10,000,000 potential sale price
- Recast EBITDA $2,250,000 X multiple of 5.00=$11,250,000 potential sale price

Note that the difference of only $1,250,000 in EBITDA at this multiple represents a $1,250,000 increase in the potential sale price or business value.

In addition to having an attractive EBITDA and projections that demonstrate sustainable earnings, other qualitative factors, including the lack of business dependence on the owner, market share, depth of management, processes, procedures, and intellectual property, can impress the buyer, lower the perceived risk and improve the multiple as in this example:

- Recast EBITDA $2,000,000 X multiple of 5.00 = $10,000,000 potential sale price
- Recast EBITDA $2,000,000 X multiple of 6.25=$12,500,000 potential sale price

As shown above, a change in the multiple from 5 to 6.25, due only to qualitative qualities or lower risk, results in a $1,500,000 rise in the firm value or sale price due to the multiplier impact!

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Value-based sales are said to be defined by a customer-centric exploratory process characterized by customer validation at each step, with the goal of providing value for both sides (Boyt & Harvey, 1997). This approach has a number of drawbacks.

First, finding enough data may be difficult due to the rarity of similar firm sales.

This approach of valuing ignores fundamental variances in business sales, such as whether the company is profitable or not.

When it comes to determining a private company's market value, the possibilities are limited, and comparison is a straightforward approach to gain a basic estimate. When it comes to determining whether businesses are comparable, some judgment is required. Companies should be in the same industry, be about the same size, and have similar sales and earnings to be considered. The sales (of comparable businesses) should have occurred recently. If a private company's market value is calculated, publicly traded companies in the same industry and size might be used as a comparison.

Key Actions to Increase the Price of a Company

Good plan

Getting organized early on and making the most of this lead time.

This measure will help the company's marketability as well as its ability to defend its value during negotiations. Overdependence on certain persons raises the danger that the company's income or operational ability will be jeopardized. The most beneficial strategies to setting oneself up for success take time to plan and implement. Before contacting potential purchasers, some sell-side due diligence and performance improvement measures should be completed. These things should be taken care of as soon as possible. Once buyers are involved, it helps to greatly speed up the rest of the process.

Reducing the amount of time spent negotiating and, as a result, lowering the risk of breaking points that could jeopardize the selling price, closing probability, or both. The longer one talks to buyers, the more susceptible one becomes and must be traded down. Anyone seriously considering selling their business can take immediate steps to improve their chances of success in a future transaction. The most effective acts necessitate some planning and execution time.

Efficiency ratios measure how efficiently a business manages its assets and liabilities in order to maximize earnings. Efficiency ratios are used by shareholders to determine how effectively their investments in the company are being used. Inventory turnover, accounts receivable turnover, accounts payable turnover, and the cash conversion cycle are some of the most widely used efficiency ratios (CCC).

Management Abilities

Establish a solid management team and cultivate high quality talent. Owner compensation should be reduced.

It is necessary to assemble a strong management team with strong sales and marketing capabilities.

The industry phrase for the degree to which a company's performance is dependent on particular key employees is "key person risk." Depending on the circumstances surrounding their probable departure, they may be difficult or impossible to replace. The exiting owner may be the most important individual in question. The owner is more likely to have an active and central role in day-to-day operations in this area of the market.

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Buyers will be concerned that the company's performance would deteriorate as a result of the unexpected loss of leadership and knowledge. They may believe that they cannot completely exercise their influence over important changes without risking losing support and cooperation, which might have far more serious effects for the company's performance than a complete departure. The owner may be in charge of designing the company's business plan, establishing key customer and supplier relationships, and leading with distinction amid previous periods of uncertainty or crisis.

To avoid performance degradation, the firm owner should remain strategically active and undertake whatever duties are required. The former owner should reduce his or her operational engagement as much as feasible and hand over the reins to a capable and acceptable successor. Without its employees, a corporation is nothing. One of the company's most valuable assets should be its employees. A buyer will almost certainly want the majority, if not all, of the company's employees to stay on following the sale. There are numerous incentive systems that can be put in place to retain personnel over time, such as an Enterprise Management Incentive (EMI), a tax-advantaged share option program.

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The more time a retiring owner-manager spends involved in the functioning of the business, the less value the business has for the buyer. It is critical to establish a succession strategy. Small businesses usually lack the same level of management training and growth as larger corporations. Many of the managers at these companies are aware of what they learn on the job. As a result, many small, privately held companies have ineffective management teams with varying levels of experience, skill, and competency. A business owner who wants to sell his or her company should spend in improving the management staff.

It's critical to show a potential buyer that the business's processes are in place so that it can operate successfully, efficiently, and in accordance with all rules and regulations. Making ensuring that all of these processes are well-documented can ensure a potential buyer that the business will run smoothly from day one after the sale. Many business entrepreneurs take a hands-on approach to running their companies. Except for the tiniest of decisions, they are solely responsible for themselves. Such proprietors are the only ones who understand the firm from top to bottom, making them invaluable. If the prospective buyer is only an investor, the value of the business will decrease by an owner who cannot delegate or develop any depth of management within his or her team.

Marketing Techniques

Freshen up the Website and build a Sales and Marketing Process.

The seller should become a leader in the niche. Products & services have to be quantified, and sales & marketing need to be improved. Marketing strategies must appeal to the market!

State-of-the-art Accounting

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Poor accounting increases the possibility of mistakes and makes it more difficult for potential buyers to appraise the company.

Any accounting problems must be addressed and corrected. Potential purchasers frequently start their due diligence by looking at the books of a target company. They try to spot any red signs that could cause them trouble in the future. It is critical to make a solid first impression on this front by following all of the rules for the duration of the lookback period. The seller is responsible for timely and correct monthly closing, as well as clear accounts receivable aging, accurate inventory reports, and well-structured budgets with predictions.

A thorough examination of the accounting records must be presented. This is particularly crucial when dealing with financial purchasers, who may have little knowledge of the firm or its industry but are interested in acquiring it as a profit-generating engine for their portfolios. Any interest potential purchasers may have had in the proposed deal will be soon snuffed out due to their inability to get comfortable with the numbers and the procedures utilized to obtain them. Buyers must use the status of accounting as a proxy measurement for everything from the company's professionalism to the accuracy of previous performance and the likelihood of future estimates being met.

Issues with accounting processes will foster ambiguity, making it more difficult to estimate the company's value with any degree of precision. This may cause purchasers to pull out of the process entirely, and it is one of the most common reasons that deals in the lower middle market fail. This procedure is necessary for presenting the company in the best possible light. This gives you the chance to remedy any errors before they become a problem. This is the most efficient approach to improve your chances of closing on a good deal. Poor accounting increases the possibility of mistakes and makes it more difficult for potential buyers to accurately determine price.

The number of earnings related to increased sales or lower expenses, rather than any profits generated by aggressive accounting methods, is referred to as the quality of earnings. It can be used to forecast a firm's future profitability, thus it's an important factor to consider if the buyer wants to value the company based on earnings. When employing the earnings foundation of valuation, a relatively slight change in the level of earnings being assessed can result in a considerable change in the company's valuation, which directly effects the consideration agreed upon in a purchase. A potential acquirer will analyze the quality of the selling company's earnings with great care.

Applying conservative accounting principles, correctly recognizing revenue, and accurately recording accruals, liabilities, and stock are all steps that can be taken to improve the quality of earnings in a corporation. If a seller can demonstrate a recent increase in profits, buyers will give them a considerably higher price. Sellers should present their financial figures as clear as feasible in the 12 months preceding up to the sale. It is critical to have more revenue. Profit margin is frequently overlooked in the process, which can reduce a company's worth. Gross profit margin is the percentage of revenue one retains after accounting for direct costs referred to as "*cost of goods sold*".

Companies that sacrifice margins in order to maintain high gross revenues lower their total profitability. They will be pushed out of the market. Adding recurring revenue to organizations like Microsoft, such as service agreements, consumable product or replacement component contracts, and product or service subscriptions, is a crucial approach for expanding profits. Look for strategies to reduce expenses or boost efficiencies that will result in higher profits. Increased profitability will result in a higher valuation if a buyer decides to value a firm based on multiples of earnings; it will also demonstrate to the buyer that the company can be run efficiently.

Earnings soar in the months preceding up to the sale, boosting trailing 12-month (TTM) EBITDA, the metric most likely to be evaluated by buyers when determining a

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company's enterprise value. It's just as crucial to maximize these earnings as it is to minimize valuation discounts and guarantee that the factor by which earnings are multiplied is as great as feasible. Even after the transaction is completed, changes must continue to benefit the company. Buyers will be enthralled if the expected long-term impact to future earnings can be quantified. Unnecessary overhead must be eliminated.

It's possible that prices will rise. Almost often, it pays off handsomely. Buyers will often avoid acquiring businesses that compete only on the basis of specific pricing arrangements. All underperforming business lines should be eliminated. A well-managed sale can take up to 6 months to complete. Payouts on legal settlements, inventory write-downs, and receivables write-offs are all examples of this. To improve the likelihood, these should be reported as soon as possible. Before handing it to the buyer, sellers should receive a full quality of earnings report from a respected third-party agency and thoroughly study the results.

Cash-flow status

Getting a third-party expert assessment on your company's financial performance and accounting methods can pay for itself several times over. Paying off debt can help you sell your house faster.

The vendor may be able to demonstrate his company's growth prospects. The investor wants to know if a company's inventory is holding too much money. Companies have a finite amount of money to invest in inventory, and they can't keep a lifelong supply of every item on hand. They must sell the things they have created or obtained from vendors to generate revenue to pay bills and return a profit.

Improve inventory

Inventory turnover refers to how rapidly merchandise is moved from the warehouse to customers.

The inventory turnover ratio indicates how many times a firm sells and restocks its inventory in a given period of time, or how many days it takes the company on average to sell out its inventory.

Higher inventory turnover rates are regarded positive, indicating strong sales, but too frequent turnover could imply inefficient ordering or a company's inability to meet order requests on time. Investors want to know if the days-to-sell inventory figure is improving or deteriorating with time. At least two years' worth of quarterly inventory sales figures must be calculated to have a good idea of the trend. If the figures show a clear pattern, it's worth investigating why. Investors would be delighted if inventory days decreased as a result of increased efficiencies acquired through tighter inventory controls.

Products, on the other hand, may be flying off the shelves faster merely because the manufacturer is lowering its prices. It is not always a bad thing if inventory days are increasing. When launching a new product to the market or anticipating a busy sales period, companies typically allow stocks to build up. If there isn't a clear increase in demand on the horizon, the increase may result in unsold items collecting dust in the stockroom.

Systems, IT & processes should reflect newest developments

Over-dependence on certain individuals (operational risk) increases the risk that the revenue or operational ability of the company will not continue.

A company's policies and processes for managing and reporting financials are known as systems and controls. They're put in place to make sure risks are handled and resources are

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utilized effectively. They also ensure that laws and regulations are followed and that assets are protected from theft and damage. It's critical to be able to show a potential buyer that the necessary processes are in place to ensure that the firm runs smoothly, efficiently, and in accordance with all rules and regulations. This will reassure a potential buyer that the business will run smoothly from day one after the sale. A strong controls environment can also help to decrease the number of warranties and indemnities needed as part of the business sale because the buyer will be more satisfied that the company is in excellent shape. Systems and controls are the policies and procedures put in place by a corporation to manage financials. They're put in place to make sure risks are handled and resources are utilized effectively. They also ensure that laws and regulations are followed and that assets are protected from theft and damage. According to McKinsey & Co. (2005), investors are willing to pay up to a 20% premium on shares of companies that have a governance framework in place.

Based on regular operating procedures and a set of management and accounting controls, a well-managed organization functions predictably. Many small enterprises lack documentation of their operating systems as well as adequate management controls. If the operating and control systems do not perform properly, a buyer may reduce the value placed on the company during due diligence. When preparing to sell a business, the owner should ensure that effective and well-documented control measures are in place. The coronavirus outbreak has become a global issue with significant effects on companies, and the global economy; its impacts are estimated to be even more than the previous global recessions. In their paper Salamzadeh & Dana (2021) emphasize that companies have to Improve their general crisis management and entrepreneurial skills and monitor the relevant governmental responses

Concentration

Buyers discount the value of companies that are overly dependent on a small handful of customer accounts.

Customer concentration is another risk concern that clients in the lower-middle market face, in addition to key person issues. This is because buyers consider concentration as a proxy for revenue stability, and companies that appear unduly reliant on their main customers will put them off. When it comes to revenue or gross margin concentration, the threshold for significance varies from industry to industry. Buyers will be concerned if a single customer accounts for more than 20% of either statistic, as they may be concerned about the company's performance sensitivity to the loss of that customer's business.

Any extra degree of concentration over the 20 percent level is likely to have a detrimental impact on the firm's marketability. Severe customer concentration is frequently valued at a lower level than comparable organizations that do not have the same problems. Prior to a sale, the buyer should take all reasonable steps to reduce concentration risk and diversify the customer base. To secure long-term supply contracts with major customers, revenue risk must be minimized. This will show purchasers that the accounts are in good shape and will be well-protected over the projection period.

A small number of clients account for a significant portion of your revenue as a small firm.

Any customer who accounts for 10% or more of a company's revenue, on the other hand, would pose a major threat to earnings and cash flow if they switched suppliers. So, wherever possible, diversify the company's customer base to reduce customer concentration, which will boost the stability of future revenue streams - and ultimately raise the company's valuation. A buyer will often scrutinize any client relationship that accounts for more than

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10% of total sales, so ensuring that contracts are in place with such customers can assist to offset some of the concentration.

Intellectual Property

Intellectual property is taken much more seriously by buyers if a trademark or patent is possessed.

Before starting the sale process, any pending lawsuits should be resolved. It is preferable to record fully audited financial statements rather than merely a compilation report. When sellers in the lower middle market believe they are too tiny to be of interest to publicly traded businesses, they may fail to submit an audit. It is necessary to clean up any potential environmental hazards. It is also necessary to clean the facilities. Buyers frequently take a tour of the property. Then, depending on what they see while on-site, they create an opinion. Real estate appraisals, as well as appraisals of machinery and equipment, are often required.

By being able to reference a recent and reputable third-party estimate of the value held by these assets, sellers can put themselves in a much stronger negotiating position. Patents, brand names, and trademarks are examples of intellectual property that can enable a corporation sell its products and services for a higher price. If the company can demonstrate secured intellectual property to keep competitors out of the market, it will be able to better protect its market position, for which a buyer will be willing to pay a higher price.

Common Mistakes to Reduce the Value of One’s Company

Many business owners want to reduce their income taxes as much as possible, yet this does not increase the company's value. It may have a negative impact on a company's genuine profitability. Recurring income is revenue that is guaranteed and does not necessitate the same level of sales and owner work as one-time revenue. This revenue has substantially greater margins and is always in high demand among purchasers. Having to rely on a single business owner:

The most important value driver is not usually revenue; it is his reliance on the existing owner. For the present owner, this can pose a significant danger. It's unclear whether the company will continue to thrive with the new owner. Only the current owner knows the processes, procedures and has the technical know-how.

CONCLUSION

Because of the particular qualities of privately held businesses, it is difficult for owners to sell their companies for their full value when they retire or want to change careers. This article offered advice to business owners on buyer segmentation and several valuation methodologies that might be used to calculate the firm's price. Owners were urged to structure income statements and balance sheets to correspond more closely to Generally Accepted Accounting Standards (GAAP) and, more recently, to International Financial Reporting Standards (IFRS) in order to prepare their company for sale.

Owners were encouraged to improve their operating and control systems as well as strengthen their management teams. Finally, the marketing strategy must be aimed at selling the firm at a profit to the seller. Empirical research in many industrial sectors should be used to test these notions in the future. Customer value frameworks should be made more thorough, generalizable, and, most importantly, operational through research. Value-based pricing (in collaboration with Hinterhuber, 2004), as well as the organizational-wide requirement and modifications required to become a value generator.

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