

ARTICLE

6 Major Cost Considerations to Sell Your Business



Selling your business is not only a difficult decision to make, but it can often be a costly one if not done correctly and objectively. And while the particular path you choose for your exit will inevitably vary, it is important to understand who will help you in that process, in what capacity, and what responsibilities you have as an owner. If you are thinking of selling your business or planning to sell in the future, here are the costs you should consider.

If done right, you will only sell your practice once. You'll never get good at it, and that isn't a bad thing – just make sure you have assembled your 'dream team' to help guide you through the process.

— *David Grau Jr.,
President & CEO of SRG*

Valuation

Valuations are incredibly important to ensure you have a realistic idea of the value of your company. When selling your practice, the valuation should be used as a guide to set the initial price, and not the sole factor that influences the value you receive for your life's work.

Valuations typically assume fair market value (FMV) – this means the value of the company, assuming an arms-length transaction between a willing seller and buyer, both having full information and neither compelled to act. Rarely are transactions this sterile. Often, the parties know each other and may have synergies that could increase or decrease the value for a particular buyer.

Additionally, valuations rarely take into consideration the unique combination of deal terms (e.g., down payment, remaining balance, dispersion of funds, adjustments/clawbacks, timeframe, taxation, etc.) – which can greatly impact the total value received.

For example, a seller may receive a 4.3x multiple of revenue on their practice, but if they receive it on an earnout over a 10-year period, this is a far worse deal than a Seller who may receive a 2.5x multiple on their practice all in cash on the day of close. Knowing your value is important, but knowing your worth is crucial.

Valuations range in price from \$800-\$20,000 based on the type of firm you engage and the scope of work.

Transaction Support

Finding and screening buyers, negotiating the deal, putting the contracts together, evaluating the tax strategies, and creating your post-sale transition plan should not be something you do alone. But, it is important to understand the options you have for external support with any/all of the post-valuation steps. Support to get the deal put together can take the form of:

1. Advocacy-based (buy or sell-side representation)
2. Non-advocacy-based

Which strategy is right for you? That depends on your priorities. For those seeking a quick, simple and easy sale of their business, working with a neutral non-advocate to help facilitate the deal between two peers is the preferred solution. For those seeking the perfect successor and/or the best price terms, you'll need to retain someone to act as your advocate.

Using a team like Succession Resource Group as your advocate provides a significant advantage to a seller.¹ Often, retaining someone to represent you in the sale can be very expensive, worth it in many cases, but expensive. With SRG's Seller Advocacy Program (SAP), there is no fee to the seller, as this is paid for by the buyer.

The following table provides a detailed comparison of your potential choices:

	Seller Advocacy Program	Turnkey Deal Support	Self-Guided (DIY)
Type of Fee	% of Sales Price	5	2
Amount	6.00%	\$8,000 - \$20,000	Hourly w/attorney + CPA
Who Pays	Buyer	Buyer & Seller (50/50)	Buyer & Seller
Support	Seller advocacy	Neutral (buyer/seller together)	Buyer & seller each have counsel
What is included?	<ul style="list-style-type: none"> • Estimate of value for listing price • Expert consulting • Prospecting & Interviewing Buyers • Cash Flow Analysis with Buyers • Negotiated Offer with Buyers • Tax minimization strategies • Purchase Agreements • Checklists, Sample Letters, Resources 	<ul style="list-style-type: none"> • Expert consulting • Cash Flow Analysis with Buyer & Seller • Tax minimization strategies • Purchase Agreements • Checklists, Sample Letters, Resources 	<ul style="list-style-type: none"> • Tax minimization strategies • Purchase Agreements

^[1] Peak Business Valuation LLC, "Costs when Selling your Business", May 26, 2020. Kelli Hutchins. <https://peakbusinessvaluation.com/costs-when-selling-your-business/>

Legal & Accounting Fees

It is always recommended that you communicate with your attorney and CPA prior to selling or buying a business to ensure that all legal and tax issues are discussed and agreed upon. Using legal counsel and professionals who know and understand your situation – both personally and professionally is crucial. Attorneys and CPAs typically charge on hourly with rates ranging based on size of firm and geographical location. Finding counsel that is knowledgeable about your industry and business brokerage is an almost impossible task.

At SRG, we use contracts that have been prepared by our attorneys and used across hundreds of deals, ensuring you leverage field-tested and highly evolved agreements. Our tax strategies are much the same, having been developed over many years of working on deals with our client's professional tax counsel, allowing us to quickly help you understand the options. Once you receive your customized contracts from SRG, we work with the seller and buyer to review the contracts and make sure that both sides agree on the contents. Then, each party may have a final review done by their counsel, saving a significant amount of time and money.

Insurance

Common insurances for buying and selling a business include Prior Acts Coverage and life insurance on the buyer's life if the deal is not paid for 100% at closing. These insurances are important to ensure you are protected pre- and post-sale. Occasionally, these insurance policies are also a condition of lenders. Generally, the Prior Acts Coverage is already included for those affiliated with a broker-dealer, but it is important to evaluate this prior to closing.

Taxes

The IRS will always get their money! And, how you structure a deal from a tax standpoint will directly impact the amount of money you receive. SRG will provide you with detailed recommendations based on past deals like yours, which you can then discuss with your CPA.

Other Expenses

All businesses tend to have long-term contracts, which can be hundreds of thousands of dollars. If done correctly, closing a transaction can be timed near the end of such commitments, or may be retained by a buyer. These costs may include lease costs, software, copy machines, and telephone providers.

Summary

Research is essential when preparing to sell your business. Understanding your options for sale, which professionals you want or need to assist you, and the costs associated with the sale will help you eliminate unexpected costs. Our experience working with thousands of advisors, RIAs, and insurance agents over the years has taught us that finding the right successor is the first priority for sellers, but ensuring you receive full value for your practice and proper counsel is a close second.



Turnkey Deal Support

If you already have a deal, whether you are a buyer or a seller, we will provide everything you need to complete your deal, including consultation, financial analysis, contracts, resources, and more.

Learn more: <https://successionresource.com/deal-support/>

Seller Advocacy

Looking for a suitable successor to take care of your clients and grow your business? No risk and no cost — we help advocate for your business, find and filter through potential buyers, negotiate, and close the deal.

Learn more: <https://successionresource.com/seller-advocacy/>

Advisor Merger Support

SRG provides non-advocacy guidance to both sides of the merger with comprehensive advice, consulting, and resources to make fully-informed decisions.

Learn more: <https://www.successionresource.com/advisor-merger-support/>

Succession Blueprint

If you are planning on handing your business down to an internal team member in the next three to five years, SRG can help you proceed with a clear dialogue and develop a succession plan to transition your business.

Learn more: <https://successionresource.com/succession-planning/>

Questions? Need Assistance?

Schedule Your Call with Us
<https://srg.link/schedule>



About Succession Resource Group

Succession Resource Group, Inc. (SRG) is an award-winning succession consulting firm with decades of combined industry experience. SRG possesses a unique combination of skills, resources, and expertise to provide turnkey solutions helping advisors understand the value of their business, develop strategies to improve that value, protect the value with proper agreements and plans, grow through M&A, and create/execute their exit strategy.

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