Discover what areas of equity can help build the value of your business before you ever think about selling.

By Sid Raisch

It is never too late to build equity to sell your business at a better price.

Equity is simply the value of the business that you own. The things you do every day in your business are either building equity or destroying it.

Your efforts to build equity have a cumulative effect. Correspondingly, neglect to do so erases equity.

Make the clear choice to build equity continuously until the day you sell your business. Building equity is what is known as “sweat equity” as opposed to investing savings or borrowed funds, which basically transfers equity from one place to another. I’d also call sweat equity “smart equity.”

Putting your hard work and smart work together in the following four areas will help you build the value of the business and the amount of money you will get to keep when you sell it.

In addition, these efforts will enhance the marketability of the business, enabling you to attract better qualified buyers and to sell more quickly and closer to your asking price.

These are extensive topics I will only briefly touch on here but they should get you thinking.

1. **Brand Equity**
   • You’ve probably read a lot of blah, blah about branding yourself, and have probably taken it with a grain of salt if you didn’t ignore it. It’s time to take your brand seriously, if you want to get a higher price for your business, and if you want to sell it faster.
   • Think of the strength of your brand as the first indicator of the perceived value of the business to a potential buyer whether that is your customer or the next owner.
   • Everything that is seen or done in your business is a brand touch and counts. Make every touch count more.

2. **People Equity**
   • The old cliché that “people are your greatest asset” comes into play here.
   • A new owner may have their own ideas of how they want to run the business, but just in case they don’t want to work that hard they also need the comfort and assurance that there is a team of qualified, engaged and productive people who will carry on once the former owner leaves, and will help them continue to build the business.

3. **Systems Equity**
   • “Turnkey,” and “well-oiled machine” are terms for a business owner to get comfortable with. A buyer must easily see themselves stepping in at the helm, and the systematic methods of doing business will enable them to see this if they are well presented.
   • Process diagrams, workflow charts, sales and marketing plans and the like are easy to ignore if you are used to running the business by the seat of your pants.
   • Remember that a new owner is going to have a difficult time seeing themselves wearing...
those same pants. Make sure they can try them on before they buy by showing them “how it works” in as simple of a way as possible.

4. Financial Equity

There are two basic ways to offer a business for sale — the ongoing business entity and as an asset sale. If you sell your business as an ongoing entity the value of the financial assets are critically important as they are documented and you will be paid their exact value at most, but probably not more.

The buyer will continue employment of the employees, will continue to sell the inventory and will accept legal responsibility for loans and all other obligations. The new owner will pay all remaining payables, as well as receive all remaining receivables.

In an asset sale the buyer will open their business the day they purchase it with a brand new checking account and operating funds they put into it. They may or may not purchase your business name, trademark, customer lists, transaction history and records, or inventory. They also may choose to hire or not to hire the employees of the former owner.

The seller will pay off all debts, collect all receivables, and pay all payables. And they will take their checkbooks with them when they leave. This is a “cleaner” transaction and, in my opinion, a better way to both sell and to buy a business.

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