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Determining an Asking Price

Potential business buyers more often than not, seek an asking price from the Seller. The components of determining a price for a business looking to sell are these: a. how much, b. for what, and c. when paid.

Business owners often ask for and get an opinion of value from anyone and everyone that they communicate with that they are considering a sale. Is this a good idea or a bad idea? If the person providing an opinion has knowledge and experience in the company's market or of the sale of businesses, it can be a source of good information. We have also seen where an opinion of value turns out to be unrealistic for buyers to accept and can and does often stop a sale from happening.

We have had owners that talk to other owners of businesses similar to theirs that have sold. The input can provide a guideline but if all details are not known then this is merely assumption based. It's important that sellers know the details of a business including the price. Owners may also find sale data from a few years ago and consider the data relevant to a sale in 2023. (We recently had an owner look at the sales of his type of business in 2017 and 2019.) A value "then" compared to "now" has a lot of circumstances to consider and compare. As an example, pre-Coved vs post-Coved conditions, current interest rates and inflation compared to several years ago all affect prices paid. A lot of information can be useful but not definitive when determining a price today.

An asking price should or better yet must be justified by the past and current performance and future prospectives of the business. Buyers have their own criteria for what they will pay. They develop their own plan to operate the business and the performance has to generate funds to provide a return on the investment in an appropriate period of time. The process of finding a buyer involves targeting specific types of buyers and or companies, all of which may look at the business for sale differently. What one buyer will see as value and pay for isn't what other buyers will see and offer to pay.

Moving From Sole Proprietor to LLC

Many small businesses get their start as a sole proprietorship. After all, it's the default small business startup structure. If you're a single business owner and never filed any official formation paperwork with the state, you're probably operating as a sole proprietorship.

There comes a time when a sole proprietor wants to formalize the business. Perhaps you realized your side hobby is now a legitimate and blossoming business. Perhaps you realized that operating as a sole proprietorship puts your personal savings and assets at risk should your business incur any debt or be sued. Or maybe you want to take on a new client who requires you to operate as an LLC or corporation.

No matter the reason, the bottom line is that it's affordable and relatively simple to create a Limited Liability Company (LLC). And there won't be many changes in how you operate your business. On the plus side, the LLC creates separation between your business and your personal assets, and you'll have more flexibility in how your business is taxed. You may even change your perception of your business and feel more motivated to see it grow.

If you're interested in forming an LLC, here's the general process. Note that specifics will vary by state, but these six steps will give you a general idea of what to expect.

1. Research to Make Sure Your Business Name is Available in Your State
Let's say that Mary wants to form an LLC for her business, "Mary's Fine Pastries." She needs to make sure that there already isn't another business called "Mary's Fine Pastries." registered in her state. To check the availability of a name, you can contact your state's secretary of state office (some states offer an online searchable database). Another option is to have an online legal filing service do the search for you – and many sites will offer this basic search for free.

2. File Articles of Incorporation with Your State Government Office
The next step is to file specific paperwork with your state office, often known as Articles of Organization. The document is straightforward, and you'll be required to provide information like:

- The name and address of your LLC
- Your LLC's purpose. You typically won't need to be specific here and can even give a general answer like "The purpose of the Limited Liability Company is to engage in any lawful activity for which a

We regularly tell owners that there are opinions of value that do not count and that theirs as well as ours are at the top of that list. The only opinion that has value is from a buyer that has the means and desire to complete the acquisition.

If you are interested in buying or selling a business, let us know what you may be considering. We will provide input based on our decades of experience advising business owners on selling their businesses and also prospective business owners through acquisitions.

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Limited Liability Company may be organized in this state.

- The name and address of your registered agent (this is the person designated to receive official papers for the LLC).
- An indication of your management: will your LLC be member-managed or manager-managed?

3. Create an LLC Operating Agreement

While the LLC is a great choice for those business owners looking for increased personal protection with less formality, there still is some paperwork involved. Some states require LLCs to create an operating agreement. This document is an official contract that spells out the management and ownership of the LLC. It can outline details like how much of the company each member owns, everyone's voting rights; how profits and losses should be distributed among the members; and what happens when someone wants to leave the business. The operating agreement can just be a few pages, and you can find some samples on the Web. Even if your state does not require an operating agreement, it can be an important document to help clarify verbal agreements and prevent misunderstandings.

4. Register with the IRS

When you form an LLC, you'll need to apply for a new EIN (Employer Identification Number) with the IRS. This is likely true even if you already had an EIN as a sole proprietorship. The EIN is used for opening business bank accounts, filing taxes, handling payroll, and obtaining business credit.

5. Apply for a New Bank Account

If you had a business bank account for your sole proprietorship, you'll need to close that account and open a new one in the LLC's name (and with your new EIN number). Now that you're an LLC, you'll need to maintain a sharp separation between your business and personal finances. This will help shield your personal assets from the business – and has the added benefit of streamlining your business records for tax reporting.

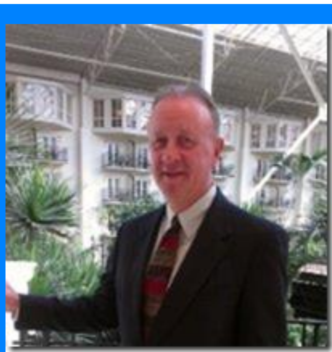
6. Apply for Business Licenses and Permits

Don't forget about any of the licenses and permits that are required to legally run your business – such as a professional license, reseller's permit, or health department permit. Some states require you to reapply for a license when your business structure changes. You can contact your local office or a site like BusinessLicenses.com to find out about your specific licensing requirements.

That's it. With those six basic steps, you've now formalized your business activities into a formal business structure.

If you're wondering what comes next…you can opt to be taxed as an individual and still fill out Schedule C and Schedule SE as you did as a sole proprietor. Or check with your CPA/tax advisor to see if there's a better tax strategy since you now have more options as an LLC than you did as a sole proprietor.

Lastly, you'll need to maintain your LLC, or you could end up losing your personal liability protection. Check to see what your state's maintenance requirements are, as you'll typically be required to file an Annual Report (it's a very simple form) and pay a nominal fee.



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