The Critical steps to selling your business | by Marc Peskett

Director & Board Services

Many business owners opt to sell their business – hope is the operative word, what we need is preparation and strategy.

To sell your business successfully, whether large or small there are three key issues to address:

1. Getting sale ready, realizing the highest value possible
2. structuring for the sale
3. Ensuring strong tax effectiveness on exit.

To do that, consider the following critical thinking and actions required.

Strong Preparation is a Must!

Planning and preparing for a successful sale can be a two to three year period. Business owners must think ahead to create strong results. It is not effective to say tomorrow "Quick – I want to sell my business in the next two months!" – in that case, you will not realise the larger possible value of your business asset and this should be avoided wherever possible.

Instead, business owners and entrepreneurs need to be thinking now about the best possible exit for a set time period long before the requirement or desire to sell.

It is similar to when you look to sell your house. In that instance, you repaint it, you clean up the yard, improve the gardens and get the home ready for sale. In the same way, you must do that work for your business. For instance, it is absolutely critical to make sure that all your financials are up to date. Current robust financial statements that will withstand scrutiny and review and that accurately reflect the performance of the business are crucial.

Who Would Buy?

It's important to also do the thinking and strategy, long before time, on who would be a potential purchaser. And / or, how will you go to market? How will potential buyers hear about your business? How will they engage?

Also, will you utilise professional support via for example, your accounting and legal firms, and or will you also use a business broker or other referrer?

It is critical to do this thinking because we have to know who is likely to buy and their interests, reasons for potentially buying and perceived key value drivers, so that we can maximize presenting the business in the best way possible.

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Identify the Value Drivers for Successful Purchase

- What is it that buyers will value?
- How will they look at value?

Any business owner looking to sell needs to do the key thinking to answer both of those questions.

Understanding how a business in your industry is valued and the key value drivers in the business is key.

Whilst valuations are generally complex, a layman's rule of thumb is to take the average of the last 3 years profit and times that by 3 – so a 3 x multiple is the term. For example, you might think your business is worth a 2 x multiple of your most recent profit, but the buyer may suggest the ideal price is closer to 1 x.

To create the value drivers of the business for sale - means assessing and presenting the growth prospects of the business, the profitability of the business, the cash flow of the business, the risks in the business and the industry and market in which the business operates. These are the key value drivers and the more we can show value, generally the higher the sale price for your asset.

Part of the process is also to make sure we can communicate and address any risks. Doing so once again improves perceived value.

Whilst it can be difficult to assess market risks, it is important for the seller to conduct a form of internal swot analysis, to review the internal risks and uncertainties from within in the business. For example:

- What are the key risks?
- What can we address and mitigate?
- What is for e.g. our spread of customers – are we dependent on one or two key customers? Reliance on key staff? Reliance on key suppliers?
- Are key staff locked in with contracts and appropriate incentives? Will they come across to the new business?
- What is the dependence on the owners?

On this last point, a lot of small businesses are dependent on the owner, which takes away from the value of the business. For example, many would be concerned that if the owners were no longer there, it will not perform as well as currently planned and therefore they would potentially be paying too much for the business. It is such a critical element, we have addressed it further below.

Reduce dependency on the Owners

This is often a difficult one, however there are key strategies to address this issue. Specifically, you could implement the following steps:

- Ensure you put key people in place around you as soon as possible
- Document the process and systems within the business from marketing, to sales, to operations, customer experience and finance
- Develop a management succession plan that ensures other people are in place that know how to manage the business without you to which can be demonstrated to the new potential owners.

Look for Your Strategic Value – Make the Invisible, Visible!

As outlined earlier, 'Financial value' is about looking at the profitability of a business and applying a multiple to it to determine the valuation and sale price.

'Strategic value' however, is that 'blue-sky value', something beyond the initial or standard financial value. For instance, a buyer might want you because you have a particular product or process that they could release to their existing customer base and make good revenues and profits out of that. You may have a customer base

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that a buyer wants to have access to, however, this kind of value is not on your balance sheet.

Or perhaps you have a piece of intellectual property that is not critical to your business but could be critical to another brand. Even if you have some intellectual property and it's not quite fully development, someone else could take it and scale it much faster than you could and so it has significant value to that organisation.

Positioning and selling the sale are key to making the invisible visible. For example, you would present the business with: "here are our results, but look at all of these (soft or hard) assets we have and what they mean to you and the financial growth of the business in the future"

Understanding where the strategic value is in the business is key for achieving a higher value sale.

Restructuring for Best Personal Outcomes

To be able to sell the business we must answer some key questions such as - do we need to restructure the business to reduce risk around the existing structure or to minimise tax?

Next, if we are going to do that, it must happen long before we are selling the business … be prepared for homework – seller's due diligence.

Any buyer will do detailed due diligence, so in preparation it can be a great idea to conduct what's called a 'seller's due diligence'.

In this process, consider what you would want to see detailed, if you were a buyer looking at the business. What are the many items and documentation you or any other would expect to review? Then, be sure to prepare those immediately.

For example, ensuring that all financial documentation is prepared and ready, proven and can be backed up with detail is key. Similarly; ensuring that your sale documentation is ready to go is important also.

In this way, you are making sure, before you put it on the market or someone conducts Due Diligence, that you've gone through it yourself and therefore are completely prepared.

This way, when a party comes to Due Diligence on your business there are no surprises that could weaken the perceived value or interest in the business.

Next Steps

When you do this thinking, strategy and the work required you are far more likely to have a successful sale. As Jim Collins says in 'good to great' – "we must begin with the end in mind!" this is especially true when you start or purchase a business – it's key we ask what will our exit be? What are our intentions – is the business a legacy brand or will we sell? Assuming you will sell, the work outlined here is critical to maximizing the asset value to you on sale.

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