Selling up

When a business is for sale, sound advice and proper preparation go a long way towards a successful result

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AT A GLANCE

1. People usually sell up due to being tired or being unable to manage the people side of the business
2. General housekeeping will pave the way for a smoother due diligence stage once the decision to sell has been made
3. Make the seller think about life after the sale – this will help the reslove when negotiations are getting tough

As a professional adviser, sometimes the only clues you might get that a business colleague or client is thinking of selling their business is when you pick up a hint or two or catch a vague comment.

A decision to sell a business isn't made easily or often – which is probably a good thing – because along with the implementation of a new tax system, the sale of a business is one of the most stressful experiences there is.

Most small-business vendors ponder the decision for months before taking the first tentative steps towards putting what has often been their life's work on the market. The first question put to an adviser is – how do you value a life's work? It's a prickly issue best avoided at such an early stage. Rather, reflect with the prospective seller on what's really behind their decision. Two common reasons are that the owner is just plain tired or they're having trouble managing the people side of the business. Both reasons present opportunities to address the symptoms and the disease by consulting or referring the would-be seller to an appropriate strategic alliance.

Perfect match

Good businesses, though, do sell for good reasons. Prospective purchasers are often sceptical about why a business is for sale and can be comforted if the reasons include impending retirement, interests in complementary fields, a lack of motivation or the sale being the only way to realise the investment in years of hard work.

A prospective purchaser can come from some of the most unlikely sources: a management buy-out, a competitor, a customer or supplier. An outright sale may not be the only outcome, either. An investor with skills and/or money could, with a good match, put turbo-chargers on a business that is ready to grow to the next stage.

Early days

As an adviser, any suspicion you might have of an attempt to just test the market without a strong commitment to sell should be met with the warning that the process could be protracted and taxing! This brings us to the first piece of advice that should be offered and that's in relation to capital gains tax, ownership structures and the goods and services tax (GST).

At the other end of the spectrum, prospective vendors are often surprised to learn that it's just the business that's for sale and not the company, thus allaying their fears of not having an available vehicle to do whatever comes their way post-sale.

Choosing an appropriate structure for the business is the first of a number of time-consuming issues that need to be addressed before a sale can proceed for the greatest benefit to the vendor.

Including a professional business intermediary in your preliminary discussions before deciding to go to the market brings to the table the market intelligence and expected net returns. This facilitates that critical resolve to sell the business. As a business broker is required by law to act on behalf of the vendor, a multi-party alliance, which ultimately includes all professional advisers, begins to emerge.

A bit of housekeeping is never wasted at this early stage – cleaning out old stock, dealing with old debtors and shoring up loose customer or supply agreements makes the due diligence stage easier.

Due to the smorgasbord of potential risks associated with acquiring a corporate entity, it is usually the business and the assets that are sold. A purchaser will likely opt for their adviser's recommended structure – probably a new, clean company.

Some preparation may be required for the sale of a service business which has been built around the founder. A change of name and branding, refining of systems and having competent staff go a long way, but it won't happen overnight.

Pitfalls

There are a number of issues that may seem obvious in preparing for the sale but are often overlooked:

- Ensure minority shareholders and founders/siblings in second-generation businesses have been consulted about the sale
- Clarify exactly what is to be sold. Is it the whole business, a division or just a product line?
- Identify the real return on the business by extracting any personal expenses from the financial statements over, say, the past three years, including director's fees, superannuation and non-essential vehicles
- Identify and articulate the 'sizzle' in the sales story. This is the clincher that will be the one thing a potential buyer will say to associates about why this is a great business to purchase. It might be a unique position in the industry, having only few competitors, being a sole distributorship or having 'loads of untapped potential'
- Seek advice from a professional business broker on how businesses are valued for sale – the days of 'X times last year's profit' as a rule of thumb are long gone
- Consider vendor finance, as it can help push a sale over the line by demonstrating belief in the future viability of the business
- Prepare a schedule of any intellectual property (IP) that relates to operations and competitive advantage. Details that will be needed for the IP review at the end of due diligence include registration details, jurisdictions and expiry dates
- Be clear about the difference between the sale of the business and the premises out of which it operates, if the vendor owns both
- Hand over the whole process to a professional business intermediary.

For and on behalf of…

Selling a business is a little like selling a house – the stakes are high and negotiations are required – but a business is a far more complex entity than a three-bedroom house. Ensure that the intermediary you engage understands business and not just real estate.

A professional business broker will have true business acumen as well as experience in financial analysis and marketing – skills required in compiling an Information Memorandum that highlights all the positive aspects of the business, from its competitive advantage to future prospects. It's that 'sizzle' identified earlier that needs to be woven into a compelling analysis of the environment, the market, competitors, suppliers and staff.

Confidentiality is usually critically important to a vendor – and for good reason. Successful businesses often operate in narrow markets with few competitors or a 'secret recipe' that other industry players covet. Putting the sale of a business in the hands of an intermediary allows for thorough screening of prospects and reduces the risk of time-wasters and leaking of sensitive information.

It also helps if the intermediary can confidently liaise with professional advisers, reducing the stress on the vendor and making sure both sides are in tune.

Your number, please

Ultimately, an asking price needs to be determined before going to the market. Some of the scores of factors that affect the valuation of a business include the level of technology employed, industry conditions, political and economic outlook, ease of operation, barriers to entry and cost competitiveness.

Like any valuable asset, the frustrating reality is that a business is worth what a willing buyer is prepared to pay. The advantage that a business has over a diamond or a beach shack is that there's an element of quantifiable evidence – there's not that much variation in describing the view out to sea from the shack, but there are many ways to describe the future promise for a business, based on the prospective purchaser's experience and, dare we say, ego!

Empty nest syndrome

As a professional adviser and confidante, you may suggest the seller thinks about life after the business. 'Consulting' to the business in the early days of the new regime is a common outcome and usually beneficial to both parties, though accepting the role of second-lieutenant is often difficult for the vendor. A deadline for making a clean break with the business should be set. A clear plan for life after the sale also helps the resolve when negotiations are getting quite tough.

Emotions often run high when a business is being sold. It's critical, then, for a vendor to be advised to adopt the classic sales strategy of putting themselves in the customer's shoes and recognise that it's not about them and the business but about what will convince a business-savvy investor to part with a lot of money for unexploited potential. CA