

FOCUS ON

20 things to think about when selling your business

1. When is the best time to sell?

When profits are rising and the future looks good. Some people think the best time to sell their business is when profits are falling and the order book is empty. What do you think?

2. How should you market your business?

Professionally. This is probably the biggest transaction you'll ever undertake. You've got to get this right. Get good advice, do not try and do it on a DIY basis. You'll never forgive yourself.

3. How much is your business worth?

It is worth how much a prospective purchaser is willing to pay, this may be more or less than you think it is worth. Different purchasers will be prepared to pay different amounts. Depending on their requirements your business may be worth more or less to them than it is to other prospective purchasers. There are no simple rules on valuing a business and there is no "correct" price.

4. How much is the business worth without you?

Establishing a proper management structure and giving the staff proper job titles will give the impression to prospective purchasers that the business is not solely dependent upon you.

5. Who will pay the most for your business?

Strategic purchasers. Those purchasers who have strategic reasons to get into the market you are in. Your business will be the "fast track" route for them. Your competitors are unlikely to want to pay a premium for knowing how you operate and who your customers are – they probably know all that already.

6. How can you maximise the worth of your business?

There are many things you can do to increase the perceived worth of your business, some cosmetic (such as switching part of your remuneration from salary to dividends) and some real (such as reducing "non-business" expenditure). However the best way to optimise price is to choose the right purchaser.

7. How soon do you want to conclude a sale?

If you want a quick sale, easy, sell it substantially below what it is worth! If you are in a hurry you are unlikely to get top price. Getting the best price does take time.

8. How do you deal with potential purchasers?

When meeting with potential purchasers never talk too much, they will think the business is too dependent on you. Never mention price.

9. How much of your time will the sale process take?

Preparing an information memorandum, meeting with prospective purchasers and negotiating heads of agreement will take an immense amount of your time. But this is only the beginning. Once you get into due diligence and the draft sale and purchase agreements, you may wish you had never begun. Be prepared!

10. For how long are you prepared to work for a new owner?

It is often a requirement of the purchaser that the current owner has to remain with the company for a period of time to ensure a smooth handover. Once the honeymoon period is over this can prove to be a very onerous requirement: you end up having a large amount of cash in the bank which you want the time to enjoy and yet have to report in daily to someone at head office who previously you wouldn't even have employed.



11. How will your customers react to a change in ownership?

Without customers you don't have a business to sell. A purchaser will want to ensure that the business does not "evaporate" once they are in charge. If there is the slightest risk of this they will usually hold back some of the money due to you or do the deal on an "earn out" basis.

12. How will your staff react to a change of ownership?

In many businesses much of the goodwill value rests in the staff. If staff become disgruntled by a change in ownership because for example they felt they were "heirs apparent" or are left with unfulfilled promises (whether real or imagined) then you will have problems.

13. How do you deal with minority shareholders?

In some cases minority shareholders have an effective veto over the sale of the business. It will be important to a prospective purchaser that you can deliver 100% of the shares. It will therefore be useful for you to have an option over the minority shares before negotiations commence.

14. How will it affect your business if your competitors find out that it is for sale?

If your competitors know about the potential sale, have no doubt that they will tell your customers (no doubt embellishing it with rumours that the business is in some sort of trouble), and if your customers know, no doubt they will tell your sales staff, who in turn will tell everyone else in the company. This will have very unsettling effect on staff and the best staff will leave.

15. What are the pitfalls of selling a business?

There are two main types of pitfalls in selling a business: 1) those that affect the inherent value of the business (such as your key staff find out and leave), and 2) those that reduce the value you receive from the sale (such as a claim under the warranties). You will need competent professional advice to avoid the pitfalls.

16. What will you do with the money you receive?

To truly maximise the value from your business you need to ensure that the cash is safely invested and giving you good returns. You probably won't have the time (or the energy) to build another business so protecting this nest egg is essential.

17. How much tax do you want to pay?

Under present legislation capital gains tax on selling a business can be voluntary. On part of the proceeds you can even have a negative tax rate of 20%! There are several ways to minimise or totally eliminate the tax on selling a business; however you will need good professional advice based on your own specific circumstances which should be sought before any action is taken.

18. Do you have a good corporate lawyer?

Do not underestimate how much a good corporate lawyer can save you. Your long standing "family" solicitor friend will probably be out of his depth – and the purchaser's solicitor will be able to capitalise on this.

19. How will you fill your spare time?

Many people think that selling their business is an end in itself. Little or no thought is given to what is going to fill the space left by the departure of the biggest thing in their working lives. This can result in deciding to abort the sale, often close to signing the contract – a very expensive exercise.

20. What should I do now?

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