10.3 Selling your business

PRODUCT
DISTRIBUTION
PROMOTION
PEOPLE
FINANCE
RISK
GROWTH

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> *What is your business worth?*
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Preparing your business for sale

A few dollars spent on detailing your car or house before sale can make a big difference to the sale price. Similarly, careful preparation of a business can change the profit multiple at which you sell, and even a small change can make a big difference to your capital gain.

To prepare your business for sale,

- disentangle personal and business finances and assets
- streamline the structure of the business by consolidating shareholdings
- organise and document business systems, including people, operating and production, sales and marketing and financial systems
- ensure that your accounting records and business tax returns are in order for the last 3 years
- ensure that your staff records are in order, with taxation, superannuation and WorkCover liabilities paid up
- ask your staff to clear any accrued leave backlog
- maxmise the brand value and position the business for growth by chasing significant contracts over the 12 months before the sale
- keep a close watch on expenses and cut back on any unproductive expenditure in the 12 months before the sale
- have a big push on collecting debt and getting cash in the bank
- update your asset register, and review the book values of depreciated assets and capital assets such as property
- ensure that the ownership of intellectual property is locked down
- tidy up your customer database
- update marketing materials, and the website
- rationalise the financial position of the business by consolidating debts
- ensure that licences and permits are paid up
- settle outstanding legal disputes
- ensure that the business premises look well organised and clean
- prepare an information kit for prospective purchasers

What is your business worth?

Valuing a business is an art rather than a science. Valuations may be based on multiples of turnover or profit, or on the value of the assets owned by the business. Accountants or business brokers will generally look at what similar businesses in your industry are selling for. In the end, what matters is the price that a prospective purchaser is willing to pay.

The fact that your business is privately owned, and not publicly traded, will tend to hold down the valuation, as the ownership of your business is not liquid—its shares cannot be turned into cash quickly, cheaply and easily at a recognised public price. If your business has been trading only for a short time, or has experienced recent losses or trading difficulties, this will also hold down the price. Conversely, a stable track record of consistent profits, or the ownership of unique and valuable intellectual property, will tend to increase the price. A prospective purchaser with important strategic reasons for buying, or who sees potential for strong growth, will be prepared to pay more.

Be realistic in your expectations. The revenues of the business will have to pay for all expenses, including the salaries of all staff, and the owners, and produce a reasonable return on the buyer's investment. The price will have to be set at a level to enable the buyer to receive an attractive return.

Price is not the only negotiating point. The timing and specific structure of the deal are also useful negotiating points, as are the business name, ensuring that loyal staff are retained, and payment terms.

Finding a buyer

Potential buyers can include

- existing shareholders
- your current management team
- a professional management buy-in team, bringing both capital and skills into your business
- competitors
- large firms building their brand portfolio

Business brokers specialise in selling businesses, and have the processes in place to advertise your business to a wide range of potential buyers. Professional service providers such as accountants, business consultants and lawyers also have many potential buyers among their clients.

If your business has grown to be very large, with a value of $10 million or more, it may be worthwhile to explore the possibility of a public offering and stockmarket listing by approaching a venture capital firm or stockbroker for advice.

Businesses for sale are often advertised in local newspapers, and there are a number of national magazines specialising in advertising businesses for sale. However, many businesses are sold by word of mouth or on the basis of an offer from a businessperson who likes the look of the business.

It is generally unhelpful for customers to know that a business is for sale. One advantage of using a business broker is that your anonymity is protected from all but the most serious buyers. You can also find out about the buyers before revealing important and confidential information about your business.

The sale process

Business sales are notoriously fraught with dangers for buyers, so expect buyers to come with a long list of questions. This process is called 'due diligence'. The buyer satisfies himself or herself that claims about the business are true, that the accounting and business records are an accurate reflection of the true worth of the business, and that there are no hidden risks, such as contingent liabilities or known future events, that might dramatically reduce the value of the business. The buyer may also seek an independent audit or review of the accounting records.

Be honest about your reasons for selling. Buyers will always be looking for hidden reasons, and your honesty, even about problems and difficulties, will facilitate the sale process.

The buyer may want you to leave some of your cash in the business for a period, a version of vendor finance. This reduces his or her costs, but also provides him or her with some insurance in case you have not been open about, for example, legal liabilities. Be clear in your own mind whether you will accept such an arrangement before entering the sale process, but be open to proposals put to you during negotiations.

Feel free to require a deposit from the seller. An amount of 10% of the agreed value is reasonable, and will help to ensure that prospective buyers are serious.

Taxation implications

The sale of a business generates a capital gain that may be taxable. In recent years the Australian Government has introduced several measures to lessen the impact of capital gainst taxation on the sale of a business, as one way of rewarding entrepreneurs. As these regulations are complex, and change from time to time, you should consult your accountant about the implications.

Magazines

'Selling a business', *Management Today,* April 2005

Websites

'Selling a business' www.business.vic.gov.au/CA256E36001D1550/WebObj/3A4DFC27D51C4139CA256E6B0028A3A5/$File/UNMsellingabusiness.pdf