Avoiding Mistakes Selling a Business

Research has shown that many business owners fail to achieve the full or fair value of their businesses when trying to exit, simply through poor planning and preparation. It's not your fault if you're making some of these mistakes but hopefully, there's still enough time to learn from the experience of others......

You've had enough and so you've suddenly decided to sell? *The decision to sell a business should not be taken lightly as there could be many things to be done to try and make the chance of selling a business a lot easier. Poor preparation without up to date accounts, legal entity records and other important paperwork will simply put potential buyers off. Don't think you can hide bad news or skeletons in the cupboard as these usually get discovered in the due diligence process - deal with the issues before you decide to sell. Struggling businesses with unrealistic financial forecasts are difficult to sell too. Buyers often string loss making businesses into receivership so always work to a realistic time scale (it can take up to six months to find a buyer and six months to sell a business) - turn a business around first and then sell.*

You are perceived to be the business? *Many owner-managed businesses are very successful and highly profitable, because the owner has "run a tight ship" and controlled everything down to the last penny. Which is great for maximising personal income, surviving recessions and avoiding management issues. The trouble is, when the time comes to sell, a buyer may well perceive "the owner to be the business" and once gone, the business will be gone too. And the Higher the Risk, the Lower the Value! If the business owner can plan in advance, delegate or take on someone who can manage the day to day business without relying on the owner, then the business will be a lot more saleable and more valuable.*

You just have one or two major customers? *Just because you have developed an excellent long term relationship with one or two key customers, it doesn't mean that the buyer will! Ideally, turnover should be spread amongst the top ten customers but should the business becomes reliant on customers producing 20% or more of the business, then the element of risk comes into play, driving down perceived value. If the business is reliant on one or two key customers, a contract or rolling contract may help. Some buyers walk away from deals if they discover that the business is just too reliant on too few customers. The same could be said where key suppliers are concerned.*

You're not sure if you really do want to sell? *A serious prospective buyer will be interested in the reason behind you wanting to sell the business. And if it's not a compelling reason, they will probably go elsewhere. You need to think through the reasons for selling and how your life will be, once the business has been sold. No buyer is going to want to waste time and money with business owners who don't know whether or not they really want to sell, so understand the reasons why you want to sell and then make a definite decision. Selling a business is a team effort, not just between the buyer and seller but also between the professional bodies involved, often requiring a great deal of co-ordination in trying to agree time-scales, providing information, clarifying terms and driving the deal forward to Completion. You, not just the buyer, need to be fully motivated to make sure this happens!*

You haven't checked the background to your buyer? *There could well be many people who think they want to buy your business but many of them could be just be looking out of idle curiosity or not even have the means to do the deal. There's no point in going through all the hard work of agreeing terms and fine tuning the contract of sale if the funding can't be secured before legal completion! Check out the credit worthiness of your buyer and don't be afraid to ask for proof of funding - your business broker should be able to do this for you.*

You are guessing how much your business is worth? *The business may be worth as much as someone is prepared to pay for it but this does not place you in a strong negotiating position. Make sure you know how much you business is worth by taking out an independently prepared, professional business valuation. This will help you to understand whether or not it's worthwhile trying to sell the business in the first place and enable you to substantiate the price you have in mind. Once you understand the price or value of your business, you may need to take tax advice to ensure that any potential deal is tax efficient. Remember, the books will be the books and whilst a Valuer can look at adjusted profit figures, don't expect a buyer to pay for undisclosed business - if you can't record it, you can't pay for it!*

You're going to obtain a free of charge valuation from a broker? *Many brokers have a vested interest in providing you with a free valuation in the hope that you will sign up with them. Valuations usually take a great deal of time and thought so be wary of quick guesses, followed by undue pressure to "sign up". Very often values have been greatly enhanced so you feel compelled to pay high up front fees as the business value has probably doubled your expectations and enthusiasm to sell. Once you have paid the up-front fees and nothing much as happened you may begin to realise that the business value was not worth the paper it was written on (assuming it was written out in the first place)!*

You don't know your numbers? *Many business owners are interested in selling their businesses but struggle to know what the balance sheet is worth, let alone the turnover or profit figures. There is a balance between knowing basic information and giving the impression that you know almost everything that there is to know about the business, as you may end up being perceived to be the business. Don't guess the figures and at the very least, make sure that you can get your hands on the information required and have summary sheets to hand. Another area which is good to know, is the likely level of business for the year ahead, three years, even better. Buyers are especially interested in the future business prospects and so it greatly helps to have a considered opinion, rather than second guess. False information will lead to uncertainty and reduce confidence in progressing the deal.*

You haven't identified your USP's? *Like any other sale, there are two main points for sales people to consider: "features" and "benefits". In general, buyers are not really interested in how long you've been in business or what great customer service you provide - you should be doing that anyway! Buyers are only interested in "what's in it for them". Before selling your business, you need to place yourself in the buyer's shoes and identify all the things that would create value for them because if you don't fully understand them, how can you expect the buyer to know, as they will not appear on any set of accounts. Ideally, you need to write down all the things that make your business unique (ones which can be truly justified) and use them in the selling process to drive up the perceived value. Invariably, there will be weaknesses identified within your business but this is where a negative can be turned into a positive - the weakness could become a selling point as "an opportunity for future development", where the buyer might be able to maximise future growth.*

You are only going to deal with one buyer? *In general, it is best to aim for 6 potential buyers as offers could be double that of others, simply because businesses have more perceived value for different reasons, to different buyers. Even if you do have just one buyer, there's nothing wrong in letting on that there are other interested parties to create a competitive environment; otherwise it's difficult to negotiate a higher price, if the buyer thinks they have total exclusivity, before talking to anyone else. When you do accept an offer and have to grant exclusivity for the due diligence exercise, ensure that this is limited (60 days is the norm), so if the buyer does try to re-negotiate the price down to an unacceptable level, you can get the business back on the market, rather be drawn into a long, drawn out battle. Remember, that deals can fall through for a variety of reasons (funding being one of them), so if you can have other potential buyers on hand, you will stand a better chance of finally selling. Even before you decide to sell, record all unsolicited approaches - they may become useful one day.*

You are going to accept the first offer? *If you are interested in securing the full or fair value for your business, it is always worthwhile declining the first offer, as people often want what they can't have and if the buyer wants the business badly enough, they will soon be back with a revised, better offer. When advertising businesses for sale, it is always advisable not to give an asking price or a guide price and never disclose your bottom line price as this will be limiting offers to that level. Always best to invite "indicative offers". Many business owners, do have unrealistic expectations about the price or value of their business, so again, put yourself in a buyer's position and ask yourself, how much would you pay?*

You don't have any marketing material? *Apart from having to be pro-active in marketing or advertising your business for sale, nothing puts a buyer off more than lack of information, once they have shown some interest. Ideally, the best initial document to provide is a Sale Memorandum or Information Memorandum (known as the IM), which will provide a good overview and background to the business, without giving away sensitive or highly confidential information. Invariably, it will provide key financial figures and highlight many or all of the unique features about your business and list the opportunities for future business development. Make sure that you read and re-read the document to ensure that it is a factual and true description of your business, as false claims or statements will eventually be found out and undermine any potential deal. As business is done between people, the main objective is to provide just sufficient information in order to meet the buyer face to face. Prior to providing the IM document, a Confidentiality Agreement or Non-Disclosure Agreement (known as an NDA) should be put in place, as this will help ensure that everything can be kept as confidential as possible, without the risk of it being made public to your customers, suppliers and staff.*

You're expecting all the cash up front? *Whilst there are deals where all the cash is paid up front, don't assume that this will be the case with your business. Place yourself in the buyer's shoes and start to realise that there may be an element of risk to be covered, finance to be considered, hand-over period to be agreed etc. A premium may be agreed if the business is funding the take-over, so best to keep an open mind on how the deal can be structured. Understand that there is a big difference between "deferred payments" and "earn-outs". Deferred payments may have some form of security agreed, whereas earn-outs may be linked to the future profitability of the business, where you may have little or no control.*

You're not going to use Professional Advisors? *No one likes to spend money unless they have to but with the careful appointment of professional advisors, they can actually save you a great deal of money. For instance, a Broker can help find you suitable buyers through their connections and lists of potential buyers and investors to place you in a competitive bidding situation; a specialist Corporate Lawyer will help protect you from unfair or onerous terms within the contract of sale; a Tax Accountant can help advise on the best ways to minimise your tax liabilities (before the sale completes) and a Corporate Financial Adviser can help make sure you are getting the right advice on when to sell and how to maximise shareholder value. Make sure that your advisors have the capability of meeting your requirements, can work to an agreed budget and work within your agreed timescale.*

Always remember - Plan to sell your business - *"If you fail to plan, you plan to fail!"*

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Stirling Business Solutions Ltd can provide further information, help and advice on selling a business. Contact details are:-

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