

Failing To Prepare, Prepares You For Failure

by David Mattocks

Running your own business means you are unlikely to be able to just choose your retirement date and start collecting your pension. When small business owners launch themselves into their dream of being their own boss, many have their head buried in the sand when it comes to planning their exit route – too many don't get around to thinking about it until far too late.

This article identifies how to go about preparing for the day when you decide enough is enough and it's time to sell-up and move on.

For however long you have run your business, it will have undoubtedly consumed a huge amount of your time and energy and involved significant sacrifices for yourself and probably for your family also. So bringing it all to an end will involve extremes of emotions... from the joy of not having to get up at 4am to go to the wholesalers, to the sorrow of closing a 20 year chapter in your life.

Unless you think about how you are going to get out of the business well in advance, you may find you don't see the rewards your efforts deserve.

Exit Planning – know what you want

When you started out in business, you probably thought long and hard over the decision, weighing up all the options, the risks and the rewards, before taking the plunge.

The owners of many small businesses tie up much of their time and money in their enterprise, yet often give relatively little thought or time to how they will end their involvement with the business. One recent survey found that just 7 percent have detailed exit route plans – even though 45 percent say they want to quit before they are 50.

Successful exit planning begins with careful consideration of what you want and what's possible. First, there are the practical questions to consider:

- Will you sell it as a going concern or just for its location, or even just for its assets?
- Will the sale proceeds form part, or all,

of your pension fund?

- Are there other partners to consider and consult?

Then there are the emotional questions:

- Do you want to see the business you built up continue to flourish long after you have retired?
- Do you want a complete break, or do you want to say goodbye slowly by working part time?
- Do you want to see a relative or employee take over the business? If so, how much will you charge them?

Owners of smaller businesses tend to keep them operating for longer. This may be because of economic necessity but equally it may be down to higher levels of personal satisfaction. Larger businesses are more likely to consider the issue of succession planning. Only you will be able to answer these questions, but the sooner you start to think about the path you want to take, the better.

Selling the business

Selling the business tends to be the most common way for business owners to close their books – usually because this is the only way to recoup funds that have been invested in the business and are needed for retirement. If this is the case, it's important to get the best price you can, with the minimum level of disruption. The sale is likely to be the most important business transaction you ever undertake. When you started out, you may have had second or third chances, but when it comes to the sale, you only have ONE chance at getting in right.

Plan for the sale

Don't underestimate the need to think about this well in advance and to start to prepare the business for sale. You need to make it as attractive as possible to potential buyers.

Timing is important. If you are to get the very best price, you will obviously want to sell when the economy is in a healthy state. If you are coming up to retirement, you could sell at

any time over a number of years to make sure you get the best price possible. Significant changes in trading conditions may lead you into a quick sale to stop you losing more money – it could even be forced upon you.

Personal circumstances are likely to dictate when you can actually sell. Unlike house sales, business sales can take up to a year to complete and the more prepared you are, the more likely you are to find the right buyer.

Achieve the right price

You will probably have some idea of what you think your business is worth, but assessing the value in the market place can be difficult. Think about the following:

- How much will you get for goodwill and stock?
- How much will the value of the business be affected by your own departure? Business brokers and business transfer agents will be able to help you get to the right figure, but there are steps you can take yourself to get the very best price.
- If the business is being sold as a going concern, a buyer does not want to have to replace essential equipment or replenish stock lines all at once. The property and assets need to be well maintained and servicing kept up to date. Buyers will expect to make gradual improvements, but they will probably be sinking considerable funds into the business just to acquire it, not to mention giving it a facelift and the initial advertising costs to get them started.
- Keep your customers loyal. Buyers will be put off, or expect to pay less, where the numbers of customers are declining.
- Maintain strong relationships with suppliers. You cannot afford to let the business suffer through late deliveries and reduced quality. They may also know another customer who may be interested in buying your business.
- Keep key staff in the picture. Speculation and the rumour mill can do untold damage by unsettling staff, making them less productive or leading them to look for another job.

You may not be able to tell them everything, but tell them what you can. It's better they hear it from you.

- Think about where you can make cutbacks either on costs or discretionary spending... but not on vital areas. You don't want to terminally damage the health of the business.

You need to be able to persuade prospective buyers you have a strong and thriving business to sell. Put yourself in their shoes and ask yourself if you would buy your business for the price. If what they see is a struggling business with falling sales, reduced stock and deteriorating premises, they will either walk away or offer a knock down price.

Use professionals

You will need good professional advice to help you sell your business; to get a realistic valuation; to carry out the sale; and to take care of the contractual issues.

Accountant:

You need to think about the way the finances of the business are prepared and positioned. This may be different to how you would normally present figures for running the business.

There are clearly a large number of tax issues that could emerge from the sale of the business, from capital gains tax and your own personal income tax status, to any VAT or stamp duty that may be payable by the purchaser.

The earlier you involve your accountant in discussions about the sale of the business, the more steps they will be able to take to ensure your tax liability is minimised.

Solicitor:

Use a solicitor who is experienced in business sales. This can be complex and your family solicitor may not have the necessary experience, no matter how comfortable you may feel in discussing the situation with them.

Business Broker:

A business broker will help you to find a buyer in confidence, using contacts from other parts of the country (or world) if necessary.

They will advertise widely on the Internet and

in trade press under their own name so that you don't alert other people to the fact you are selling before you are ready. They will also screen you from unsuitable enquiries. They will structure the deal in a way that appeals to all parties. In short, they get on with selling your business, while you concentrate on running it day to day.

The costs of using a business broker will be significantly higher than for selling your house, primarily because of the time it takes to sell a business.

A sales memorandum, or business profile, is an extremely powerful way of promoting the sale of your business. It summarises the important aspects of your business including its ownership, products and markets, assets and finances and reason for sale.

It is essentially the promotional package supporting the sale, highlighting the strengths of your business and presenting it in a positive light. Some business brokers specialise in particular sectors, such as licensed premises, hotels, pharmacies and dental surgeries... so find out if there are specialists in your field. Use your local Yellow Pages directory or the online version at www.yell.com as a starting point.

Know your terms

Despite the steps you take to set the price at the level you want and to attract the right buyer, the sale is likely to involve negotiations at some stage. Be clear about your terms:

- Know exactly what you want to include in the sale.
- If you run a limited company, are you selling the assets or the shares?
- Do you just want to sell the premises? Will you get more by selling the stock separately?
- Will you accept payments by instalments? If so, how much and when?

You may want to leave the negotiations to your broker as they may be better placed to be objective.

Remember why you are selling

Don't expect to sell immediately; it's not uncommon for sales to take up to a year or even longer. As you get close to finalising the

deal, you may find you start to get second thoughts as the emotions of pride in your achievements and the feeling of possible emptiness from losing such a major part of your life take over.

You need to remain focused on the business decision you have taken. Potential buyers will be lost or become concerned if the business is taken off the market only to appear for sale again in a few months time. This kind of indecision can also be demoralising for staff. Customers may also become unsure whether you will be open for business or not – which will of course impact on sales.

Leaving it all to a successor

If you have decided you would like to see your business continue without you and – perhaps, most importantly – you can afford to do so, you need to plan for the succession. Don't just leave it to chance. In a family-run business, it might seem obvious who the natural successor is, but succession planning is not just about leaving the business to the oldest son or daughter.

Set your objectives

In what direction do you want the business to go?

There may be things you have not yet achieved, but you want to see your business accomplish. Don't assume your successor will naturally come up with the same ideas. Produce a business plan for the future.

Think about your own role. You will need to set out as part of your plan exactly how you want to handover. Do you want to:

- Take on a part-time role?
- Come in every so often to check how things are going?
- Leave them to it completely?

You and your successor must agree your future involvement. If you just pop your head round the door when you feel like it, you are likely to create an atmosphere of distrust or suspicion.

Identify the right person

Is there someone in the business you trust to take over? Don't choose someone just because you like them, choose someone who is right for the business.

Think about taking a holiday and leave them in charge for a trial run. You will find out if you can trust them and they will find out if they really want to step into your shoes.

Do you want to think about someone from outside the business? If you have someone in mind, you may know them well enough to approach them directly, but you may want to think about using your broker to approach them initially, without disclosing the name of your business.

A shared vision

It's dangerous just to assume the longest-serving member of staff will want to move into your shoes. You should consult people, tell them your plans and let them know exactly what it will mean for them. You will then need to check that your objectives are also acceptable to them. Then you can then establish a shared vision of the future of the business.

Agree the finances

Both of you have to be happy with what is agreed in terms of any future earnings you want to take from the business and the cost of any equity that forms part of the deal. Involve your accountant and make sure the business can stand any increase in overall salaries. You do not want your successor to resent any of the arrangements you make and to regret their decision, leading them to quit the business and you to step back into the breach.

Plan the handover

Set a timescale that is suitable for both parties. If you have an extremely capable, ambitious

person in mind, they will not want to hang around forever, they will want to know when it's going to happen.

Allocate time – while your successor will learn from you while you are around, it's also right they should have an increasing say in decision-making. Set time aside to develop the succession plan.

Train and mentor

There will be things your successor does not know, skills they do not have, tricks of the trade that come to you instinctively now after 20 years in the business. Identify what training needs your successor has and set out how and when these can be addressed.

Keep the business running

You and your successor need to maintain your output – this is not your chance to put your feet up and let your successor do all the work, while you continue to take the bulk of the earnings. Nor is it a signal that they can relax, thinking their future is secure and they have nothing else to prove.

Key point summary

Whatever route you choose when deciding enough is enough and you want to sell your business, you'd be wise to follow these 3 steps in preparation for a successful sale:

- Carefully consider your options.
- Make up your mind.
- Make your plans and stick to them.

