

# Selling a Small Business in the Economic Downturn

by David Mattocks

There is little doubt the so-called credit crunch is sinking its teeth deeper into us all. And like everyone else, owners of small businesses wanting to sell up are also feeling the effects.

The traditional management buy-out has, in the past, proven to be a popular option for business owners happy to see their life's work taken on by an established and competent management team. However, in recent months, management buy-outs have become increasingly difficult to fund. Banks are looking more closely at security to significantly reduce their exposure to risk. No surprises there then.

As a direct consequence, business owners are having to pay very close attention to systematically preparing their enterprises for sale. In a difficult marketplace, it's essential for an owner to make their business as attractive – to the point of becoming almost irresistible – to as many potential buyers as possible.

Simple 'grooming' can help enhance a potential purchasers perception of a business.

For example - making sure accurate accounting and other essential management records are up to date and readily available; keeping premises neat, clean and tidy; cheerful and helpful staff; ensuring the website is operational and regularly updated, and so on.

Other medium to long term actions to improve the prospects for a timely and high-profit sale include: developing the skills of employees, getting rid of non-essential assets, selling-off redundant stock and clearing bad debts.

Raising the profile of the business is also extremely effective as a selling aid in the

immediate period running up to the sale. A positive, top-end, up-beat, value-oriented profile will greatly enhance the perceived value of the business and, in turn, alert a greater number of potential purchasers to its existence.

In the current economic climate, a number of business sectors are changing to adapt to the conditions. Business owners need to be acutely aware of the market shifts in their particular sector, to help assess the right time to sell for the best chance of achieving the best price.

To illustrate this, let's say you've decided to sell-up in a year's time. However, if consolidation is happening at a pace in your sector now, it may be better to sell sooner rather than later. Otherwise you might find the market has moved on, leaving you stranded with very few consolidation opportunities left.

Business owners must invest as much time and effort in working on their exit strategy as they do on the day to day running of the business. Careful planning and methodical, systematic preparation are vital. Business owners consistently underestimate the time and effort needed to sell their businesses for the best price and in the shortest possible timescale.

Appointing the very best team of advisers you can afford, is key to developing a workable and achievable exit strategy.

Professional, expert advisers will be able to assist in identifying strengths and weaknesses in the business. They can also help to build on what gives the business additional value, and minimise exposure to areas which may make the business look weaker to potential purchasers. Business buyers particularly dislike surprises and a well prepared business which is also seen to be expertly advised should make what is

the most important deal many will ever undertake in their lives, a less daunting process.

For all business sellers the value of the business is a key element in the exit strategy. Although business valuation is an inexact science and much more of an art, sellers should look to their advisers to provide them with an indication of a realistic, verifiable value and an achievable selling price.

In the final analysis, there's a lot to be said for the old adage that something is only worth what someone is willing to pay for it. In many cases, in order to get the deal done in a difficult funding climate, sellers will have to accept the actual selling price may well prove to be at the lower end of the valuation range.

During the course of last year a significant slow down in sales of private companies was seen. Many purchasers were of the view that the markets would continue to

fall, while sellers believed they would recover shortly – perception is indeed reality!

Tough funding conditions have now been with us for sufficiently long for people to accept relatively lower selling prices will be with us for a little longer, resulting in increased opportunities for business owners looking to exit. The difficulties in obtaining funding is also having an effect on deal structures - seeing earn-outs, deferred consideration, and share swaps becoming more popular.

Thankfully, not all is doom and gloom by any means...

Opportunities for completing a successful sale still exist in abundance - although getting a deal signed, sealed and delivered is becoming more of a challenge, so be sure to select your professional business-selling team wisely and in good time.

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David Mattocks is the senior broker at Sunbelt Business Brokers of Poole. He is author of “**How To Prepare Your Business For Sale – A 21-Step Short Course Primer for Owners of Small Businesses**” and the 12-part Email Training Course “**Preparing To Sell Your Business**”. To register for a FREE subscription go to [www.sunbeltssellsbusinesses.co.uk/eCourse.html](http://www.sunbeltssellsbusinesses.co.uk/eCourse.html)