# Preparing your Business for Sale (Part 1)

Often business owners think that preparing a business for sale is something that takes maybe a few weeks, and is only needed when they really want to sell the business. Most times these owners will be left sorely disappointed, and significantly out of pocket!

Getting your business ready for sale will not only significantly improve the price it sells for, and reduce the time to complete a transaction, but also importantly:

- ✓ *Most of the steps you will take are, in fact, good business practice.*
- ✓ *You never know when the opportunity for a sale might arise, either because of ill health or injury, or because an offer comes along that is too good to pass up.*

Grooming your business for sale takes time, which means that you need to get started well in advance. Being prepared to exit puts you in a much stronger position for when the opportunity arises. It also gives you time to explore the different exit routes available to you and lay the foundations for a successful process

### Could You Sell Your Business Today?

- ✓ Are you in a position to respond if a strategic purchaser makes an unsolicited approach to buy your business?
- ✓ What kind of first impression would you make?
- ✓ Can you show a buyer a business plan that properly explains your growth strategy and prospects?
- ✓ As the business' leader, are you critical to day-to-day business operations?
- ✓ Is there a contingency plan so that the business can continue without you if your personal or family circumstances change suddenly?
- ✓ Is your management capable of filling your shoes?

And remember that a plan that is not written down is not a plan; it's just an idea.

### What Is Your Business Worth?

Do you know what value your business might achieve in the current environment?

It may be helpful to discover what multiples comparable businesses have sold at, should an unsolicited opportunity arise. Today's combination of low interest rates, capital market liquidity, and significant pools of private equity and debt can be a great opportunity for business owners. The competition for quality deals is intense, putting upward pressure on business valuations.

And although valuing a business is often regarded as an art rather than a science, nearly all discussions start from a basic Price Earnings (P/E) ratio position. Even if you are a Private Company then it will be worth familiarising yourself with your Listed Company competitor PE ratios, as often a 50%-60% "rule of thumb" value of the Listed company can be a good start point for negotiations.

### Start Preparing NOW – ask and answer the following….

#### *What Type of Deal do you want?*

What do you really want out of the Deal? Your values can often help guide you here. Take some time to think these through. Your objectives could include

- Maximizing the total value received for your business.
- Maximizing the cash received on closing of a transaction.

- Achieving financial security, minimization of investment risk.
- Securing long-term employment.
- Pursuing a new venture or a hobby.
- Retiring early (or late).
- Preserving the well-being of existing employees, customers, and suppliers.

### *Is your Business and Financial strategy in good shape?*

- Prepare an annual business plan, including a 3-year projection. The more a buyer can count on expected future revenue, e.g., a contract backlog, the better.
- Prepare a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis. A buyer will want to know not only your strengths but also your weaknesses. A good analysis of opportunities and threats can tell the buyer a lot about how problems can be solved.
- Know your competitors and be able to explain how your products, services, or business are positioned to succeed.
- Identify and document all expenditures that a buyer will likely not incur, such as outsized management bonuses, so that the profitability of the business is clear.

### *Do you have a Management Succession Plan?*

- Evaluate your second-tier management team members. Do they possess (or show potential to develop) the skills to step into your shoes after the sale? Think about how they can achieve their potential, and develop individual plans to help them get there. If you can't see a strong future for a team member, consider replacement.
- For key members of management, formalise relationships through employment contracts. Consider transaction "stay put" clauses to help ensure an orderly transition of the business.

### *Have you locked in your key Employees?*

- Identify employees who are key to the business and attempt to predict their reaction to a potential sale of the business.
- As with management, consider ways you can encourage them to stay with the company post-sale.

### *Are Contracts in place for key Third-Party Relationships?*

- Ensure contracts with third parties are in place and current, particularly those with key customers and suppliers.
- Consider customer and supplier contract transferability clauses.

### *Is your Intellectual Property protection robust?*

- Protect intellectual property through patents, trademarks, or copyrights.

### *Are your Premises and Equipment properly organised?*

- Ensure premises are clean, neat, and well organised.
- Organise inventory and sell obsolete or slow-moving items.
- Ensure equipment is well maintained, sell / remove redundant or obsolete equipment, machinery& parts.

***Is your Business Documentation in good shape?***

- Organise contracts and records and ensure they are easily accessible.
- Document key processes, procedures, and methodologies.

***Is your Corporate Image / Brand correctly represented?***

- Buyers may be concerned about potential liabilities lurking inside your business, and you need to show them a clean bill of health. This includes having a good corporate reputation or image.
- Document any public relations initiatives you have undertaken to build your company's reputation.
- Gather positive customer testimonials.
- Summarise any past, current, or pending litigation affecting your business, and show how you are handling any risks.
- Ensure compliance with all regulatory requirements, including environmental. Have documentation of regulatory compliance available to reassure buyers.

### Look at Your Business with the Prospective Buyer in Mind

When preparing your business for sale, consider it through the eyes of a prospective purchaser. This will help you show your business in the best light possible. The decision to sell your business will be most often be driven by your personal and financial needs. However, life and business are unpredictable and events and opportunities may mean you find yourself pursuing a sale earlier than you had planned.

The investment you make in planning will be well worthwhile, and give you the peace of mind of knowing that you are able to respond to events quickly and from a position of strength.

In **Part 2** I will cover the 10 key questions that most Business Owners ask when the idea of selling becomes a reality.

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*This was written by Neil Dockar, a Commercial FD with over 30 years' experience in business. Following 12 years with Procter & Gamble in a variety of senior, Europe wide, Finance roles he was Group Finance Director at Capespan International plc for 12 years, where he initiated a wide range of new business ventures in addition to leading the M&A activity. Since 2006 he has been involved in a number of Private Company Sales as well as start-up ventures, providing bespoke consultancy to a wide range of clients including Franchising retail shake bars, Internet start-ups, Logistic and Import/Export companies, Care Homes, Digital Marketeers, Financial Services*

*Neil is a founder director of FD4, which is a network of experienced commercial Finance Directors that are passionate about adding value to Companies. They are engaged Part Time (on an hourly or daily basis) to do the work of a full time Finance Director, but at a fraction of the cost. They specialise in Exit Planning; Cash Generation and Performance Improvement, see more at [www.fd4.co.uk](http://www.fd4.co.uk)*