8 Pitfalls To Avoid

when selling a business

evolution complete business sales

SELLING YOUR BUSINESS FOR ALL IT'S WORTH

When you first decide to sell your business, take a look at it from an acquirer perspective.

Your buyer will, from the outset, be calculating how and over what period a return on investment (ROI) will be achieved.

So help your buyer (and yourself) out a little! A buyer will always pay a premium price for a business that has tangible "added value" that can be leveraged to increase ROI.

While you've got your "buyers glasses" on, keep in mind the one thing that will certainly reduce your sale price; it's a little word that is worth millions – RISK.

Of course there's always an element of risk in a transaction but, with some early planning, you can mitigate much of it so that it doesn't impact the value of your business.

In this e-book you'll find some of the main pitfalls to avoid when selling your business.

Some are simple to avoid, others need more planning but the end result is that you will greatly enhance your chances of a successful sale and achieving the exit price you expect.

Make the business reliant on you

You could have a great business with stable results and a lot of potential. But if it all relies on you, and you expect to leave the business on completion of the sale, then you're selling a house of cards that will collapse after your departure.

Your buyer would be getting a great car with no engine!

That's a massive risk.

So, even if you succeed in attracting a buyer, you will be tied into a deal structure that is less attractive for you. Perhaps an earn-out where a proportion of the sale value is tied to a performance clause. Remember you won't have control of your business AND you'll have to commit to financial targets. If you don't reach them, you will never receive the full amount you've agreed.

If that still sounds OK, think! When was the last time you had a boss?

Tip 1 – Create a strong and motivated management team so that you can gradually remove yourself from the business

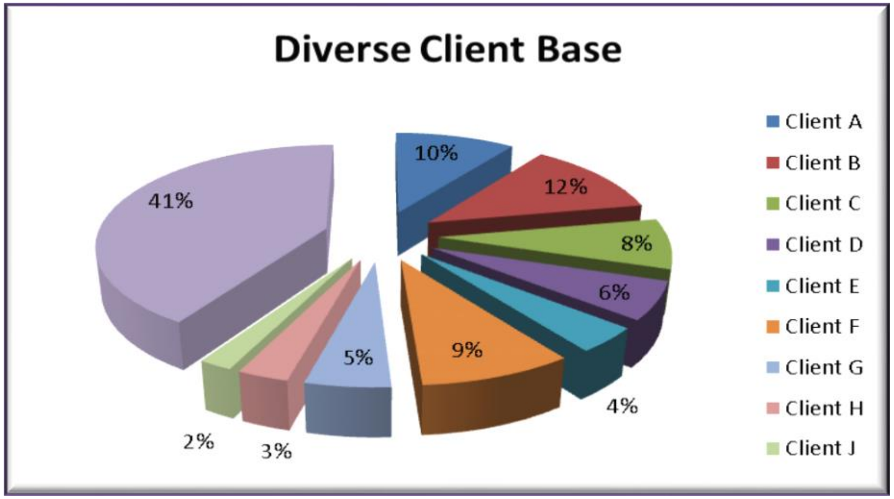
Have any one Client equal 15% + of sales

You may have some great clients, in either private or public sector, but if they don't renew their contracts with you (you do have contracts don't you?) you run the risk of not meeting your revenue forecasts.

Result – your buyer will reduce the offer price.

A diverse client base, with no over-reliance on any one client, is an essential when seeking a premium exit price.

Revisit your marketing strategy. How are your sales team incentivised – to win new clients or increase business in existing accounts? Is your online presence up to the mark and generating new enquiries? Are there new sectors that your products and services would fit to reduce risk from sector slowdown? Are there opportunities for upselling or cross-selling?



Tip 2 – Consider splitting sales efforts into 2 team – Key Accounts and New Business Sales

Don't measure financial performance

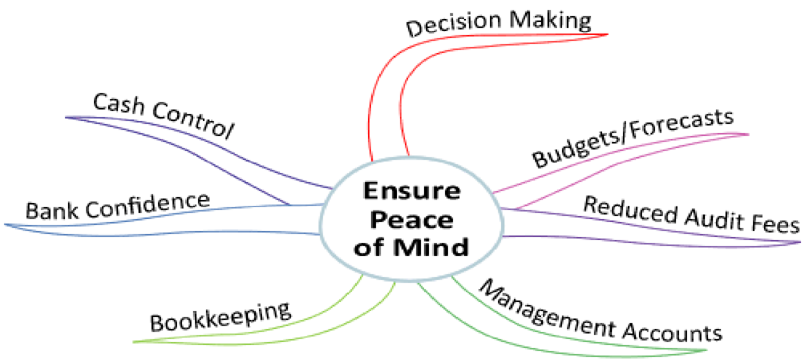
Successful companies continually manage the financial performance of their businesses. They know which areas of the business need action to keep them on target, whether its better managers, more staff, additional training, better systems or better facilities.

Of the vast majority of business owners we meet, few will have management accounts linked to annual budgets let alone 2-3 year forecasts. They're entrepreneurs not financial managers after all!

Yet without them neither you or your buyer can establish what your business is worth or what actions are needed to deliver growth.

This financial information is vital, not just when you're selling but to ensure that your business is performing. If you can measure it, you can manage it!

When selling your business it's essential to show that it will provide future cash flow that is sustainable and not dependant on you. If you can't it will seriously reduce the value of your business. Remember also that when you get into due diligence well organised financial data will save you money.



Tip 3 – Ask your Accountant for a management accounts template and use it to measure performance and build financial forecasts

Don’t calculate how much money you’ll need post-sale

Do you know how much money you will need to provide the lifestyle you want once the business is sold?

We meet hundreds of business owners and always ask how much they want to achieve from the sale of the business. Funnily enough it’s always a precise figure, usually in multiples of £million per shareholder.

Sadly, the figure they quote doesn’t usually reflect the amount they will actually need or how much a buyer is likely to pay! The result is a Valuation Gap – and it is one of the main reasons businesses fail to sell.

The best way to reduce the valuation gap is to find out what your business is and, importantly, could be worth well before you decide to sell.

This will give you time to implement strategies that will build transferable value in your business so that your sale price meets your expectations. It also eliminates the need for complicated deal structures that reduce the amount of cash you receive on completion.

Tip 4 – Do 2 things before you decide to sell. Get a free business valuation and talk to your financial advisor to calculate how much you need post-sale

Negotiate with just one buyer

One sure way to make certain you don't achieve the best sale price for your business is to negotiate with only one buyer.

You may think it will save you time and money but the truth is it will cost you significantly.

Competitive tension is a key ingredient of a successful sale. It switches the buyer-seller dynamic in your favour, enabling you to drive up the sale price.

If you're approached to sell your business, particularly if its from a competitor, be careful in your response.

Firstly get the offer, in terms of price and deal structure, in writing. If it's not in writing it's not an offer, it's an expression of interest.

Secondly, have your potential buyer sign a confidentiality agreement if you wish to take the offer further.

Thirdly, DO NOT sign an exclusive agreement. Instead, get professional advice – particularly if you have not sold a business before. Whilst you're considering the offer, use the time to find alternative buyers; create competition for your business.

Tip 5 – Never let any buyer be the "only show in town"; if you do it will cost you at the negotiating table. You're selling not being bought!

Keep your best assets hidden

- A loyal client base into which a buyer can cross-sell products and services.
- Intellectual Property, such as patents, design rights, copyrights and trademarks.
- Workforce skills that are hard to find and expensive to develop
- A niche market sector, particularly important if there are high barriers to entry.
- Your brand – especially if it has a long heritage and represents quality and service
- Contracted, recurring revenue streams
- Documented processes that show the business can run without you and provide sustainable, transferrable value..
- Scalability – a business that can be scaled up without massive cost will deliver faster ROI.

Acquirers buy for a number of reasons apart from the obvious financial ones.

They are looking at what assets the business has that can be leveraged to deliver growth.

It's important to identify these "hidden" assets in your business – they don't appear on your balance sheet but they can be even more valuable.

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Tip 6 – Write down all the tangible and "hidden" assets you will be selling and how they would benefit an acquirer.

Live on past performance

You may have a fantastic financial history, in fact you may have built the perfect business. That doesn't mean it's saleable.

Often the reverse is true.

Strong past performance is an excellent indicator of stability but it's in the **PAST**!

Buyers are looking for future opportunity and whilst historic performance gives comfort and credibility, it doesn't always increase offer prices.

Of course you should continue to focus on performance but when you're planning to sell the business you need to simultaneously create the foundations for future growth.

Concentrate on those areas of the business that can deliver sustainable, transferrable value. It could be product development, workforce skills, your online presence, building a strong management team, documenting and enforcing business processes.

But don't eradicate every weakness in your business when you're going to sell it. Weaknesses can be a valuable tool and can be a great asset when you're in negotiation with buyers – especially when they attempt to "chip away" on price. Use them to play to a buyer's ego and show them how much better they could make your business. Humble pie can sometimes be very tasty!

Tip 7 – List the weaknesses in your business. Deal with those that deliver your growth plans. From the remainder list how you can turn them to your advantage in a negotiation.

But the biggest pitfall is don't prepare!

Many volumes have been written on the importance of early preparation because it really does impact price and saleability.

Selling a business is often a rollercoaster ride and the more you know about it in advance, the better you will be able to withstand the ups and downs that are an inevitable part of the process.

Get informed early - it will enable you understand what acquirers look for and where you can add strategic value. It buys you time that you will need to "fine tune" your business.

Take professional advice - reputable advisers will be happy to spend some time with you to discuss your plans. Talk to your financial advisers about what you will you need for your future financial security. Selling a business has huge implications for tax planning so get professional advice early one.

Focus on the financials - don't just rely on your accountant and annual reports. Be proactive. If you don't already have management accounting in place, now's the time to start. Use your management accounts to forecast 1 – 2 years ahead and measure performance monthly.

Don't forget this is about YOU. One of the main reasons deals fail is because the seller backs out. We call it "Seller's Remorse"; an emotional reaction (usually unexpected) to a radical life change when you're no longer in charge of the business you created and nurtured for so long. Free time can become depressing so take time to plan what you'll do post-sale.

> "If you fail to plan you are planning to fail"
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> *Benjamin Franklin*

Regardless of when you plan to sell your business, understanding what's involved and the practical steps you can take to maximise its value and saleability will make a significant difference to the exit price you realise.

Evolution CBS works with you through all stages of exit preparation; from strategic growth planning, including raising funding and making acquisitions, right through to completing the sale.

For a free consultation on the value and saleability of your business please call us on 0118 959 8224 or visit http://www.evolutioncbs.co.uk

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