Selling your business – have an exit plan

In the current economic climate, more owners start to consider selling their business. If you are, now is the time to put an exit plan in place to position your business for a future sale. Ideally, preparations should begin years in advance as, depending on what needs to be realigned, it can take 2-3 years. Even if you must sell quickly, it's important to avoid the appearance of a panic sale, so you should begin your exit plan as soon as possible to get your business in shape so you can maximise the sale price.

Although there are many more, here are thirteen issues to consider:

1.) Tax implications

The tax consequences can vary widely depending on how long you've owned the business, the type of company it is and exactly how the deal is structured. By planning ahead with a tax adviser, you may be able to substantially reduce the tax bill. Don't forget to assess your personal and family tax position as well as the business.

2.) Value of your business

Ultimately, it’s only worth what someone else is prepared to pay for it in the current market. There are many ways to value a company, but a multiplier of the (operating profit plus depreciation added back) is one common way. You should remember that without an exit plan, you personally, represent most of the value in the business and when you walk away, little value is left behind. The part of an exit plan that takes the most time is bringing in new management to run the business after you have left.

3.) New management

You will need to find a successor, who could be a family member or complete outsider, to continue to run and develop the business. This is probably the most difficult part of the process for a business owner, as they must start to hand over the reigns to someone else, who will want to do things their own way. This takes the longest time in the whole process so the recruitment phase should be the first part of an exit plan.

4.) The right staff

One of the most important assets you're selling are the employees and their skills, so ensure that they are properly trained, to maintain and improve their skills, and make sure there a winning company culture that is enthusiastic and forward thinking. Ensure that all staff contracts and Company Handbook are reviewed and up to date as a new owner will check these as part of their due diligence.

5.) Computer systems

An old or inadequate computer system may put a prospective buyer off so consider an IT review of all systems. Upgrade or replace as necessary and remember that although a new buyer they may wish to ultimately replace it with their own systems, they won't want to do it straight away. Make sure your website is kept up to date and fresh and ensure it gives the same impression as other areas of the business.

6.) Financial performance and reporting

If your company is not currently performing at a level that would attract buyers, consider the steps you will need to take to improve operations before you hang the "for sale" sign. Although it may be tempting to begin winding things down, the period before the sale is the time to accelerate business activities by developing new customers, increasing the order book and even introducing new product lines.

7.) Order book

It is important to identify what a "good" customer is and then look to increase your order book with that type of customer. Over the period of the exit plan you may have to re-align your sales database with a different customer profile, particularly if you develop new services or products.

8.) New products

Use the exit plan as a catalyst to update or replace old products and bring in new, fresher product lines. A buyer will want to see a product range that is correctly positioned in the market. If not market leading, it should be up there with the best, so prepare a marketing plan to find out what type of products your target market wants to buy.

9.) Due diligence

This is the investigation process that a prospective buyer will go through to ensure they know and understand what they are buying. In preparation for this, ask yourself the questions a prospective buyer will ask and ensure you have the answers. It is important to lose the "skeletons in the cupboard" as these will put a buyer off. Although not exhaustive, as there are many issues to look at depending on the complexity of your business, the areas a buyer would look at as part of the due diligence process would be:

Contract and trading terms
Outstanding insurance claims
On-going environmental issues
Employee claims
Outstanding debts
Leases
Intellectual property
Asset ownership and leases
Controls to mitigate risks to the business

10.) Message to the outside world

Controlling rumours is very important in terms of keeping the company operating at peak performance. Sign a confidentiality agreement with interested buyers so that information isn't leaked out. Prospective buyers will want to know why you are selling now. Perhaps you want to retire or move on to the next stage in your life. Maybe the operation needs a new team to take it to the next level. Whatever the reason, make sure you can articulate it since buyers will naturally think “If the business is so great, why are you wanting to sell?”

11.) Finding the right buyer

It’s important to understand what attributes a buyer needs in order to complete the acquisition and successfully operate the company. They may have expressed interest in the past or be on the acquisition path. Use a specialist company to market your business to prospective buyers as they will have the contacts in your market.

12.) Reputation in marketplace

Your brand positioning in the market place has a value and will be attractive to a buyer. Ensure all literature and the company website send out the correct, and consistent message about the business brand. Keep in mind that you are selling your customer base and good relationships take time to build. A buyer won’t want to take on disgruntled customers that don’t really want to buy from you.

13.) First impressions count

Towards the end of the process, when you start to show people round the business, ensure their first impressions, as they drive up to your site are the correct ones. Again, put yourself in the position of the buyer and ask yourself what impression is portrayed to you as the buyer. Ensure the site is tidy, the grass cut and car park weed free. Clean the windows and replace mouldy curtains and rotten window frames. These don’t cost much money but can add to the sale value of your business.

REMEMBER!!

Selling your business should be approached in the same way as selling your house. Identify the areas that will either put a buyer off, or at best present the buyer with a negotiating point. You will have spent years building your business up so when it's time to sell, you want to receive the optimum after-tax price.

Think carefully about how you approach the sale, because whilst some buyers remain cautious, others are buying up businesses and in some cases, at a premium. You have already put many a long hour into the business, so by investing a few more targeted hours in an exit plan, you will be able to walk away with the benefits all that effort deserves.