

Is your business ready for sale?

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Everyone has heard the expression “grooming a business for sale”and reality is that there are many aspects of your business which, ideally, will need to be “in order” if you are to achieve the best possible price for it. In working with, and in, small businesses over the past 25 years, including my own, I believe it is worth taking a minute or two to understand why it is that people actually buy a business in the first place.

Why people buy existing businesses

There are certainly many good reasons to buy an existing business as an alternative to starting up from scratch, and ones which immediately come to mind are an established track record or proven performance, brand recognition, location and reputation. These sorts of things create the “goodwill” factor as distinct from a “hard asset” value, i.e. machinery & equipment, fit outs, motor vehicles and stock for example.

But what motivates people to buy?

Selling businesses means we talk to a lot of potential buyers, far more “potential buyers” than actual buyers in reality. But whether someone buys or not, we get to hear the A- Z of reasons why an individual (couple or partnership) embarks on the process of at least considering a purchase.

Four common reasons

The four most common responses we get are lack of satisfaction with current work situation, wanting to be their own boss, investment, or the necessity to “buy a job” due to retrenchment or other event. We know this because we ask, and we ask because that is one of the ways in which we determine if a buyer is genuine or not. We do this because we believe, that you as a business owner, would expect us to.

A decision of a lifetime?

Selling (or buying) a business may be one of the most important decisions that you make in your lifetime, and entering into the process without sufficient planning may mean thousands of dollars wasted. A small amount of forethought now, and some careful planning and preparation should mean a sale results at the best possible price with minimum disruption. Ask yourself, would you put your house on the market without any consideration as to how a potential buyer may view its condition?

With the benefit of hindsight, most business owners would agree that the decision to sell should ideally be made well in advance of placing their business on the market. This planning stage is when businesses are commonly “groomed” for sale.

When should this planning stage start?

We say the planning stage should start with an exit strategy, and we also say you should never enter into a business without having an exit strategy. We didn't put a man on the moon until we had worked out how we were going to get him off!

An exit strategy can take many forms, the most common being a straight out sell, despite a commonly held belief about the baby boomers handing over the reins to their children. Many of the baby boomers still own their businesses and have realised that the opportunity for the children to take over the business, has long passed.

What is your business worth?

That depends on a number of things. So what has to happen is that a business owner needs to maximise the opportunity by focussing on a range of matters, and the two major issues are profitability, and potential to grow.

So "health check" your business. Look at operational matters such as data bases, marketing materials, computer systems, staff training and productivity. Look at your financial side including accounting systems, pricing and margins, debtor control, stock control and the availability of management reports.

Having made the decision to sell, many owners never get around to it before it's too late. They put it off because of the pressure of the daily routine, they don't know where to start or just the sheer magnitude of the exercise. It becomes very easy to defer taking action.

When is the best time to sell?

Many people just pick the wrong time to sell. So what are the influencing factors in a vendor's decision to sell?

- Realization of investment
- Poor health
- Desire to retire
- Pursue new venture
- Lack of capital to expand existing business
- Business is declining
- Partnership split

For whatever reason, a lack of planning will almost certainly ensure a lower sale price and disruption to the business. Sometimes, when you least expect it, a sale of a business is the only way forward, particularly in circumstances of poor health or partnership issues

How do you plan for an emergency?

Always be "Ready For Sale".

When you think about it, the things you need to do to groom your business for sale are usually the things you should have been doing since the day you started. Think about that and you will go a long way to maximising your opportunity to get the best possible price in the market place. Call us for a free discussion on (03) 9888 6488.