

How to maximise the value in your business

by Mike Shorten

At a certain stage in your business ownership life you will decide to move on to other opportunities. To help achieve this you want to maximise what you can get out of your existing business as quickly as possible once you decide to go. You might presently have no intentions of selling. However, you need to plan now on how to exit your business so as to maximise the value you get whilst minimising the problems that can be associated with selling.

You need to address the following areas to help maximise the value of the business:

1 Optimise the cash flow

The cash flow and profitability are the prime drivers for valuing a business. You need to go through all items on your income statement and balance sheet and ensure that a true reflection of the trading environment is fully reflected. This would include:

- Declaring all income
- Removing costs not directly associated with the business
- Consolidating all those private expenses into a salary
- Reviewing overheads to see where savings can be effected
- Minimising working capital requirements
- Cleaning out the balance sheet
- Reviewing any capital expenditure extremely carefully

This can be extremely difficult to do as you are running the business as best you can. You are often too close to the business to see where improvements can be effected, otherwise you would have already done them. Outside assistance from professional advisors is often useful to help see items that would remain hidden to you.

2 Complete the normalisation process

Some costs are not ongoing. These could include labour strike costs, severance pay, restructuring costs, discontinuing or launching a product line. Such costs need to be highlighted. However, their legitimacy needs to be proven to the buyer through a full audit trail.

3 Purge redundant assets

Many businesses have assets that are unrelated to the business. These could be in the form of other businesses that are not for sale, personal assets, unrelated land and building or old equipment. Wherever possible these need to be removed from the business.

Selling your business is never easy

4 Plan for management continuity

A major risk to buying a business is ensuring the business continues without major interruption. Capable management needs to be in place to ensure painless transition to the new owner. Businesses relying heavily on the skills and contacts of the seller are much more difficult to sell at any price. However, means of transferring such skills and contacts can be determined in order to maximise the selling price.

5 Do not introduce new incentives

If a buyer perceives that a seller has recently rewarded

employees at a level beyond market realities, they will reduce their offer price accordingly.

Much time can be wasted on unqualified buyers

6 Ensure information systems excellence

Timely, accurate and relevant management information has an extremely positive effect on a buyer's perception of a business. If you have no such system to deliver such information, consider installing one as soon as possible. Professional advisors should be of assistance in this regard.

7 Consider leases or contracts carefully

A lease on a business can be a critical aspect to a business. A retail shop in a busy mall is reliant on their position in the mall for their turnover. A lease expiring in a few months could complicate the sale. Alternatively a buyer may have existing premises and intend relocating the business. They would be unwilling to buy a business with a long-term lease still in place. Make sure you enter into any contract that will be of benefit to the buyer and not a future liability. This is especially so where the lease is likely to expire before you sell the business.

8 Minimise legal contingencies

Many buyers are not willing to buy the legal entity your business operates from (e.g. CC or (Pty) Ltd). They will want to buy the business only.

This effectively leaves any hidden or unknown liabilities with the seller. This is not always possible and the buyer may need to buy your shares in the business. You need to ensure that any legal contingencies are sorted before putting your business on the market. The costs of settling a dispute can be small compared to frightening off a buyer. Legal ownership of trademarks, patents and licences need to be buttoned down well in advance of any sale.

9 Clean everything

Just like a clean home sells more easily than a dirty one, the same applies to businesses. Unfortunately, when something appears to be down at the heels physically, a prospective purchaser will be concerned no matter how good the financials are.

10 Understand your tax position

Selling the shares of a business has different tax implications to selling the assets of the business. You need to understand the tax implications of any deal before you go into negotiations. This may impact what you are

Many businesses have assets that are unrelated to the business

Mike Shorten

prepared to accept as a final offer. Talk to your accountant to fully understand your position.

Beware the tax authorities. They may start asking questions how you got such a large price for your business based on the low profits you have declared over the years. The last thing you want is a full tax audit after you have sold the business.

11 Can contracts be transferred?

Many large corporates have a unique supplier reference number that entitles the supplying company to trade with them. This reference number is very often tied to the legal entity (i.e. the Pty (Ltd)) and are often not transferable to a new business. The mines generally have such a system. This can frighten off many buyers especially where they do not want to buy the hidden skeletons that might be lurking in your legal entity. Strategies to manage such situations need to be determined and executed prior to putting your business on the market.

Businesses relying heavily on the skills and contacts of the seller are much more difficult to sell at any price

12 What about BEE?

Whilst meeting BEE requirements may not be an issue with your present clients, there have been instances where clients have "moved the goalposts" for new owners. The client suddenly demands full compliance with BEE industry codes from the new owner. The buyer of your business is suddenly faced with all these additional requirements whilst still trying to learn your business. Many "solid" clients have been lost through no fault of the new owner. They still supply to your old service levels but the clients move elsewhere. Whilst such an event is post the sale of the business and may not be your concern, many buyers are aware of this as a potential problem and will discount the value of your business accordingly.

13 Be finicky about the buyer

Much time can be wasted on unqualified buyers. They might not have the finance to buy your business or even have the ability to run your business successfully. You might have an excellent relationship with your staff and are concerned

with their future welfare. Will the buyer treat your staff in a similar manner?

Early on in your interaction you need to determine if they are a real buyer and that they are the type of person you want to run your business in the future. This can be extremely difficult to determine and a broker can help in the process. A competent broker should qualify the buyers they bring to your business. They should have a sifting process to ensure only realistic buyers come to see you.

14 Contemplate selling on terms

Financing the purchase price of some businesses can be difficult. Alternatively buyers do not see the same value in the business as you the seller. To bridge the gap you might need to consider offering terms on the sale of the business to help the buyer finance the purchase. Whilst this sounds good on paper, such an approach can be full of problems. All aspects of selling on terms need to be considered before entering into such an agreement but this could be a sweetener that closes the deal.

15 Identify special requests or requirements upfront

If you the seller intend imposing certain conditions on the buyer, be clear to put them upfront. You might want to keep ownership of the premises and have a long-term rental agreement with the buyer. You might be prepared to work with the new owner for a certain time period for a fixed salary. Set such parameters upfront before you enter the negotiation phase.

16 Make sure you want to sell

The sale of any business, but particularly an owner-operated business, can be an emotionally charged experience. You need to be sure you want to sell and under what conditions before putting your business on the market.

Selling your business is never easy. You can make your life a lot easier by having a set plan to follow. Your expertise is in operating your business. You do not sell businesses on a regular basis so use professionals to help you. Preparing well in advance of your sale will ensure a greater chance of you being happy with the final outcome. **S**

Mike Shorten specialises in exit planning and in particular in advising businesses in preparing for sale so as to maximise the value received. He also provides add-on services such as coaching, strategic planning, business reviews and improvements. For further information please go to www.exitplan.co.za or contact him on 082 771 4158.