



Skagway  
Development  
Corporation

## PREPARING TO SELL YOUR BUSINESS

Selling your business could be the most important financial deal you'll ever make. For many owners, selling the business they've spent years building up is emotionally difficult as well. And unless you've sold another business previously, you'll have no experience to help you.

This guide outlines your main options, helping you decide what's best for you. It also explains how to make your business attractive to potential purchasers and how to find the right advisers.

### Is selling my business the right option?

Before you embark on selling your business, you need to assess carefully your reasons for doing so.

You need to consider four key questions:

- What are my objectives as the **owner** of the business? For example, you might want to realise some or all of your investment in the business to fund your retirement.
- What are my objectives as **manager** of the business? For example, you might want to retire as soon as possible or prefer to keep running the business.
- What are my objectives for the **business** itself? For example, the business might need new investment in order to grow.
- **Who else** will be affected and what will they want? For example, other shareholders, managers and employees, and even key customers and suppliers.

Selling part or all of the business may be the best way to achieve your objectives. You might, for instance, want to sell your business outright, leaving you with no financial or management involvement. But a sale may not always be the best solution. And, of course, it may not always be realistic either. There's a range of other exit routes that may suit your needs better. If, for example, you want to retire but already have enough money, you could pass the business on to your children. Or a stock-market flotation could give you access to capital to develop your business while making it easier to sell part or all of your stake in the business.

*Download a guide on preparing to sell your business from the Livingstone Guarantee website (PDF) (registrationrequired).*

**<http://www.livguarantee.com/publications/practicalguides.php>**

### Ways to sell your business:

Most businesses are sold in a trade sale to another business. Alternatively, you may be able to find a private-equity buyer. For example, a venture capital firm might be prepared to help your management buy the business.

### There are several different sale options:

- **Partial or full sale**  
You may want to sell the entire business. Sometimes the purchaser prefers you to retain partial ownership and continue to run the business. This can give the purchaser confidence that the business will do well.
- **Sale of business or assets**  
You can sell assets such as equipment, intellectual property or your customer list rather than selling the business itself. This may be attractive to a purchaser who does not want to take on liabilities and obligations. For example the purchaser might not want to take on your employees. You will be left with whatever assets and liabilities are not included in the sale.
- **Immediate or phased payment**  
You can ask for payment in full when the sale is completed, or you may be prepared to accept payment in instalments. The purchaser may well prefer to pay in instalments. But you will be at risk, for example if the purchaser cannot make future payments.

Your choices can affect whether buyers are interested and how much they are prepared to offer. They can also affect the tax treatment of the sale. For more information, you should check the tax & legal issues when selling or closing a business.

You can download a practical guide to disposals from the Deloitte & Touche website (PDF): [http://www.deloitte.com/dtt/cda/doc/content/CF\\_disposalnew.pdf](http://www.deloitte.com/dtt/cda/doc/content/CF_disposalnew.pdf)

### Is a sale realistic?

You can only sell your business if someone is prepared to pay for it. If you can't identify strong reasons why your business would make a good acquisition, it's likely to be difficult to find a buyer. Ask yourself the following questions:

- Is the business **healthy**? A business in trouble is difficult to sell. Potential buyers are likely to wait until they can get assets at a knockdown price.
- Are the **basics** in place to make the business attractive? Buyers like well-organised businesses with strong management.
- Does the business have a **good financial record**? Buyers prefer a record of smoothly increasing profits with good growth potential.
- Can you identify **potential trade purchasers** and a good reason why they should want to buy your business? Buying a business can be disruptive and expensive. Potential purchasers may prefer to concentrate on their existing operations.

- Are the **existing management team** interested in buying the business? You may find that they are the only potential purchaser and that they only offer a modest price.

It usually pays to start planning a sale well in advance. This gives you time to groom the business, making it as attractive as possible to potential purchasers. You may also want to get a preliminary valuation before you offer it for sale.

### **When to sell your business:**

Selling at the right time can have a significant impact on the price you get for your business. If possible, **plan ahead** so that you can pick the best moment rather than being rushed into a quick sale. For example if you plan to retire in five years' time, it's a good idea to start planning the sale of your business now.

The general state of the economy - and your sector in particular - can have an effect. It's easier for a trade buyer to fund a purchase when their own business is doing well, interest rates are low and banks are keen to lend.

The state of your business is a more important factor. Aim to sell when **profits** are increasing and look likely to grow further. Consider the impact of sales cycles or seasonal fluctuations in your business - you might have fuller order books at a particular time of year, for example.

Planning well in advance also allows you to groom other aspects of your operations to ensure your business is as attractive to buyers as possible. For example, you can ensure that equipment is well-maintained, key contracts are in order, and that you are complying with all legislation.

The detailed timing of a sale may also depend on the tax consequences, and any forthcoming changes to tax rules.

### **Choose advisers to sell your business:**

*Experienced advisers are essential for an effective sale.*

As a minimum, you need an **accountant** and a **lawyer**. The accountant concentrates on the financial aspects of the sale, such as preparing accounts for the business. The lawyer focuses on legal issues such as drafting a sale agreement. You also need to use a specialist tax adviser to handle business - and personal tax-planning.

Most businesses choose to use a specialist **corporate finance adviser** as well. The corporate finance adviser is involved at an early stage and helps you choose the timing and groom the business for sale. A good corporate finance adviser will also help you find potential purchasers and negotiate the sale. The adviser can manage the whole sale process, leaving you free to continue running the business. Of course you will have to pay your

advisers. Many advisers charge an hourly rate. Alternatively, you may be able to negotiate a fixed rate for a particular piece of work. Some advisers, particularly corporate finance specialists, are prepared to negotiate a success fee as part of their payment. For example, you might pay lower fees if you don't achieve your target price.

### **What to look for in an adviser:**

The right advisers can have a big impact on whether you sell your business successfully and how high a price you get.

- You're likely to need a solicitor, accountant and corporate finance adviser. Firms of solicitors and accountants may have partners specialising in corporate finance.
- Always examine advisers' **skills** and expertise carefully, for example you should look at:
  - what experience they have of selling similar businesses and how successful they've been
  - whether they can provide specialist tax advice or recommend a specialist
  - whether they have experience of grooming businesses for sale
  - how they can help you to market the business
  - what contacts they have among potential purchasers
  - what references they can provide
- Consider your advisers' **fees** and find out how they charge. Are they prepared to back their expertise by agreeing to payment based on success?

If you're using a firm of advisers, make sure you feel comfortable with the people you'll be dealing with on a day-to-day basis.

### **Show strong financial performance:**

Planning well ahead helps you ensure that your business has a financial record that attracts buyers.

A first step is to ensure that your finances are in good order. Although this should be the case at any time, planning to sell your business can push you to focus on this area. One major area is **control of working capital**, through reducing stock levels and controlling creditors. There may also be opportunities to **cut costs**, such as renegotiating supply contracts and eliminating unnecessary perks. You can also sell underused equipment to reduce debt.

You also want to present your accounts as attractively as possible. Buyers usually prefer businesses that show increasing profits year on year. If possible, your financial performance should also be reasonably stable throughout the year. You may be able to bring forward or delay purchases and sales to help with this. You may also want to change some of your accounting policies.

Good **sales forecasts** will help to increase prospective purchasers' confidence in your business - but you must ensure they're realistic and can be supported with evidence. A full order book is also a good sign.

It's important that buyers believe your accounts. For example, you should make realistic provisions for bad debts. Buyers will usually see through any quick fixes you try to use to boost profits.

To maximise short-term profits you can reduce longer-term investment. For example you might avoid expenses like advertising heavily or taking on new staff. But avoid excessive cost-cutting - you need to maintain spending in essential areas, otherwise the business suffers and so does the price buyers offer.

For advice on these and other options, consult your accountant and your corporate finance adviser.

*You can download the guide on making the most from selling your business from the BDO Stoy Hayward website (PDF).*

**[http://www.bdo.co.uk/bdosh/website/bdouk/websitecontent.nsf/i/907DBC117C7BE2E880256C230037D655/\\$file/SYBguide.pdf](http://www.bdo.co.uk/bdosh/website/bdouk/websitecontent.nsf/i/907DBC117C7BE2E880256C230037D655/$file/SYBguide.pdf)**

### **Streamline your business operations:**

The more confidence a buyer has in your business, the higher the price they are likely to offer. It's essential to set out a clearly defined strategy in your **business plan**.

And you also need to show that you've got a **strong management team** in place. If your business is too dependent on your own skills, it will damage the price it can fetch - and could even make it impossible to sell. You may want to encourage key employees to stay by considering appropriate incentive schemes.

Aim to reduce your dependence on too few customers or on one or two key suppliers. Show how your **customer base** is expanding and formalise any informal deals you have with customers and suppliers.

### **You should also:**

- ensure you're complying with health and safety, employment and other legislation - consider asking your legal advisers to review the business
- settle any legal disputes
- make sure you have clear ownership of any intellectual property
- ensure property contracts are sorted out
- put in place suitable management information systems
- ensure your finances are in good order

The sooner you start planning, the more effectively you can do all this.

**Related guides on [www.businesslink.gov.uk](http://www.businesslink.gov.uk)**

Exit from your business

Selling or passing a business to a family member

Value and market your business

Complete the sale of your business

Check tax & legal issues when selling or closing a business

Choose and manage a solicitor

Choose and manage an accountant

Responsibilities to employees if you buy or sell a business

Intellectual property: the basics

Secure your intellectual property

Implement staff incentive schemes

Related web sites you might find useful

**You can find this guide on <http://www.businesslink.gov.uk> by navigating to:  
*Home > Buy or sell a business > Selling your business > Preparing to sell your business***

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