One Day You'll Sell Your Business. Start Planning For That Day Now

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Who will buy your business?

Thinking ahead to the day you sell your business, start by considering who the buyer might be. Ultimately, who buys your business will depend on what you have to sell. There are many ways to sell a business, but not all of them include the business as a going concern. If you're an owner with a business in good shape, you might well be looking at a nice, clean trade sale of everything – lock, stock and barrel.

What assets does your business have for sale?

There are many parts of a business that can be sold. In some cases, the business assets may fetch a better price and be easier to sell without the liabilities.

Have you thought about *intellectual property* in your business? Intellectual property, or IP, is an idea, invention or creative expression that may be protected by patent, trade secret, trademark or copyright. In our experience, privately owned businesses often grossly under-value their IP. A valuable IP doesn't have to be a long-standing trade secret or a cutting-edge software application to be a significant business asset. It could simply be your manufacturing processes – the unique way your business makes its products.

Have you considered how your *unique customer base* could be a valuable asset? The size of your market share in terms of total sales could present significant value to a competitor. If your business is a market leader, or positioned number two in your market, your customer base could very well be a highly negotiable asset.

Does your business have *established distribution channels* with solid agreements in place? This positioning could well be attractive to a supplier. Value to a supplier is often based on their potential to access your distribution channels and to increase their sales, profit margins and overall market share. Depending on the size and market presence of your business, a supplier may pay a premium significantly above the business valuation to access your distribution network.

Identifying potential buyers for your business

A *management buyout* (MBO) may be worth considering. An MBO is the purchase of a company by its managers, often with backing from a venture capitalist or, in many situations, the current business owner. A successful MBO will depend on the capability of the current management team and their ability to raise the necessary capital. In an MBO scenario, it is common to see the owner staying on after the transition date as a consultant for a period of at least one year. The price you will ultimately receive may also be tied to the performance of the business for a period of time after the sale. In a typical business sale agreement, this is often referred to as an *earn-out provision*.

Another potential buyer source for your business may be *private equity funds* or *angel investors*. This class of buyer is looking for alternative investments that can provide a high level of return. Their primary objective is to make a profit. Such buyers can be a great option, especially if they are able to bring experience as well as cash to the table. In return, they will likely want to have some control over their investment, usually through a seat on the board. But you'll need to exercise caution in partnering with private equity funds and angel investors – especially if most of your wealth is locked up in your business and you are not selling your entire business interest at the outset. You will want to ensure you have addressed the future timing and terms of your final exit strategy.

You may be looking to *transition the family business to the next generation*. Keep in mind that you will most likely not achieve the same value for the business as you would in selling to an outside party. To offset this difference, you could factor in future performance bonuses in the sale contract, where the business pays you additional amounts upon achieving predetermined milestones.

Or, you may consider selling to a *passive investor*, that is, someone who will likely not be involved in the active operations of the business. Passive investors present an opportunity for you to sell some of your shareholdings – but to still retain control over the management and future direction of the business. You will need, however, to convince your passive investor that your business is secure, has potential to grow in value and can pay a regular rate of return each year in the form of dividends.

All of these potential buyers for your business have one thing in common. They and their advisors are looking for *business value*. Value is also critical to you as seller, particularly if, like most private business owners, the majority of your wealth is tied up in your business. This is where a formal *transition plan* with a skilled team of advisors and a documented sales strategy can make all the difference in attaining for you the maximum value of your business.

The transition process

It is vital that you plan the transition process with precision, right from your first thoughts of selling through to moving toward the sale event. After planning the process, you must then meticulously execute it to ensure that the financial benefits and rewards are ultimately maximized.

We believe there are three essential steps in transitioning a business to new ownership:

- Strategy for Transition (SFT)
- Managing for Transition (MFT)
- Transaction Management (TM).

Strategy for Transition involves the development of a plan for your transition well before it's time for your exit. In the STF phase, you as business owner will need to address the following key areas and formalize your overall plans. In so doing, you will establish a solid platform on which to move through the business transition process.

- Develop the time frame for your exit
- Assess the current value of your business
- Project the desired value of your business at the time of exit
- Identify and formulate the best method of transition: Who is the potential buyer?

Once you have addressed these areas and formalized a strategy, you should be in a position to move into the *Managing for Transition* phase. The MFT phase is the crucial time period for positioning your business to maximize the return on the sale.

MFT is all about change management in the business prior to sale. Your focus is on evolving the business from its current position to the desired position for a successful transition to occur. This will likely require you to make fundamental changes in a number of areas of the business and implement an integrated plan to achieve your desired outcomes. We often refer to this process as “grooming your business for sale.”

If you owned and were planning to sell a luxury yacht, you would ensure that everything was shipshape, in perfect working order and performing to its design standards. Selling your business is really no different, albeit much more complicated. Given sufficient time and with the right advice, you can improve your business to the point where it will be very attractive to a buyer.

There are four distinct areas of focus during the Managing for Transition phase:

Performance Enhancement

The goal here is to move the financial performance of the business from its current level to a point that will warrant the desired investment by the purchaser and allow maximum realization of business value. This will require the development of a strategic plan, with ongoing monitoring and reporting to ensure strategic performance objectives are being met during the period leading up to sale.

Due Diligence Preparedness

The key objective here is to make the business as attractive as possible and minimize potential risks to the buyer. The buyer and their advisors will carry out a formal due diligence review of your business before the sale contract is signed off. After getting this far in the sale process, you don’t want a prospective purchaser walking away because they have identified a major problem or issue.

Reducing Business Dependency on the Owner

Preparing the business and the team for change is critical to the continuity of the business. Buyers will be assessing how the business will continue to generate earnings and profits into the future without being dependent on the current owner. As owner, your goal here is to create and maximize business goodwill while reducing your personal involvement in the day-to-day operations of the business.

Post-Sale Planning

In this final stage of MFT, you need to prepare a personal financial plan that covers life after the business is sold. This will include preparation of personal investment strategies, estate planning and expert tax planning advice. With a properly managed plan, you can expect improved revenue benefits through the whole process of managing for transition – not just at the time of sale.

Managing for Transition takes time, often from three to five years depending on the current position of the business. Handled professionally, MFT will not only reap you rewards at the time of sale, but also provide benefits from the increased profitability generated by the performance improvements realized during these key transition years.

During the MFT phase, your business will encounter many organizational, people and technical challenges that need to be addressed. This is the time when it pays to invest in the guidance of a team of experienced business transition specialists.

Once you have mapped out and executed the MFT phase, you should be well positioned to begin the process of marketing and selling your business and entering into the final phase, *Transaction Management* (TM).

TM will involve the “marketing, deal negotiating and final sale” phase of the business. A well-prepared sales plan and process will instil trust and confidence in the potential buyer as they assess and negotiate the purchase of your business. For your part, give careful thought to positioning and marketing your business for sale, including determining the value assessment and identification of potential buyers to market to.

A well-documented sales strategy executed in this final phase will ultimately allow you to maximize the value received – and ensure the smooth transition of your business.

If you are thinking about or currently working on your business succession plan and are in need of assistance, please contact Rick Gendemann, one of our business succession leaders. We look forward to the opportunity to connect with you to discuss your transition planning issues and address how we may able to work with you and your family on developing and implementing your successful business transition plan.

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