HOW TO SELL A BUSINESS?

THE SCHEDULE

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Published by ExitAdviser.com

Stage One: Check the status

This is a reality check for you. A last chance to be sure that you've covered all the bases.

Rarely is selling a business just about you. Whilst it's good to probe your own feelings about the sale, it’s equally important to take into account the views of significant others affected by the decision.

It's also helpful, if you haven't done so already, to consider carefully how you will spend your time after the sale. This may be significant in assessing how much money the business needs to raise through the sale to realize your future plans.

Be sure to have a credible story for the buyer about why you want to sell the business now, and what you intend to do with your time afterwards. You’ll also need to plan when and how to communicate your decision to significant others. The main distinction is between those that need to know now, and those, that for reasons of business continuity or commercial sensitivity, will only find out later in the sale process.

There may be other practicalities that you haven't fully considered. For example, whether the exit timetable planned is realistic. The timing of your business exit can also have an important bearing on the price received. This is another reason why it's sensible to carry out an external review of your trading environment alongside an internal audit of the business.

1. Check your feelings, personal finances and timing

When is a good time to sell your business?
This depends on a number of factors, some within, and some outside your control. You control your own feelings, perhaps after sounding out the views and feelings of significant others.

The minimum business sale price needed will depend on other income sources and realizable assets, set against future commitments. Such as ongoing personal financial commitments, the cost of your desired future lifestyle, and any further planned asset acquisitions after the sale, to mention just a few. Again you've a significant influence over these aspects of the sale decision, and you could make adjustments if you wished.

Outside your control are prevailing market conditions, which impact on supply and demand for existing businesses similar to yours, and affect the price valuation at this time. You may decide to make changes to the business, to increase its value, but this could take time and require you to postpone your decision to sell.

Outcome:
Decision to sell made.

2. Communicate your decision to important others

There's more to this than meets the eye.

Effectively handling the release and timing of information to those affected by your decision is vital. You need to understand and manage the psychological aspects of what's a potentially sensitive situation.

Close family members and business partners or shareholders are likely to hear your decision first, probably communicated in person. Thereafter you need to think carefully, because it's vital to a buyer that the business remains as a going concern after the sale. The last thing you want is a mass exodus of staff if they sense their livelihoods are at stake. In terms of key employees you need to decide who to take into your confidence early on, again communicated face-to-face.

Customers, other staff, suppliers, distributors and other parties affected will probably hear later. It's strongly recommended that you've a plan on how, when, and where this communication will take place for each group.

Outcome:
Decision to sell, professionally communicated.

Stage two: Preparing the sale

This Stage is about taking decisive action.

Only after first understanding the underlying key aspects of your value proposition to customers, and the chain of activities underpinning it.

It's action with a specific purpose. It takes the findings from your detailed analysis to identify key change measures for short term implementation. To make the business look and perform better over the coming months, without inflicting any longer term damage.

Of course, you may decide not to change anything and go straight to market. That's your choice, but it's advisable to make a considered judgment before moving on.

Either way, a review of key internal information and figures, along with priority facts and trends from the external trading environment, provides essential content for the Sale Memorandum. This document provides a synopsis of your business and its future prospects, which serious prospective buyers of your business will want to see. The quality of the Sale Memorandum's information and presentation will undoubtedly leave an impression on any prospective buyer, and influence their decision on whether to move to the next stage.

An additional benefit of this preparatory work is that you'll be more confident about the data inputted to ExitAdviser's business Valuation Tool, to identify a price range for the business, from which a final asking price can be selected.

3. <u>Run the valuation tool, check your baseline asking price</u>

   It's highly likely that you'll already have a view on the value of your business. This may have been the key factor influencing your decision to sell the business in the first place.

Further, it may be that future personal plans depend critically on achieving your target selling price, or close to it. This may, or may not, be realistic.

ExitAdviser offers a proven, robust method to work out the business value. This online tool presents a range of possible values from which you can make your final decision.

Outcome:
Asking price chosen.

4. Review your business externally and internally, prepare the Sale Memorandum

When it comes to communicating information about your business to a potential buyer, the Sale Memorandum is a key document. Investment of time in research, analysis and professional presentation of key information in the Sale Memorandum can pay dividends in terms of realizing a good price for your business. It also sets out the asking price and the terms and conditions on which you're prepared to sell the business.

Key sections of the Sale Memorandum present summaries of the external trading environment to highlight key facts and trends, along with overviews of your business model, main activities and financial performance. It can also reassure potential buyers that you're in control of the business, and that you've made contingency plans to deal with any emerging issues.

The Sale Memorandum also drives content for the online promotional campaign. To ensure that the proposition portrayed is strong and consistent, thereby attracting attention from the most appropriate potential buyers.

Outcome:
Sales Memorandum prepared.

5. Assess the need for short term internal changes

This requires you to make an honest, realistic assessment of your latest business valuation.

Can you give convincing arguments in support of the data you entered in the ExitAdviser Valuation Tool. If you can, and you were satisfied with the valuation result, then there may be little or no further action needed before going to market.

On the other hand, there may be a number of identifiable short term changes which, if made in the next few weeks or months, would make your case more solid and defendable, or even increase the valuation.

If you take this route the Checklist of Short Term Changes helps prioritize the necessary actions, assigning clear responsibility, timings and a budget.

Outcome:
Checklist of short term changes *prepared*.

Stage three: Go to Market

Here's where you put your business sale message out into the market place. You cast out your line, and see who bites!

Handling incoming leads. Deciding which warrant your follow-up. Carrying out initial communication to confirm serious buyer interest. Drawing up a shortlist of prospects from which you expect a final buyer to emerge. Deciding what information to release, and when. These are all covered in this stage.

The exchanged of information and communication will naturally increase as this process unfolds. Early pre-planning helps smooth this process considerably, saving you valuable time.

Whilst this stage does discuss different routes to market, the main emphasis here is on maximizing exposure through online business sale sites. However some guidance is also given on how you might, in parallel, take a more scientific, targeted approach in accessing potential prospects.

There's also advice on monitoring campaign effectiveness as it unfolds, providing the opportunity to redirect efforts where necessary.

The importance of using a Non-Disclosure Agreement (NDA) before releasing confidential information to prospective buyers, is also stressed.

6. Prepare and set up your listings at online marketplaces

   In this online age the real buyer traffic is through business sale websites. It's typically the first place a buyer will search. ExitAdviser has brought together links to the best performing online sites, listing them conveniently for you in one place.

   As there are a large number of buyers searching online, it follows that there are plenty of sellers too. This means there's a real challenge to make your business stand out from the crowd in its category listing.

   You'll need a strong proposition to catch the eye. Here you can extract key sales messages from the Sale Memorandum, another reason why there is so much emphasis on this document, for upload to your chosen online sale sites.

   Outcome:
   Listings *prepared and* loaded up to *online marketplaces.*

7. Respond to, and communicate with, prospective buyers

   It's your choice whether to respond to enquiries, particularly where your identity has been kept vague.

   By inserting buyer qualification criteria, requiring a specific response, within your online campaign, you'll automatically screen out many unwanted enquiries. Unsatisfactory responses can be ignored. Ensure you reply promptly to the good ones.

   It's your choice whether you start communication by email or telephone. You control this through the advertisement's "call to action". Either way, it makes sense to prepare your message in advance.

   Starting with an email can be a more efficient use of your time, and provide another useful screen, as it again requires prospects to write a response. The Summary section at the start of the Sale Memorandum can be emailed to provide prospects with additional information on your business.

Be careful not to give too much away at this early stage.

Outcome:
Ongoing until ready for next step.

8. <u>Check out prospective buyers, prepare your short-list</u>

Communication is a 2-way process.

Prospective buyers want detailed information about you and your business. You want information about their ability to successfully run your business and, crucially, whether they have sufficient funds to meet your asking price.

ExitAdviser provides a checklist of buyer criteria for you to complete during this stage as you gather information on prospective buyers. Email and telephone communication, as well as Internet research will help to compile a profile and an overall impression of the prospective buyer.

To select the shortlist you may wish to score each prospect against the key criteria in the checklist, which may be given a relative weighting according its importance in making the decision. The number on your shortlist will likely depend on the amount and quality of the interest shown.

Outcome:
List of prospective buyers prepared.

Stage four: Close the deal

It's getting close now.

You need to have your negotiating hat on, and be confident that all your diligent preparatory work in reaching this stage makes your business worth the price you're asking.

There's plenty of psychology and a few key techniques involved in successful negotiations. ExitAdviser gives you tips on how to stay one step ahead of prospective buyers.

Your objective is to come up with a preferred buyer that's prepared to meet your asking price. At this point you'll ask them to sign a Letter of Intent, so that the Due Diligence process can start. Due Diligence is the crucial point in the selling process. It’s in everyone's interest for it to go smoothly.

The shape of final negotiations will depend on the Due Diligence findings. It’s here that either party can walk away from the deal if it doesn't suit. Each will have a "bottom line" in mind. You’ll need to keep a clear head and be prepared to stand your ground, providing that you’ve the facts to back up your position.

The Business Sale Agreement is the important document for sale closure. The initial signature, following checks during Due Diligence, confirms the buyer’s acceptance of the facts as previously presented, particularly in the Sale Memorandum.

Final sign-off will depend on a successful transition phase that ensures business as usual. In particular, the buyer will want to ensure that key staff stay in the business and remain motivated. Customer, supplier and partner communication and perceptions will also need to be carefully managed.

Whether you can immediately "ride off into the sunset" will depend on the final deal that's struck. It’s not uncommon for owners to be asked to stay on in some capacity for an agreed period of time before final payment is received.

9. Prepare drafts of legal papers

   There’s an important link between preparing draft legal documents, particularly the Letter of Intent signed before Due Diligence plus the subsequent Business Sale Agreement, and any previous information you have supplied to the buyer. It pays to have been truthful with all prospective buyers throughout the process because there are likely to be consequences if you’re not.

   Due Diligence is the buyer’s way of checking the facts. Any significant discrepancies found will impact badly on your credibility, and could sink the deal entirely, putting you back to square one.

   However it doesn’t just end with the business sale closure. Your signature on the legal documents ties you to the facts as presented therein, even after the hand-over is complete. If something subsequently goes wrong, and it’s proven by the new owner that you’d prior knowledge, or key facts were distorted, there’s likely to be legal redress against you.

You'll probably have to sign a Non-Compete Agreement that prevents you from setting up a new rival to the sold business for an agreed period of time. The previously signed Non-Disclosure Agreement (NDA) must also be diligently honored by you until the document's expiry date.

Outcome:
Legal papers prepared.

10. Meet and negotiate with the prospective buyers.

Initial face-to-face meetings with your short list of candidates may take place away from your business premises, particularly if you want to be discrete in the first instance.

There's likely to be a jockeying for position, with prospective buyers seeking to learn as much detail as they can about your business. You, by contrast, will want to withhold commercially sensitive information until they've made a commitment to move forward with the sale in principle, by signing a Letter of Intent to trigger the Due Diligence process.

Have a plan for information disclosure. A well-prepared Sale Memorandum puts you in control by providing a focal point for discussions, the inevitable follow-up questions, and any subsequent negotiations.

If you plan to send the Sale Memorandum to prospects before an initial meeting make sure they first return a signed copy of a Non-Disclosure Agreement (NDA). Assigning a unique number to each Sale Memorandum copy, printed in the footer of every page, will help demonstrate that you take the issue of confidentiality seriously.

Outcome:
Select your preferred buyer, and receive their signed Letter of Intent.

11. Go through Due Diligence, handle the issues

This is where it gets detailed from the buyer's point of view. If all the finances and documentation are in order, and there are no nasty surprises uncovered, then the deal is likely to go through, subject to final negotiations.

It’s here that you’ll appreciate the importance of being truthful with the prospective buyer early on in the process. The sensible assumption to make is that the buyer will use experts to do the Due Diligence, and that they’ll find what they’re looking for!

The buyer may choose to abort the deal at any time during Due Diligence if they discover something seriously untoward. Alternatively, the buyer may uncover specific concerns or risks meaning that they’ll only consider going ahead if the asking price is reduced, or they insist that the terms of the sale are altered in their favor. So it’s back to the negotiating table again.

Outcome:
Due Diligence completed.

12. Close the deal, final signatures, hand over the assets

The buyer will want a satisfactory transition phase to their new ownership before the final deal is signed-off. This is because the buyer’s overarching concern will be to maintain “business as usual” as, without this continuity, their expected income and any plans for growth will be threatened, or curtailed. Should key staff leave the business there’s likely to be an immediate dip in performance that’ll eventually impact profit.

This is why it’s common for buyers to ask previous owners to stay in the business for a while before receiving their final payment, to reduce the buyer’s risk. The ‘boot is on the other foot’ when part of the payment for the business is in the form of a loan from the seller to the buyer, secured on continuing business success. In this circumstance you’ll want to watch over the business until you get paid.

Outcome:
Deal closed